

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

**MUNICIPIO DE GUAYAMA  
AUDITORÍA 2014-2015**

**30 DE JUNIO DE 2015**

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**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF GUAYAMA**  
**BASIC FINANCIAL STATEMENTS WITH**  
**ADDITIONAL REPORTS AND INFORMATION**  
**REQUIRED BY THE SINGLE AUDIT ACT**  
**YEAR ENDED JUNE 30, 2015**

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**HON. EDUARDO E. CINTRÓN SUÁREZ**  
**MAYOR**

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Municipal Legislature  
Municipality of Guayama  
Guayama, 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 the Municipality of Guayama, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, however, we were not able to obtain sufficient appropriate audit evidence on the governmental activities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

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

As discussed in Note 16 to the financial statements, management has not recorded the deferred outflows/inflows of resources, and net pension liability in governmental activities and has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that deferred outflows/inflows of resources, and net pension liability attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as deferred outflows/inflows of resources, liabilities and expenses as employees earn the rights to the pension plan benefits, which would increase the deferred outflows/inflows of resources, the liabilities, reduce net position, and change the expenses of the governmental activities. The amount by which this departure would affect the deferred outflows/inflows of resources, liabilities, net position, and expenses of the governmental activities has not been determined.

The Municipality did not maintain complete, updated and accurate accounting records that supports the amounts presented as capital assets and its related accumulated depreciation, in the governmental activities. We were unable to satisfy ourselves about such balances through alternate procedures. Therefore, we were unable to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying statement of net position for \$120,840,833 net of accumulated depreciation of \$27,096,922 and the amount of depreciation expense stated at \$1,081,320 reported in the accompanying statement of activities for the year then ended. In addition, the expenses and the net result of operations reported in the accompanying statement of activities are also misstated for amounts that could not be determined for the fiscal year ended June 30, 2015.

The Municipality did not comply with the requirements established by GASB No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*, issued by the Governmental Accounting Standards Board and the regulations set forth by the U.S. Environment Protection Agency in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. At June 30, 2015, the accompanying statement of net position include a liability of \$10,666,839 for closure and post closure care costs not based on a formal study of the actual landfill available and used capacity. Because, of the inadequacy of the accounting records, we were unable to form an opinion regarding the liability for closure and post closure costs of the landfill.

### **Disclaimer of Opinion**

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities of the Municipality as of June 30, 2015, or the changes in financial position, thereof for the year then ended. Accordingly, we do not express an opinion on the statement of net position and the statement of activities.

**Basis for Qualified Opinion on the General Fund, Head Start Fund, Bond Issuances Fund and the aggregate remaining fund**

The Municipality did not maintain adequate accounting records of the interfund cash transactions and the corresponding due from and due to account balances. We were unable to obtain sufficient evidence to support and satisfy ourselves about the amounts recorded in the interfund balances in the amount of \$4,143,964 recorded in the General Fund, Head Start Fund, Bond Issuances Fund and the aggregate remaining fund in the balance sheet of the governmental funds at June 30, 2015.

**Qualified Opinion**

In our opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion on the General Fund, Head Start Fund, Bond Issuances Fund and the aggregate remaining fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund, Head Start Fund, Bond Issuances Fund and the aggregate remaining fund of the Municipality, as of June 30, 2015, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Debt Service Fund of the Municipality of Guayama, as of June 30, 2015, and the respective changes in the financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 to 15 and 70 to 72 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 required supplementary information related to new pensions standards 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 Governmental Accounting Standard 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. Our opinion on the basic financial statements is not affected by the missing information.

#### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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.

#### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2016, on our consideration of the Municipality of Guayama's 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 Guayama's internal control over financial reporting and compliance.

San Juan, Puerto Rico  
March 18, 2016

The stamp E210226 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



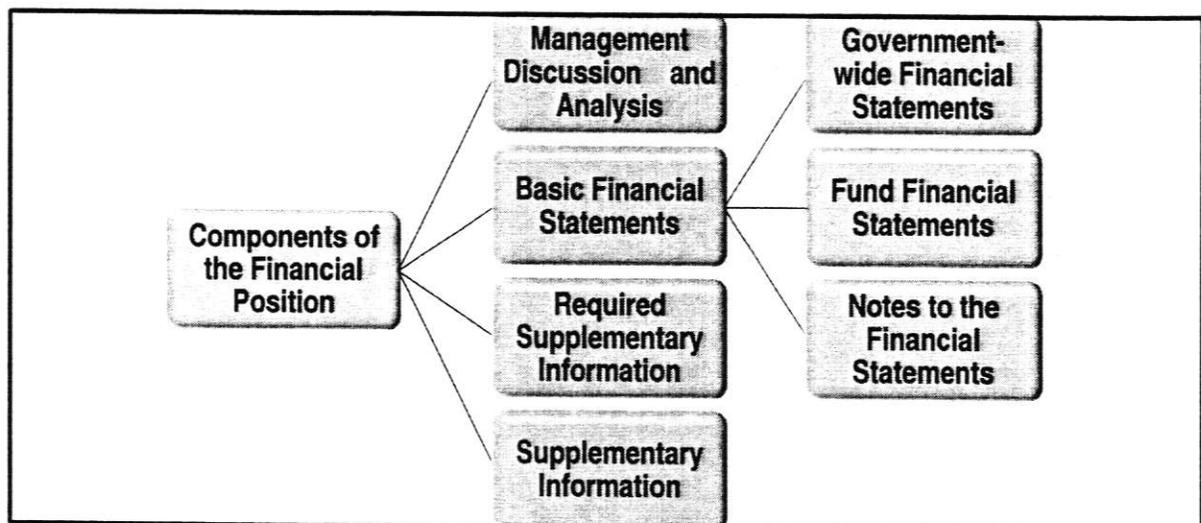
The discussion and analysis of the Municipality of Guayama's financial performance provides an overall review of the Municipality's financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the Municipality's financial performance as a whole; this section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. Our analysis follows this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2015 by \$87,888,383 (net position), a decrease of 9% in comparison with 2014, as restated. Of this amount, the Municipality presented an unrestricted net deficit of \$8,434,726.
- Revenues decreased 34% and expenses increased 4% when compared with fiscal year 2014, as restated. Net position decreased \$7,894,784 in 2015.
- A positive net change in the fund balances of the Municipality's governmental funds of \$11,202,975 in the fiscal year 2015 resulted in reported ending fund balances of \$22,258,109.
- For the fiscal year 2015, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$9,298,182. The unassigned fund deficit amounts to \$3,773,743, for a decrease of 41% when compared to the prior year, as restated.
- The investment in capital assets as of June 30, 2015 was \$120,840,833 (net of depreciation).
- Long-term debt (total primary government) increased to \$59,796,113 or approximately 0.33% with respect to the prior year, as restated.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$3,461,072.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Municipality's financial report comprises four components: (1) management's discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

### **Basic Financial Statements**

- ***Government-Wide Financial Statements***

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement, the *statement of net position*, presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in the Municipality's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement, the *statement of activities*, presents information showing how the net position changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

The government-wide statements report as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, community, urban and economic development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well as by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified-accrual basis of accounting. Under this approach, the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of spendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's

programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that comply with a minimum criterion that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users. Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

**Required supplementary information**

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability, and the Schedule of Municipality Contributions.

**Supplementary information**

The supplementary information also includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net position**

The following table presents a summary of the Statements of Net Position as of June 30, 2015 and 2014:

**TABLE 1**

<b>Summary Statement of Net Position</b>		
<b>As of June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2015</b>	<b>2014, as restated</b>
<b>Assets</b>		
Current and other assets	\$ 36,936,590	\$ 42,019,200
Capital assets	120,840,833	121,922,153
<b>Total assets</b>	<b>\$ 157,777,423</b>	<b>\$ 163,941,353</b>
<b>Liabilities</b>		
Current and other liabilities	10,092,927	8,560,994
Long-term liabilities	59,796,113	59,597,192
<b>Total liabilities</b>	<b>69,889,040</b>	<b>68,158,186</b>
<b>Net Position</b>		
Net investment in capital assets	87,007,985	85,461,523
Restricted	9,315,124	10,360,035
Unrestricted (deficit)	(8,434,726)	(38,391)
<b>Total net position</b>	<b>\$ 87,888,383</b>	<b>\$ 95,783,167</b>

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) serves as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. At June 30, 2015, assets exceeded its liabilities by \$87,888,383. Of this amount, \$8,434,726 represents unrestricted net deficit. Generally, this component of net position reflects a deficit, primarily due to the effect of long-term obligations such as compensated absences, debts to CRIM, landfill, among other debts, for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a "pay as you go" basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as net investment in capital assets. Therefore, they are reported as part of the unrestricted net position section. For the 2015, unrestricted net position reports a negative balance as a result of a significant decrease in revenues of \$22,575,355 or 34%, due to the inclusion in

the 2014 financial statements of the collection of a municipal license tax deficiency claim against a mayor pharmaceutical taxpayer in the amount of \$17 million dollars. Restricted net position represents resources that are subject to external restrictions on how they may be used. Net position reported a decrease of 8% with respect to fiscal period 2014, as restated.

The largest portion of the Municipality's net position reflects its investment in capital assets (land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

**Changes in net position**

The following table summarizes the changes in net position for the fiscal years ended 2015 and 2014:

**TABLE 2**

<b>Summary of Changes in Net Position</b>		
<b>As of June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2015</b>	<b>2014, as restated</b>
<b>Program revenues:</b>		
Fees, fines and charges for services	\$ 3,809,251	\$ 5,927,055
Operating grants and contributions	14,880,907	13,459,274
Capital grants and contributions	1,682,527	1,047,889
<b>General revenues:</b>		
Property taxes	10,194,013	10,176,571
Municipal license taxes	4,835,918	26,341,325
Sales and use taxes	2,908,011	3,342,628
Grants and contributions not restricted to specific programs	4,306,920	4,961,983
Interest	554,305	459,192
Miscellaneous	459,479	490,769
<b>Total revenues</b>	<b>43,631,331</b>	<b>66,206,686</b>
<b>Expenses:</b>		
General government	11,194,561	13,131,953
Public safety	2,625,093	2,560,114
Public works and sanitation	16,035,380	13,852,833
Culture and recreation	2,648,335	2,163,493
Health, welfare and community development	5,622,538	5,242,501
Education	11,153,176	10,394,238

Interest on long-term debt	\$ 2,247,032	\$ 2,280,996
<b>Total expenses</b>	<b>51,526,115</b>	<b>49,626,128</b>
<b>Change in net position</b>	<b>(7,894,784)</b>	<b>16,580,558</b>
<b>Net position-beginning of year, as restated</b>	<b>95,783,167</b>	<b>79,202,609</b>
<b>Net position-end of year</b>	<b>\$ 87,888,383</b>	<b>\$ 95,783,167</b>

The three major sources of revenues of the Municipality in fiscal year 2015 are: operating grants and contributions with 34% of total revenues, property taxes with 23%, and municipal license taxes with 11%. Revenues decreased 34% mainly due to a decrease of 82% in municipal license taxes and of 36% in fees, fines and charges for services, which were offset by an increase of 61% and 11% in capital and operating grants and contributions, respectively. As indicated in the previous paragraph, the significant decrease reported in municipal license tax is due to the inclusion in the 2014 financial statements of the settlement of a legal claim against a mayor pharmaceutical taxpayer for taxes owed for the fiscal years 2003-04 through 2013-14. The following chart illustrates the revenue comparison between 2015 and 2014:

Figure 1

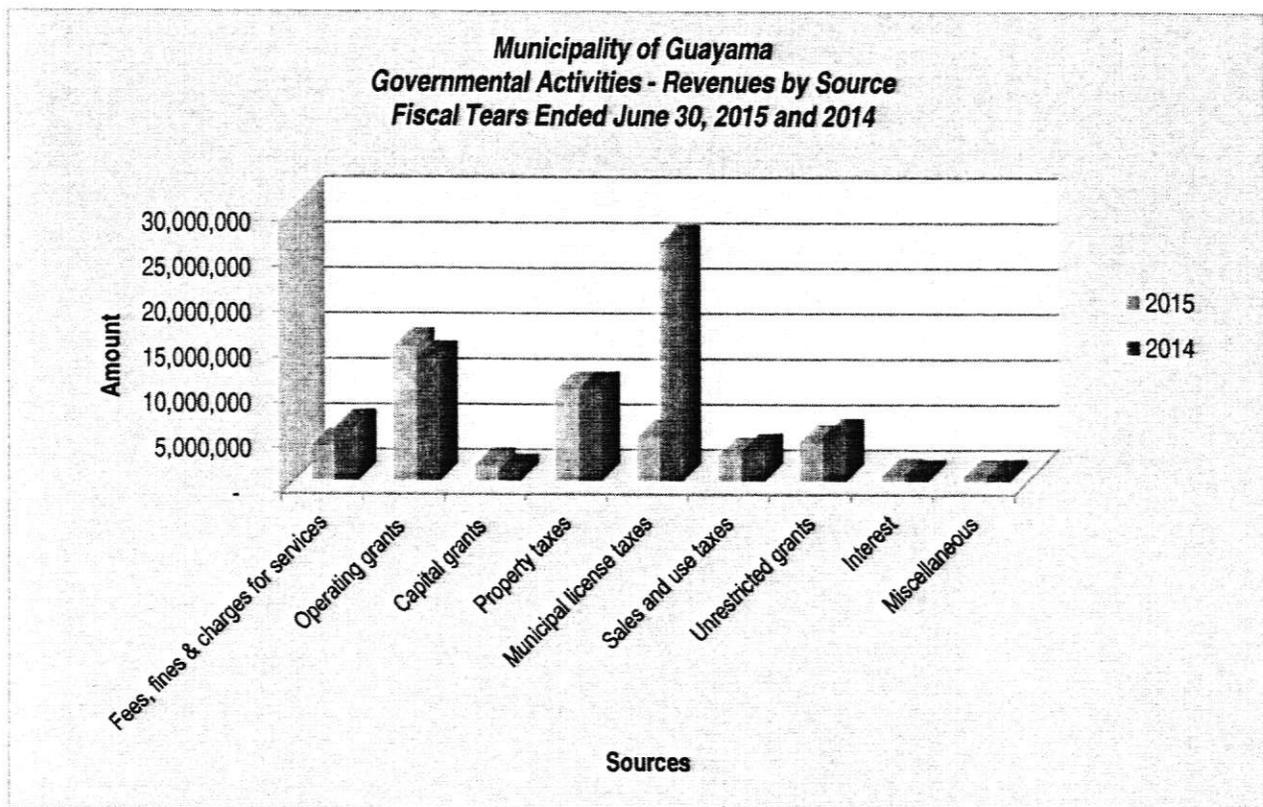
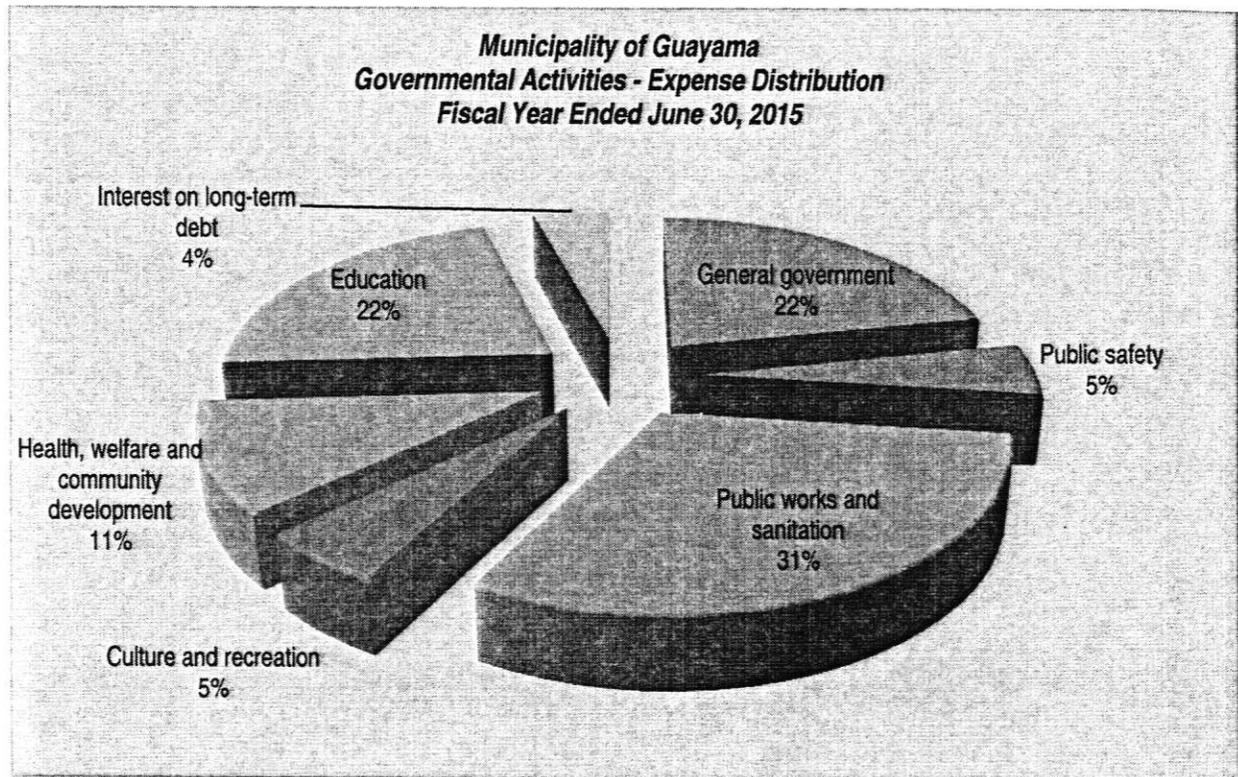


Figure 2



The Municipality's expenses cover a range of services. **Figure 2** illustrates the distribution of expenses in fiscal year 2015. As disclosed, the largest governmental activities expenses are general government with 22%, public works and sanitation with 31% and education with 22%. Total expenses increased 4% when compared with fiscal year 2014, as restated.

The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. The following table discloses the 2015 expenses net of program revenue and the general revenues available to finance remaining costs:

TABLE 3

<b>Expenses Net of Program Revenues - Governmental Activities</b>	
<b>Fiscal Year ended June 30, 2015</b>	
<b>Net expenses</b>	<b>2015</b>
General government	\$ (7,736,479)
Public safety	(2,286,550)
Public works and sanitation	(14,043,552)
Culture and recreation	(2,264,722)
Health, welfare and community development	(2,361,199)
Education	(213,896)
Interest on long term debt	(2,247,032)
<b>Total expenses, net of program revenues</b>	<b>(31,153,430)</b>
<b>General revenues</b>	
Taxes	17,937,942
Grants and contributions not restricted to specific programs	4,306,920
Interest and other	1,013,784
<b>Total general revenues</b>	<b>23,258,646</b>
<b>Change in net position</b>	<b>\$ (7,894,784)</b>

Expenses of governmental activities not covered by program revenues were finally covered by other general revenues.

## FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

### Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party.

For the fiscal year ended June 30, 2015, the governmental funds reported ending fund balances of \$22,258,109, a net increase of \$11,202,975 or 101%, due to an increase of 134% in municipal license taxes. This material increase is due to the inclusion in revenue of the settlement of a legal claim against a mayor pharmaceutical taxpayer for taxes owed for the fiscal years 2003-04 through 2013-14 in the amount of \$17 million dollars. This

amount was recognized as a deferred inflow of resources in the 2014 financial statements because the claim was settled and collected after the availability period. On the other hand, there was a 13% and 6% decrease in sales and use and property taxes, respectively, which was offset by an 8% increase in federal grants. Of the total fund balances, \$6,017,382 or 27% constitutes unrestricted fund balance, of which \$856,650 and \$10,977,162 represent committed and assigned fund balances, respectively, leaving a remaining unassigned fund deficit of \$5,816,430. The remaining fund balance of \$16,240,727 is restricted to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. The fund balance of the general fund represents approximately 36% of total ending fund balances. Of the total fund balance, \$856,650 corresponds to committed funds and \$10,977,162 represents amounts assigned by management for special purposes. The remaining unrestricted fund deficit of \$3,773,743 is unassigned fund deficit. Unassigned fund deficit decreased 41% with respect to the prior year, as restated.

During the fiscal year, the fund balance of the general fund increased by \$9,298,182. The main sources of revenues of the general fund in fiscal year 2015 are: taxes (property taxes, sales and use taxes and municipal license taxes) with 74%, and intergovernmental subsidies from the Commonwealth with 21%. Revenues increased 45% in comparison to 2014 due to the 134% increase in municipal license taxes explained earlier. The largest expenditures of the general fund are general government with 39% and public works and sanitation with 38%. Expenditures increased 18%.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

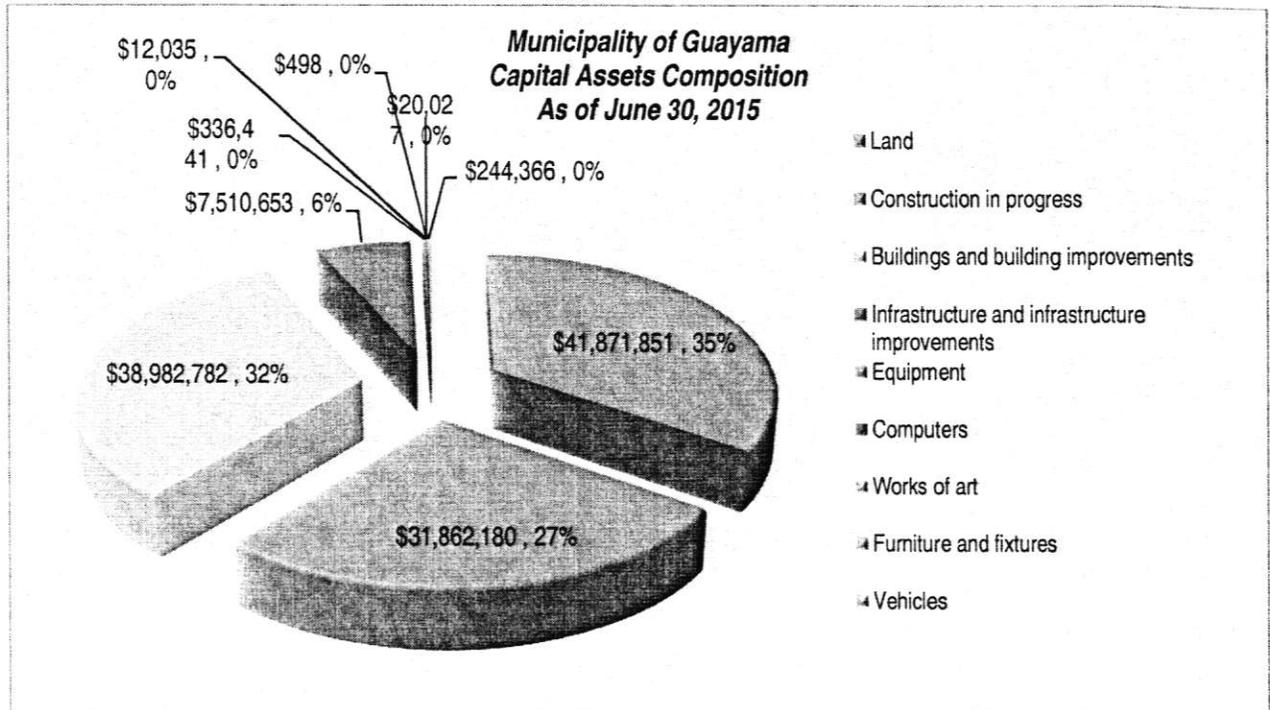
The general fund original budget for the fiscal year 2014-2015 presented a 0.29% increase with respect to the prior year budget. The original budget was increased by \$9,533,500 due to the collection of the municipal license tax claim of \$17 million dollars. The funds were used for the creation of a special fund to be employed for public works expenditures. Actual revenues were less than revised budgeted revenues by \$5,400,247 (net). However, the Municipality reported a positive variance of \$8,860,657 between revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by \$3,461,072.

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

##### **Capital assets**

At the end of the fiscal year, the Municipality has invested \$120,840,833 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land, furniture, works of art and equipment. The following graphic discloses the capital assets balances composition as of June 30, 2015:

Figure 3



**Long-term debt**

The following is a summary of the Municipality's outstanding debt as of June 30, 2015 and 2014:

TABLE 4

<b>Outstanding Long-term Debt</b>		
<b>Fiscal years ended June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2015</b>	<b>2014, as restated</b>
General and special obligation bonds and notes	\$ 42,999,105	\$ 41,870,105
Notes payable to CRIM – Law 42	107,845	111,192
Note payable to P.R. Department of Labor	132,404	220,586
Payable to PREPA	798,666	1,955,325
Payable to CRIM – Property tax advances	427,114	343,766
Compensated absences	3,570,251	3,315,378
Christmas bonus payable	676,326	658,192
Claims and judgments	417,563	672,600
Landfill	10,666,839	10,450,048
<b>Total</b>	<b>\$ 59,796,113</b>	<b>\$ 59,597,192</b>

At year-end, the Municipality had outstanding \$42,999,105 in general and special bonds and notes, an increase with respect to the prior year of \$1,129,000, mainly due to the of new bonds and notes during the year in the amount of \$4,285,000.

More detailed information about the Municipality's long-term liabilities is presented in Note 10 of the financial statements.

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

The Municipality's officials considered certain factors when establishing the fiscal year's 2015-2016 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth or decline in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate at June 2015 stands at 19.9%, and the Commonwealth rate stands at 12.6%.

For the fiscal year 2015-2016, the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are \$24,335,341, a decrease of 2% with respect to the prior year's budget. In addition to the general fund estimated budget, the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

### **FINAL COMMENTS**

The new GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment to GASB Statement No. 27*, was effective for the fiscal year ended June 30, 2015. This Statement requires participants of cost-sharing defined benefit pension plans that are administered through trusts that comply with certain criteria to recognize in their financial statements their proportionate share of the collective net pension liability, net pension expense and deferred outflows/inflows of resources related to pensions. The Municipality's pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not issued its audited financial statements for the fiscal year ended June 30, 2014 (the plan's measurement date), and as a result, the Municipality of Cayey could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 68. Consequently, the Municipality's financial statements do not report or disclose the required information for its pension plan for the fiscal year 2014-15.

### **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 demonstrate the Municipality's accountability for the money it receives. If you have any questions about this report or need any additional information contact the Finance Department at the Municipality of Guayama at P.O. Box 360, Guayama, Puerto Rico, 00785.

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 7,461,071
Cash with fiscal agent	7,000,000
Due from:	
Commonwealth Government	1,981,396
Federal Government	146,383
Restricted assets:	
Cash and cash equivalents	1,487,835
Cash with fiscal agent	18,782,760
Capital assets	
Land and construction in progress	73,734,031
Other capital assets, net	47,106,802
Total capital assets	<u>120,840,833</u>
Other assets	77,145
Total assets	<u>157,777,423</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	2,683,120
Interest payable	1,178,305
Due to:	
Commonwealth Government	558,871
Unearned revenues:	
Municipal license taxes	5,486,015
Federal grants	186,616
Noncurrent liabilities:	
Due within one year	5,716,499
Due in more than one year	54,079,614
Total liabilities	<u>69,889,040</u>
<b>Net position</b>	
Net investment in capital assets	87,007,985
Restricted for:	
Capital projects	2,223,630
Debt service	7,047,243
Other purposes	(405,266)
Unrestricted	(7,985,209)
<b>Total net position</b>	<u>\$ 87,888,383</u>

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

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Change in Net Position
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
General government	\$ 11,194,561	\$ 3,287,485	\$ 170,597	\$ -	\$ (7,736,479)
Public safety	2,625,093	271,352	67,191	-	(2,286,550)
Public works and sanitation	16,035,380	26,801	282,500	1,682,527	(14,043,552)
Culture and recreation	2,648,335	223,613	160,000	-	(2,264,722)
Health, welfare, and community development	5,622,538	-	3,261,339	-	(2,361,199)
Education	11,153,176	-	10,939,280	-	(213,896)
Interest on long-term debt	2,247,032	-	-	-	(2,247,032)
	<u>\$ 51,526,115</u>	<u>\$ 3,809,251</u>	<u>\$ 14,880,907</u>	<u>\$ 1,682,527</u>	<u>\$ (31,153,430)</u>
<b>General revenues:</b>					
Taxes:					
Property taxes 10,194,013					
Municipal license taxes 4,835,918					
Sales and use taxes 2,908,011					
Grants and contributions not restricted to specific programs 4,306,920					
Interest 554,305					
Miscellaneous 459,479					
<u>Total general revenues 23,258,646</u>					
<b>Change in net position (7,894,784)</b>					
<b>Net position - beginning, as restated 95,783,167</b>					
<b>Net position - ending \$ 87,888,383</b>					

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

	General Fund	Debt Service Fund	Head Start Fund	Bond Issuances Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 7,461,071	\$ -	\$ -	\$ -	\$ -	\$ 7,461,071
Cash with fiscal agent	7,000,000	-	-	-	-	7,000,000
Due from:						
Commonwealth Government	873,519	454,019	488,379	-	165,479	1,981,396
Federal Government	-	-	-	-	146,383	146,383
Other funds	2,170,493	-	-	-	1,973,471	4,143,964
Restricted assets:						
Cash and cash equivalents	-	-	425,681	-	1,062,154	1,487,835
Cash with fiscal agent	-	7,771,529	-	10,575,771	435,460	18,782,760
Other assets	77,145	-	-	-	-	77,145
<b>Total assets</b>	<b>\$17,582,228</b>	<b>\$8,225,548</b>	<b>\$914,060</b>	<b>\$10,575,771</b>	<b>\$ 3,782,947</b>	<b>\$ 41,080,554</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable and accrued liabilities	\$ 1,095,748	\$ -	\$ 151,814	\$ 82,109	\$ 1,353,449	\$ 2,683,120
Matured bonds and notes payable	-	3,410,000	-	-	-	3,410,000
Matured interest payable	-	1,178,305	-	-	-	1,178,305
Due to:						
Commonwealth Government	510,569	-	48,302	-	-	558,871
Other funds	1,558,098	-	713,944	1,402,294	469,628	4,143,964
Unearned revenues:						
Municipal license tax	5,486,015	-	-	-	-	5,486,015
Federal Government	-	-	-	-	186,616	186,616
<b>Total liabilities</b>	<b>8,650,430</b>	<b>4,588,305</b>	<b>914,060</b>	<b>1,484,403</b>	<b>2,009,693</b>	<b>17,646,891</b>
<b>Deferred inflows of resources</b>						
Unavailable revenues:						
Commonwealth Government	871,729	-	-	-	139,131	1,010,860
Federal grants	-	-	2,586	-	162,108	164,694
<b>Total deferred inflows of resources</b>	<b>871,729</b>	<b>-</b>	<b>2,586</b>	<b>-</b>	<b>301,239</b>	<b>1,175,554</b>
<b>Fund balances</b>						
Restricted	-	3,637,243	-	9,091,368	3,512,116	16,240,727
Committed	856,650	-	-	-	-	856,650
Assigned	10,977,162	-	-	-	-	10,977,162
Unassigned	(3,773,743)	-	(2,586)	-	(2,040,101)	(5,816,430)
<b>Total fund balances (deficit)</b>	<b>8,060,069</b>	<b>3,637,243</b>	<b>(2,586)</b>	<b>9,091,368</b>	<b>1,472,015</b>	<b>22,258,109</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$17,582,228</b>	<b>\$8,225,548</b>	<b>\$914,060</b>	<b>\$10,575,771</b>	<b>\$ 3,782,947</b>	<b>\$ 41,080,554</b>

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

	General Fund	Debt Service Fund	Head Start Fund	Bond Issuances Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 5,620,296	\$ 4,657,066	\$ -	\$ -	\$ -	\$ 10,277,362
Municipal license taxes	21,835,918	-	-	-	-	21,835,918
Sales and use taxes	2,484,193	423,818	-	-	-	2,908,011
Fees, fines and charges for services	944,585	-	-	-	-	944,585
Intergovernmental:						
Commonwealth Government	8,438,608	-	-	-	2,068,700	10,507,308
Federal Government	-	-	10,932,769	-	3,407,461	14,340,230
Interest	547,521	6,205	-	-	579	554,305
Miscellaneous	260,380	-	-	-	199,098	459,478
<b>Total revenues</b>	<b>40,131,501</b>	<b>5,087,089</b>	<b>10,932,769</b>	<b>-</b>	<b>5,675,838</b>	<b>61,827,197</b>
<b>Expenditures</b>						
Current:						
General government	12,164,621	-	-	-	171,946	12,336,567
Public safety	2,560,831	-	-	-	32,590	2,593,421
Public works and sanitation	11,906,795	-	-	-	263,683	12,170,478
Culture and recreation	2,089,990	-	-	-	105,400	2,195,390
Health, welfare and community development	2,193,333	-	-	-	3,407,046	5,600,379
Education	165,525	-	10,935,355	-	-	11,100,880
Debt service:						
Principal	-	3,451,000	-	-	-	3,451,000
Interest and other charges	-	2,247,032	-	-	-	2,247,032
Capital outlays	-	-	-	237,032	2,977,043	3,214,075
<b>Total expenditures</b>	<b>31,081,095</b>	<b>5,698,032</b>	<b>10,935,355</b>	<b>237,032</b>	<b>6,957,708</b>	<b>54,909,222</b>
Excess (deficiency) of revenues over (under) expenditures	9,050,406	(610,943)	(2,586)	(237,032)	(1,281,870)	6,917,975
<b>Other financing sources (uses)</b>						
Proceeds from debt issuance	-	-	-	4,285,000	-	4,285,000
Transfers in	437,374	31,048	-	-	158,550	626,972
Transfers out	(189,598)	(437,374)	-	-	-	(626,972)
<b>Total other financing sources (uses)</b>	<b>247,776</b>	<b>(406,326)</b>	<b>-</b>	<b>4,285,000</b>	<b>158,550</b>	<b>4,285,000</b>
Net change in fund balances	9,298,182	(1,017,269)	(2,586)	4,047,968	(1,123,320)	11,202,975
Fund balance (deficit), beginning, as restated	(1,238,113)	4,654,512	-	5,043,400	2,595,335	11,055,134
Fund balance (deficit), ending	\$ 8,060,069	\$ 3,637,243	\$ (2,586)	\$ 9,091,368	\$ 1,472,015	\$ 22,258,109

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

<b>Total governmental fund balances</b>		<b>\$ 22,258,109</b>
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		120,840,833
Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:		
Due from Commonwealth Government:		
P.R. Electric Power Authority (PREPA)	\$ 798,666	
P.R. Department of Labor - Law Num. 52	139,131	
P.R. Department of Family - Early Head Start Program	2,586	
U.S. Department of Housing and Urban Development - CDBG Entitlement	135,760	
P.R. Department of Family - Community Services Block Grant Program	26,348	
Christmas bonus reimbursement	<u>73,063</u>	1,175,554
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
General obligation bonds and notes	39,589,105	
Note payable to CRIM - Law No. 42	107,845	
Payable to PREPA	798,666	
Payable to CRIM - property tax advances	427,114	
Payable to the P.R. Department of Labor - unemployment tax	132,404	
Compensated absences	3,570,251	
Christmas bonus	676,326	
Claims and judgments	417,563	
Landfill obligation	<u>10,666,839</u>	<u>(56,386,113)</u>
<b>Net position of governmental activities</b>		<b>\$ <u>87,888,383</u></b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities  
For the Year Ended June 30, 2015**

**Net change in fund balances - total governmental funds** **\$ 11,202,975**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for capital assets	\$ -	
Less: current-year depreciation	(1,081,320)	(1,081,320)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Christmas bonus reimbursement (current year)	73,063	
P.R. Department of Family - Early Head Start Program	2,586	
U.S. Department of Housing and Urban Development - CDBG Entitlement	135,760	
P.R. Department of Family - Community Services Block Grant Program	26,348	
P.R. Department of Labor - Law Num. 52	139,131	376,888

Revenues reported in the funds that are not reported as revenues in the Statement of Activities:

Property taxes - General Fund (current year)	(83,348)	
Municipal license taxes	(17,000,000)	
P.R. Electric Power Authority (PREPA)	(1,156,659)	
Christmas bonus reimbursement (prior year)	(183,426)	
P.R. Department of Labor - Law Num. 52	(149,321)	(18,572,754)

Proceeds from general obligation bonds are other financing sources in the governmental funds, but increase long-term liabilities in the Statement of Net Position

(4,285,000)

Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:

Matured bonds and notes principal payments (net change)		295,000
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Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

General obligation bonds and notes	3,156,000	
Other long-term liabilities	2,624,396	5,780,396

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:

Compensated absences	(541,089)	
Christmas bonus	(676,326)	
Claims and judgments	(176,763)	
Landfill	(216,791)	(1,610,969)

**Change in net position of governmental activities** **\$ (7,894,784)**

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Guayama (the Municipality) is a local municipal government in the Commonwealth of Puerto Rico (the Commonwealth) founded in 1736. The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, the Municipality's governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The Municipal Legislature, also elected every four years, exercises the legislative power of the Municipality. The Commonwealth's General Justice Court System, which has jurisdiction over all the municipalities, exercises the judiciary power.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban development, economic development, and many other fiscal, general and administrative services.

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its governmental accounting and financial reporting standards which, along with subsequent GASB Statements and Interpretations, constitute GAAP for governmental entities.

### A. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Guayama (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

1. The primary government appoints a voting majority of the entity's governing body, and either:
  - A financial benefit/ burden exist between the primary government and the entity or
  - The primary government can impose its will on the entity.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

In addition, "special criteria" applies when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Legally separate, tax-exempt organizations that do not meet the above special criteria should still be included as a component unit if the financial statements of the primary government would be misleading without them.

There are two methods of presentation of the component unit in the financial statements: (a) *blending* the financial data of the component units' balances and transactions and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government ("*blended component units*"). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as blended if meets any of the following criteria:

1. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
  - A financial benefit/ burden exist between the primary government and the entity or
  - Management of the primary government has operational responsibility for the primary government.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
3. The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units do not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government ("*discretely component units*"). Legally separate, tax-exempt organizations that meet the special criteria should be included as *discretely component units*.

Based on the above criteria, there are no potential component units which should be included as part of the financial statements.

**B. Financial statement presentation, measurement focus, and basis of accounting**

The financial report of the Municipality consists of the Management's Discussion and Analysis (MD&A), basic financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

**Management's Discussion and Analysis**

It provides a narrative introduction and analytical overview of the Municipality's financial activities.

**Basic financial statements**

The basic financial statements include both the government-wide and fund financial statements. Both sets of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

• **Government-wide Financial Statements (GWFS)**

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the *economic resources* measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the *accrual basis of accounting*. Revenues are recognized in the period earned and expenses in the period in

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

which the associated liability is incurred, regardless of the timing of related cash flows. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. As a policy, indirect expenses are not allocated in the Statement of Activities. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, rent, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed non-exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

The Municipality reports unearned revenues in the government-wide statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

- **Fund Financial Statements (FFS)**

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criteria, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

**General Fund** – This is the general operating fund of the Municipality. It is used to account for and report all financial resources not accounted for and reported in another fund.

**Debt Service Fund** – This fund is used to account for and report financial resources that are restricted for expenditure for the payment of principal and interest of general and special obligation bonds and notes issued by the Municipality. This fund accounts for the resources of three individual funds: 1) "CAE Fund," the sinking fund which accounts for the 3.25% of property taxes collected by the Municipal Revenue Collection Center (CRIM); 2) "Municipal Redemption Fund," the sinking fund that accounts for the 0.2% of the 0.5% collected from the sales and use tax that is, by law, deposited in the Governmental Development Bank (GDB) for the financing of loans to Municipalities; and 3) operational loans that are paid from the general fund's operating revenues.

**Head Start Fund** – This fund is used to account for and report revenues sources received from the U.S. Department of Health and Human Services that are restricted for expenditure for the activities performed under the Head Start and Early Head Start programs. These activities consist of providing services to pregnant women and children (birth to 5 years-old) and their families that are under the poverty line or are eligible for public assistance.

**Bond Issuances Fund** – This fund is used to account fund and report the financial resources received from the issuance of general and special obligations bonds and notes for capital outlays, including the acquisition, development and improvement of capital assets.

The FFS are accounted for using the *current financial resources* measurement focus and the *modified-accrual basis of accounting*. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both *measurable* and *available*). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenues susceptible to accrual include property taxes, recognized as revenue in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met; and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases, revenues are recognized at the time of receipt or earlier, if the susceptible-to-accrual criterion is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible-to-accrual criterion is met.

The Municipality reports unearned revenues in the governmental funds statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants, if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case, amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits, which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the GWFS, the expense and related accrual liability for long-term portions of debt must be included).

Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds of the FFS. Likewise, long-term liabilities (generally, those un-matured that will not require the use of current financial resources to pay them) are also not accounted for in the FFS.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Since the FFS are presented on a different measurement focus and basis of accounting than the GWFS, reconciliation is necessary to explain the adjustments needed to transform the FFS into the GWFS. This reconciliation is part of the financial statements.

### Notes to financial statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

### Required Supplementary Information (RSI)

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability, and the Schedule of Municipality Contributions, as required by GASB.

## C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

**General Fund** – Is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

**Special Revenue Fund** – Is a governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Capital Projects Fund** – is a governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general and general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

**Debt Service Fund** – is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

### D. Deposits and investments

The Municipality's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the Governmental Development Bank.

### E. Restricted assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales and use tax collections retained by the Commonwealth of Puerto Rico, which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represents the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

### F. Receivables and due from governmental entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from Commonwealth government in the general and debt service funds represent property tax revenues of the current fiscal year collected by the CRIM on the subsequent fiscal year. Amounts due from Commonwealth and federal governments reported in the special revenue or capital project funds represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

### G. Inter-fund receivables and payables

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances among funds are reported as "due from/to other funds".

Advances between funds, as reported in the fund financial statements, if any, are reported as "nonspendable" in the fund balance section of the Balance Sheet to indicate that they are not available for appropriation and are not expendable available financial resources.

### H. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Position, as management believes is not significant.

### I. Capital assets

Capital assets reported in the governmental activities in the Statement of Net Position include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items). The Municipality defines capital assets (except infrastructure assets) as assets with an individual cost of more than \$500 and an estimated useful life in excess of one year. Infrastructure assets are capitalized based on a percentage of

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Description	Useful Life
Buildings and site improvements	40 years
Infrastructure	40 years
Infrastructure improvements	15 years
Equipment	5 years
Computers	3 years
Works of art	10 years
Furniture and fixtures	5 years
Vehicles	5 years

In accordance with current accounting standards, capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

**J. Deferred outflows/inflows of resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has three items that qualify for reporting in this category:

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet of the governmental funds and in the government-wide Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
2. **Unavailable revenue reported under the modified-basis of accounting** – Amounts collected or to be collected after the availability period are recognized as *unavailable revenue* in the governmental funds' Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.
3. **Deferred outflows/inflows of resources related to pensions** – Amounts reported for changes in the calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between Municipality's contributions and proportionate share of contributions; and e) Municipality's contributions subsequent to the measurement date.

**K. Long-term obligations**

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Position, include general and special obligation bonds and notes, liabilities for compensated absences, claims and judgments, landfill closure and post-closure costs and long-term liabilities to other governmental entities.

Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

**L. Compensated absences**

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment, the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996, effective July 1, 1997, the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

### M. Claims and judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when they matured (generally, when payment is due). The accompanying government-wide financial statements include an amount estimated as a contingent liability for liabilities as incurred.

### N. Net position

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

**Net investment in capital assets:** Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Restricted net position:** The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

**Unrestricted net position:** Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

**O. Net position flow assumption**

Sometimes, the government will fund outlays for a particular purpose from both restricted (restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**P. Fund balances**

The GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54") establishes accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

**Nonspendable:** Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**Restricted:** Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature remove or change the specified use by taking the same type of action (ordinance or resolution) they employed to commit those amounts. Formal action to commit fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.
- Assigned:** Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.
- Unassigned:** Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: 1) such resources meet the other criteria for those classifications, as described above and 2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2015.

### Q. Fund balance flow assumptions

Sometimes, the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**R. Accounting for pension costs**

The Municipality adopted the provisions of GASBS No. 68, *Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASBS No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amended GASBS No.68.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, the net pension liability, pension expense and deferred outflows/inflows of resources recognized in the accompanying basic financial statements are equal to the Municipality's proportionate shares of the collective net pension liability, pension expense and collective deferred outflows/inflows of resources reported for the pension plans' trust by the plan's administrator as of the measurement date. In addition, if the Municipality's annual contributions are less than the statutorily required amounts, a liability is recorded for any unpaid balances.

For the purpose of applying the requirements of GASBS Nos. 68 and 71, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a multi-employer hybrid defined contribution plan in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of this retirement system since the majority of the participants in the aforementioned pension trust fund are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement system are part of the Commonwealth's financial reporting entity.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the ESR plan and additions to/reductions from the ESR plan's fiduciary net position have been determined on the same basis as they are reported by the ESR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**S. Inter-fund and intra-entity transactions**

The Municipality has the following types of transactions among funds:

1. **Operating transfers** - Legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.
2. **Intra-entity transactions** - Transfers between the funds of the primary government are reported as inter-fund transfers with receivables and payables presented as amounts due to and due from other funds.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**T. Risk financing**

The Municipality carries commercial insurance that consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Under Law Num. 63 of June 21, 2010, the Legislature of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The Municipality's commercial insurance and health plan coverages are procured and negotiated through a single insurance broker. The broker obtains quotes from the different insurance companies and the Municipality's management makes the selection based on coverage and price. The total cost of the annual premiums is financed through a payment plan made with an insurance financing company, and the monthly payments are deducted from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. The annual premium is also deducted from the monthly advances issued by the CRIM.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Puerto Rico Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability or death because of work or employment-related accidents or due to a non-occupational disability. The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks worked by each employee covered by law.

**U. Use of estimates**

The preparation of the basic financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

1. **GASB Statement No. 72 “Fair Value Measurement and Application.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
2. **GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016), except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).
3. **GASB Statement No. 74 “Financial Reporting for Postemployment Benefit Plans Other Than Pensions.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).
4. **GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (fiscal year ended June 30, 2018).
5. **GASB Statement No. 76 “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
6. **GASB Statement No. 77 “Tax Abatement Disclosures.”** The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (fiscal year ended June 30, 2017).
7. **GASB Statement No. 78 “Pensions Provided Through Certain Multiple Employee Defined Benefit Pension Plan”.** The provisions of this Statement are effective for fiscal years beginning December 15, 2016 (fiscal year ended June 30, 2017).
8. **GASB Statement No. 79 “Certain External Investment Pools and Pool Participants”.** The provisions of this Statement are effective for fiscal year beginning after June 30, 2015 (fiscal year ended June 30, 2016).

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

9. **GASB Statement No. 80 “Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14.** The provisions of this Statement are effective for fiscal year beginning after June 15, 2016 (fiscal year ended June 30, 2017).

The impact of these statements on the Municipality’s financial statements, if any, has not yet been determined.

**W. Subsequent events**

Subsequent events have been evaluated through March 18, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

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## NOTE 2 – CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and in the Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

**Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant.

Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.

**Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: 1) not including debt investments in its investment portfolio at June 30, 2015, 2) limiting the weighted average maturity of its investments to three months or less, and 3) keeping most of its bank deposits in interest-bearing accounts generating interests at prevailing market rates. At June 30, 2015, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value.

Therefore, the Municipality's management has concluded that, at June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

**Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits with the GDB are uninsured and uncollateralized. However, no losses related to defaults by the GDB on deposit transactions have been incurred by the Municipality through June 30, 2015.

**NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)**

Therefore, the Municipality's management has concluded that, at June 30, 2015, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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

**Deposits** – At year-end, the Municipality's bank balance of deposits in commercial banks amounting to \$9,560,804 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), amounts to \$25,782,759 as of June 30, 2015.

**NOTE 3 – DUE FROM (TO) GOVERNMENTAL ENTITIES**

**A. Amounts due from governmental entities as of June 30, 2015 are as follows:**

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<b><u>Major fund – General fund:</u></b>		
P.R. Electric Power Authority (PREPA)	\$ 798,666	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	73,063	-
Municipal Revenue Collection Center (CRIM) – property taxes	1,790	
<b><u>Major fund – Debt service fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – property taxes	454,019	-
<b><u>Major fund – Head Start:</u></b>		
P.R. Department of Family - Administration for the Care and Integral Development of Children	488,379	-
<b><u>Other Governmental Funds:</u></b>		
P.R. Department of Labor and Human Resources – Law No. 52	139,131	-
P.R. Department of Family – Community Services Block Grant	26,348	-
U.S. Department of Housing and Urban Development – C.D.B.G. Entitlement	-	142,442
U.S. Department of Housing and Urban Development – Section 8 Housing Choice Voucher	-	3,941
	<u>\$ 1,981,396</u>	<u>\$ 146,383</u>

**NOTE 3 – DUE FROM (TO) GOVERNMENTAL ENTITIES (CONTINUED)**

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related note 7.

**B. Amounts due to governmental entities as of June 30, 2015 are as follows:**

Description	Commonwealth Government
<b><u>Major fund – General fund:</u></b>	
P.R. Employees Retirement System (ERS)	\$ 168,970
P.R. Department of Treasury	4,377
P.R. Department of Labor	2,841
P.R. Aqueduct and Sewer Authority (PRASA)	192,632
P.R. General Services Administration	82,676
Association of Employees of the Commonwealth of Puerto Rico	46,643
Others	12,430
<b><u>Major fund – Head Start:</u></b>	
P.R. Department of Family - Administration for the Care and Integral Development of Children	48,302
	<b><u>\$ 558,871</u></b>

**NOTE 4 – INTERFUND TRANSACTIONS**

**A. Due from/to other funds**

Amounts due from/to other funds in the general fund represent advances to other funds to finance payroll, payroll taxes and other expenditures as follows:

Receivable Fund	Payable Funds	Amount
<b>General Fund</b>	<b><u>Major Funds:</u></b>	
	Head Start	\$ 713,944
	Bond Issuances	986,921
	<b><u>Other Governmental Funds:</u></b>	
	Special Revenue State & Local – Law No. 52	160,658
	Special Revenue State & Local – Others	195
	Special Revenue Federal – Section 8 HCVP	31,979
	Special Revenue Federal – C.D.B.G. Entitlement	134,068
	Special Revenue Federal – Homeland Security	50,396
	Special Revenue Federal - Emergency Solutions Grants Program	15,400

NOTE 4 – INTERFUND TRANSACTIONS (CONTINUED)

<u>Receivable Fund</u>	<u>Payable Funds</u>	<u>Amount</u>
	Special Revenue Federal – Housing Preservation Grant	\$ 4,639
	Special Revenue Federal – Community Services Block Grant	26,348
	Special Revenue Federal – Others	6,031
	Capital Project State & Local – P.R. Infrastructure Financing Authority	35,498
	Capital Project State & Local – Commonwealth Legislature Resolutions	4,416
		<u>2,170,493</u>
<b>Other Governmental Funds</b>	<b>Major Funds:</b>	
	General Fund	1,558,098
	Bond Issuances Fund	415,373
		<u>1,973,471</u>
	<b>Total</b>	<b>\$ 4,143,964</b>

B. Transfers-in (out)

Transfers among individual funds were made for operational purposes as follows:

<u>Originating Fund</u>	<u>Receiving Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Transfer of fund for use in special purposes	\$ 158,550
General Fund	Debt Service Fund	Principal and interest payment of operational loans	31,048
Debt Service Fund	General Fund	Transfer of excess funds available in sinking fund for use in operating activities	431,540
Debt Service Fund	General Fund	Transfer of interest revenue	5,834
<b>Total</b>			<b>\$ 626,972</b>

**NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities as of June 30, 2015 are detailed as follows:

	<u>General Fund</u>	<u>Head Start Fund</u>	<u>Bond Issuances Fund</u>	<u>Other Governmental funds</u>	<u>Total</u>
Accounts payable - vendors	\$ 1,076,136	\$ 151,814	\$ 82,109	\$ 1,353,449	\$ 2,663,508
Accrued liabilities – payroll withholdings	19,612	-	-	-	19,612
<b>Total</b>	<b>\$ 1,095,748</b>	<b>\$ 151,814</b>	<b>\$ 82,109</b>	<b>\$ 1,353,449</b>	<b>\$ 2,683,120</b>

**NOTE 6 – UNEARNED REVENUES**

The amounts reported as unearned revenues as of June 30, 2015 are detailed as follows:

	<u>Amount</u>
<b><u>Major fund – General fund:</u></b>	
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	<b>\$ 5,486,015</b>
<b><u>Other Governmental Funds:</u></b>	
Federal grants received for which qualifying expenditures have not been incurred:	
Child and Adult Care Food Program	\$ 79,334
U.S. Department of Homeland Security	74,050
Emergency Solutions Grants Program	12,212
Housing Preservation Grants Program	18,542
Others	2,478
	<b>\$ 186,616</b>

**NOTE 7 – DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS**

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund's financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

**NOTE 7 – DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS**

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<b><u>Major fund - General fund:</u></b>		
P.R. Electric Power Authority (PREPA)	\$ 798,666	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	73,063	-
<b><u>Major fund – Head Start</u></b>		
P.R. Department of Family - Administration for the Care and Integral Development of Children	-	2,586
<b><u>Other governmental funds:</u></b>		
P.R. Department of Labor – Law No. 52	139,131	-
P.R. Department of Family – Community Services Block Grant	-	26,348
U.S. Department of Housing and Urban Development – C.D.B.G. Entitlement	-	135,760
	<u>\$ 1,010,860</u>	<u>\$ 164,694</u>

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**NOTE 8 – FUND BALANCE**

**A. Fund balance classifications**

The governmental fund balance classifications and amounts at June 30, 2015 are shown in the following table:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Head Start Fund</u>	<u>Bond Issuances Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 553,400	\$ 553,400
General public works and sanitation	-	-	-	-	465,675	465,675
Sports, culture and recreation	-	-	-	-	156,191	156,191
Health, welfare and community development	-	-	-	-	60,000	60,000
Education	-	-	-	-	43,476	43,476
Debt service	-	3,637,243	-	-	-	3,637,243
Capital outlays	-	-	-	9,047,117	2,222,771	11,269,888
General government and other purposes	-	-	-	44,251	10,603	54,854
	<u>-</u>	<u>3,637,243</u>	<u>-</u>	<u>9,091,368</u>	<u>3,512,116</u>	<u>16,240,727</u>
Committed:						
General public works and sanitation	856,650	-	-	-	-	856,650
	<u>856,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>856,650</u>
Assigned:						
Public safety	404,965	-	-	-	-	404,965
General public works and sanitation	2,362,790	-	-	-	-	2,362,790
Sports, culture and recreation	304,420	-	-	-	-	304,420
Health, welfare and community development	58,490	-	-	-	-	58,490
Education	2,941	-	-	-	-	2,941
Capital outlays	7,128,395	-	-	-	-	7,128,395
General government and other purposes	715,161	-	-	-	-	715,161
	<u>10,977,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,977,162</u>
Unassigned	<u>(3,773,743)</u>	<u>-</u>	<u>(2,586)</u>	<u>-</u>	<u>(2,040,101)</u>	<u>(5,816,430)</u>
<b>Total Fund Balance</b>	<b><u>\$ 8,060,069</u></b>	<b><u>\$ 3,637,243</u></b>	<b><u>\$ (2,586)</u></b>	<b><u>\$ 9,091,368</u></b>	<b><u>\$ 1,472,015</u></b>	<b><u>\$ 22,258,109</u></b>

**NOTE 8 – FUND BALANCE (CONTINUED)**

**B. Fund balance (deficits)**

Certain special funds included in the fund statements disclosed fund balance (deficits). The most significant balances follow:

<u>Funds</u>	<u>Amount</u>
<b><u>Other Governmental Funds</u></b>	
P.R. Department of Labor – Law No. 52	\$ 139,131
P.R. Department of Family – Community Services Block Grant	26,348
U.S. Department of Housing and Urban Development – C.D.B.G. Entitlement	135,760
U.S. Department of Agriculture – Community Facilities Loans and Grants	974,124
Commonwealth grants	535,622

The deficits result (1) from the recognition of deferred inflows of resources for unavailable revenues. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement (expenditure-driven grants) on fund statements when all applicable eligibility requirements have been met and the resources are available and (2) certain funds with cash shortfalls or without sufficient resources to cover their costs.

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**NOTE 9 – CAPITAL ASSETS**

Capital assets and depreciation activity as of and for the year ended June 30, 2015 is as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>
<b>Governmental Activities:</b>				
Capital asset, not being depreciated:				
Land	\$ 41,871,851	\$ -	\$ -	\$ 41,871,851
Construction in progress	31,862,180	-	-	31,862,180
<b>Total capital assets not being depreciated</b>	<u>73,734,031</u>	<u>-</u>	<u>-</u>	<u>73,734,031</u>
Capital assets, being depreciated:				
Buildings and building improvements	50,406,646	-	-	50,406,646
Infrastructure and infrastructure improvements	17,448,981	-	-	17,448,981
Equipment	2,441,577	-	-	2,441,577
Computers	448,207	-	-	448,207
Works of art	7,400	-	-	7,400
Furniture and fixtures	963,041	-	-	963,041
Vehicles	2,487,872	-	-	2,487,872
<b>Total capital assets being depreciated</b>	<u>74,203,724</u>	<u>-</u>	<u>-</u>	<u>74,203,724</u>
<b>Less accumulated depreciation for:</b>				
Buildings and building improvements	(10,793,854)	(630,010)	-	(11,423,864)
Infrastructure and infrastructure improvements	(9,665,746)	(272,582)	-	(9,938,328)
Equipment	(2,025,654)	(79,482)	-	(2,105,136)
Computers	(424,137)	(12,035)	-	(436,172)
Works of art	(6,682)	(220)	-	(6,902)
Furniture and fixtures	(938,616)	(4,398)	-	(943,014)
Vehicles	(2,160,913)	(82,593)	-	(2,243,506)
<b>Total accumulated depreciation</b>	<u>(26,015,602)</u>	<u>(1,081,320)</u>	<u>-</u>	<u>(27,096,922)</u>
<b>Total capital assets being depreciated, net</b>	<u>48,188,122</u>	<u>(1,081,320)</u>	<u>-</u>	<u>47,106,802</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 121,922,153</u>	<u>\$ (1,081,320)</u>	<u>\$ -</u>	<u>\$ 120,840,833</u>

Depreciation expense was charged to governmental functions/programs as follows:

<u>Governmental activities</u>	<u>Amount</u>
General government	\$ 88,212
Public safety	31,672
Public works and sanitation	434,036
Culture and recreation	452,945
Health, welfare and community development	22,159
Education	52,296
<b>Total depreciation expense</b>	<u>\$ 1,081,320</u>

**NOTE 10 – LONG-TERM LIABILITIES**

**A. Summary of long-term debt activity**

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

Description	Beginning Balance, as restated	Increases	Decreases	Ending Balance	Due Within One Year
General and special obligation bonds and notes payable	\$ 41,870,105	\$4,285,000	\$ (3,156,000)	\$ 42,999,105	\$3,454,000
Notes payable to CRIM – Law No. 42	111,192	-	(3,347)	107,845	3,557
Payable to PREPA	1,955,325	-	(1,156,659)	798,666	798,666
Payable to CRIM- property tax advances	343,766	83,348	-	427,114	24,525
Note payable to PR Department of Labor – unemployment tax	220,586	-	(88,182)	132,404	92,522
Compensated absences	3,315,378	541,089	(286,216)	3,570,251	380,340
Christmas bonus	658,192	676,326	(658,192)	676,326	676,326
Claims and judgments	672,600	176,763	(431,800)	417,563	286,563
Landfill obligation	10,450,048	216,791	-	10,666,839	-
<b>Total</b>	<b>\$ 59,597,192</b>	<b>\$5,979,317</b>	<b>\$ (5,780,396)</b>	<b>\$ 59,796,113</b>	<b>\$ 5,716,499</b>

**B. Legal debt margin**

For general obligation debt, the Municipality is subject to a legal debt margin requirement of 10% of the total assessment value of the property located within the Municipality. For special obligation debt, this debt margin cannot exceed 10% of the average recurring operating revenues generated by the Municipality within the last two preceding fiscal years. For obligations to be financed through the "Municipal Redemption Fund IVU," the debt margin is determined based on the repayment capacity of each Municipality. Long-term debt, except for general and special obligation bonds and notes, is paid with unrestricted funds.

**C. General and special obligation bonds and notes**

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2015 amount to \$42,999,105. All these bonds and notes are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. The Municipality levies an annual additional special ad valorem tax of three and a quarter percent (3.25%) of

**NOTE 10 – LONG-TERM LIABILITIES (CONTINUED)**

the assessed value of personal and real property. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" at the GDB to finance loans to Municipalities subject to restrictions imposed by law. The proceeds of the additional special ad valorem tax and of 0.2% sales and use tax are deposited in sinking funds established at GDB to redeem the bonds and notes payable of the Municipality in minimum annual or semiannual principal and interest payments, whereby sufficient funds are set aside in order to cover the projected debt service requirements, before any new bonds are issued.

Principal and interest payments on long-term debt are made through the CAE sinking fund except the special obligation bond \$3,475,000, whose payments are made through the "Municipal Redemption Fund (IVU);" and the special obligation bond \$400,000, for which the debt service requirements are made through withholdings from the monthly property tax advances sent to the Municipality by CRIM (operational loans).

These bonds and notes are mainly issued to provide funds for the acquisition of equipment, construction of major capital facilities and for road paving.

A detail of the general and special obligation bonds and notes outstanding as of June 30, 2015 follows:

Description	Outstanding Balance
1995 series, \$27,000 bond for public improvements, payable in annual installments of \$1,000 to \$2,000 through January 1, 2020; bearing interest at a fixed rate of 4.50%.	\$ 9,000
1995 series, \$550,000 bond for public improvements, payable in annual installments of \$3,896 to \$55,105 through January 1, 2020; bearing interest at a fixed rate of 4.50%.	200,105
1996 series, \$5,105,000 bond for capital improvements, payable in annual installments of \$70,000 to \$450,000 through July 1, 2020; bearing interest at rates ranging from 4.70% to 6.63% (6.58% at June 30, 2015).	2,240,000
1996 series, \$400,000 bond for capital improvements, payable in annual installments of \$10,000 to \$40,000 through July 1, 2016; bearing interest at rates ranging from 1.48% to 8.00% (1.52% at June 30, 2015).	70,000
1999 series, \$4,590,000 bond for capital improvements, payable in annual installments of \$65,000 to \$385,000 through July 1, 2024; bearing interest at rates ranging from 2.70% to 7.81% (4.80% at June 30, 2015).	2,825,000

## NOTE 10 – LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Balance
1999 series, \$3,840,000 bond for capital improvements, payable in annual installments of \$110,000 to \$370,000 through July 1, 2017; bearing interest at rates ranging from 2.70% to 7.81% (4.80% at June 30, 2015).	\$ 1,030,000
2003 series, \$705,000 bond for capital improvements, payable in annual installments of \$10,000 to \$60,000 through July 1, 2027; bearing interest at rates ranging from 4.17% to 5.31% (4.53% at June 30, 2015).	500,000
2003 series, \$2,450,000 bond for capital improvements, payable in annual installments of \$40,000 to \$190,000 through July 1, 2027; bearing interest at rates ranging from 4.17% to 5.31% (4.53% at June 30, 2015).	1,725,000
2004 series, \$1,810,000 bond for capital improvements, payable in annual installments of \$45,000 to \$150,000 through July 1, 2023; bearing interest at rates ranging from 2.36% to 5.25% (4.53% at June 30, 2015).	1,075,000
2004 series, \$1,810,000 bond for capital improvements, payable in annual installments of \$85,000 to \$170,000 through July 1, 2019; bearing interest at rates ranging from 3.28% to 4.80% (4.53% at June 30, 2015).	760,000
2005 series, \$4,745,000 bond for capital improvements, payable in annual installments of \$100,000 to \$325,000 through July 1, 2029; bearing interest at rates ranging from 4.17% to 5.31% (4.53% at June 30, 2015).	3,495,000
2008 series, \$3,475,000 bond for capital improvements, payable in annual installments of \$185,000 to \$420,000 through July 1, 2020; bearing interest at rates ranging from 1.48% to 7.50% (1.52% at June 30, 2015).	2,110,000
2009 series, \$400,000 note for capital improvements, payable in annual installments of \$45,000 to \$70,000 through July 1, 2016; bearing interest at rates ranging from 5.00% to 7.50% (5.00% at June 30, 2015).	135,000
2010 series, \$355,000 note for the payment of operating expenses, payable in annual installments of \$40,000 to \$60,000 through July 1, 2016; bearing interest at rates ranging from 5.00% to 7.50% (5.00% at June 30, 2015).	120,000

**NOTE 10 – LONG-TERM LIABILITIES (CONTINUED)**

Description	Outstanding Balance
2010 series, \$585,000 note for capital improvements, payable in annual installments of \$65,000 to \$105,000 through July 1, 2017; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015).	\$ 290,000
2011 series, \$43,000 bond for capital improvements, payable in annual installments of \$1,000 to \$4,000 through January 1, 2036; bearing interest at a fixed rate of 4.50%.	39,000
2011 series, \$12,035,000 bond for capital improvements, payable in annual installments of \$375,000 to \$1,185,000 through July 1, 2028; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015).	10,830,000
2011 series, \$284,000 bond for capital improvements, payable in annual installments of \$7,000 to \$19,000 through January 1, 2036; bearing interest at a fixed rate of 4.25%.	256,000
2012 series, \$2,665,000 bond for capital improvements, payable in annual installments of \$90,000 to \$275,000 through July 1, 2027; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015).	2,370,000
2012 series, \$2,015,000 note for capital improvements, payable in annual installments of \$345,000 to \$465,000 through July 1, 2016; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015).	895,000
2012 series, \$7,610,000 bond for capital improvements, payable in annual installments of \$290,000 to \$800,000 through July 1, 2027; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015).	7,005,000
2012 series, \$960,000 note for capital improvements, payable in annual installments of \$110,000 to \$175,000 through July 1, 2019; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015).	735,000
2014 series, \$1,265,000 note for capital improvements, payable in annual installments of \$35,000 to \$135,000 through July 1, 2031; bearing interest at rates ranging from 7.00% to 8.00% (7.00% at June 30, 2015).	1,265,000

**NOTE 10 – LONG-TERM LIABILITIES (CONTINUED)**

Description	Outstanding Balance
2014 series, \$3,020,000 note for capital improvements, payable in annual installments of \$40,000 to \$260,000 through July 1, 2039; bearing interest at rates ranging from 7.00% to 8.00% (7.00% at June 30, 2015).	\$ 3,020,000
<b>Total</b>	<b>\$ 42,999,105</b>

The annual debt service requirements to maturity for bonds payable as of June 30, 2015 are as follows:

June 30,	Principal	Interest
2016	\$ 3,454,000	\$ 2,465,068
2017	3,711,000	2,434,085
2018	3,303,000	2,183,956
2019	3,021,000	2,042,929
2020	3,272,105	1,812,160
2021-2025	13,475,000	6,387,088
2026-2030	10,489,000	1,927,327
2031-2035	1,116,000	611,080
2036-2040	1,158,000	194,800
<b>Total</b>	<b>\$ 42,999,105</b>	<b>\$ 20,058,493</b>

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**NOTE 10 – LONG-TERM LIABILITIES (CONTINUED)**

**D. Other long-term liabilities**

Outstanding  
Amount

**Note payable to CRIM - Law No. 42** – Law No. 42 of January 26, 2000 (as amended by Law No. 146 of October 11, 2001 and Law No. 172 of August 11, 2002) was enacted to authorize the CRIM to obtain a special loan in the form of a line of credit from the Governmental Development Bank of Puerto Rico (GDB) to finance a debt the municipalities of Puerto Rico owed to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the CRIM. Law No.42 was amended by Law no. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. On July 1, 2002, the Municipality entered into the financing agreement with the CRIM for a total amount of \$138,029, bearing interest at 6.19% and due on July 1, 2032. Debt service requirements in future years are as follows:

\$ 107,845

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	3,557	6,619
2017	3,781	6,395
2018	4,018	6,158
2019	4,271	5,905
2020	4,539	5,637
2021-2025	27,349	23,531
2026-2030	37,091	13,789
2031-2035	23,239	2,201
<b>Total</b>	<b>\$ 107,845</b>	<b>\$ 70,235</b>

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**NOTE 10 – LONG-TERM LIABILITIES (CONTINUED)**

**Payable to PREPA** - As required by Act No. 83 of May 2, 1941, the Puerto Rico Electric Power Authority ("PREPA") should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax ("CELI") based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. However, PREPA has not yet issued the final liquidation for the fiscal year ended on June 30, 2014. Therefore, as of June 30, 2015, the outstanding amount of \$798,666 only includes the unamortized balance from the fiscal year 2013, and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:

**Outstanding  
Amount**

**\$ 798,666**

<u>June 30</u>	<u>Principal</u>
2016	\$ 798,666
<b>Total</b>	<b>\$ 798,666</b>

**Outstanding  
Amount**

**Payable to CRIM – property tax advances** - The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. If actual collections exceed the advances, a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The final settlement made by CRIM for the fiscal year 2014-2015 reported an excess of advances over actual collections of \$83,348. The resulting payable will be amortized in the 2016-2017 fiscal year through withholdings from the monthly advances to be received by the Municipality in that fiscal year. The balance as of \$427,114 consists of the 2013-2014 debt of \$343,766 and the new 2015 fiscal year amount of \$83,348.

**\$ 427,114**

**NOTE 10 – LONG-TERM LIABILITIES (CONTINUED)**

	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Outstanding Amount</u>
<p><b>P.R. Department of Labor payment plan</b> – On November 26, 2013, the Municipality entered into a payment plan with the P.R. Department of Labor for the payment of unemployment benefits owed by the Municipality as of March 31, 2013. The debt is payable in 36 monthly installments of \$8,073. Debt service requirements in future years are as follows:</p>				<p><b>\$ 132,404</b></p>
	2016	\$ 92,522	\$ 4,350	
	2017	39,882	481	
	<b>Total</b>	<b>\$ 132,404</b>	<b>\$ 4,831</b>	
<p><b>Compensated absences</b> - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds.</p>				<p><b>\$ 3,570,251</b></p>
<p><b>Christmas bonus</b> - represents the accrued portion corresponding to the fiscal year 2014 of the Christmas bonus to be paid in December 2015.</p>				<p><b>\$ 676,326</b></p>
<p><b>Claims and judgments</b> - represents the estimated loss of legal cases to be paid subsequent to June 30, 2015. The awarded amount, if any, will be paid with unrestricted funds.</p>				<p><b>\$ 417,563</b></p>
<p><b>Landfill Obligation</b> – represents the Municipality's estimate for the closure and post closure costs related to the closing of its landfill (see note 11).</p>				<p><b>\$ 10,666,839</b></p>

**NOTE 11 – LANDFILL CLOSURE AND POST CLOSURE CARE COST OBLIGATION**

The Municipality owns a municipal solid waste landfill which requires the application of the provisions set forth in Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stops accepting waste, and perform certain maintenance and monitoring functions at

**NOTE 11 – LANDFILL CLOSURE AND POST CLOSURE CARE COST OBLIGATION (CONTINUED)**

the site for 30 years after closure. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality is required to perform a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and post-closure care costs as an operating expense in each period until the landfill ceases its operations based on the updated estimates provided by the study.

However, the Municipality of Guayama has not performed such study and, as of June 30, 2015, has reported a liability for closure and post closure care costs in the amount of \$10,666,839 based on the percentage used of the estimated capacity of the landfill. The estimated life of the landfill according to the engineers of the Municipality is approximately twenty three (23) years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**NOTE 12 – PROPERTY TAXES**

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property, the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1<sup>st</sup> and January 1<sup>st</sup>. Total tax rates in force as of June 30, 2015 are 8.28% for personal property and 10.28% for real property. The distribution of these rates follows:

Description	Personal Property	Real Property
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	3.25%	3.25%
Total tax rate:	8.28%	10.28%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
<b>Total percent to be paid by taxpayers:</b>	<b>8.08%</b>	<b>10.08%</b>

#### **NOTE 12 – PROPERTY TAXES (CONTINUED)**

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth Government.

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. This amount is recorded as long-term debt. The Municipality has a net payable of \$83,348 resulting from the final settlement of fiscal year 2015 recorded as other long-term debt in the Statement of Net Position.

On December 9, 2013, Law No. 145 “Getting Caught Up with Past Due CRIM Taxes – Incentive Plan for the Payment of Due Taxes” was approved granting an amnesty from the payment of interest, surcharges and penalties on real and personal property taxes owed from the fiscal years prior to 2013-2014. This amnesty/incentive plan was available from December 18, 2013 to March 27, 2014. This plan also awarded CRIM the faculty to grant payment plans to taxpayers up to a maximum of four years. During the fiscal year 2014-15, the Municipality received revenues from this property tax amnesty in the amount of \$233,630.

#### **NOTE 13 – MUNICIPAL LICENSE TAXES**

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality’s location except for entities totally or partially exempt pursuant to certain Commonwealth’s statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15.

During the fiscal year ended June 30, 2015, the tax rates imposed to entities that generate a volume of business of \$8,333.33 or more were as follows:

- Financial business – 1.50% of gross revenues
- Other organizations - .50% of gross revenues

#### NOTE 13 – MUNICIPAL LICENSE TAXES (CONTINUED)

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$5,486,015 is recorded as unearned revenues.

#### NOTE 14 – SALES AND USE TAXES

On July 4, 2006, the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

On July 29, 2007, the Commonwealth Legislature approved Act No. 80 (Act 80), which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007, 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .1% of the .5% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

Effective January 1, 2011, the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050, the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

On June 30, 2013, the Commonwealth approved Act No. 40 which, among other things, reduces the municipal sales and use tax from 1.5% to 1% and increases the Commonwealth's sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

#### NOTE 14 – SALES AND USE TAXES (CONTINUED)

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014, the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances.

Act No. 18 creates a special fund called the Municipal Administration Fund (FAM), under the custody of the Government Development Bank of Puerto Rico (GDB), which permits the municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act also includes special provisions for municipalities that do not want to be covered by the Act.

After July 1, 2014, the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds, the Commonwealth will deposit .5% in the FAM. Distribution to the municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The Municipality of Guayama signed the agreement to be covered.

For municipalities covered by the agreement, the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities have the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions)
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long-term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),

#### NOTE 14 – SALES AND USE TAXES (CONTINUED)

- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

Act No. 19 creates the Municipal Finance Corporation (COFIM), a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax of 1%. The Act also includes special provisions for municipalities that do not want to be covered by the Act.

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

Individuals, organizations and entities subject to the collection of the municipal sales and use tax must file a tax return to COFIM. The tax is due on or before the 20th day of each month based on the tax collected in the preceding month. COFIM has provided retailers three alternatives for the filling of the monthly return: 1) electronic filling through COFIM's internet portal; 2) in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico; and 3) in the collections offices of the municipalities that have been certified as collection agents of COFIM.

COFIM established a system of monthly advances for the transfers of the .2% destined for the Municipal Development Fund (FDM), the .2% related to the Municipal Redemption Fund (FRM) and the 1% of municipal sales and use tax. Each month, the GDB will make the FDM, FRM and 1% sales and use tax transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM, FRM and the 1% sales and use tax with the monthly advances made to each municipality. If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances.

**NOTE 14 – SALES AND USE TAXES (CONTINUED)**

For the FDM and FRM transfers, the advance system became effective on July 1, 2014; for the 1% municipal sales and use tax, the effective date varied depending on the implementation date of COFIM's collection process in the corresponding municipality. For the Municipality of Guayama, the implementation date was February 1, 2015. For the fiscal year ended on June 30, 2015, the Municipality's total FDM, FRM and 1% sales and use tax advances amounted to \$310,381, \$461,925 and \$936,300, respectively. The GDB has not yet issued a final settlement for the advances made in the 2014-15 fiscal year.

**NOTE 15 – INTERGOVERNMENTAL REVENUES AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL FUND**

**A. Intergovernmental revenues in the general fund are comprised of the following:**

	<u>Amount</u>
Amount of municipal equalization fund sent by CRIM	\$ 4,048,867
Reimbursement from P.R. Department of Treasury - Christmas Bonus reimbursement	237,622
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	4,021,325
Amount received from the Office of Management and Budget (OMB) to subsidy part of the costs related to the 2014-15 postemployment benefits (see note 16)	<u>130,794</u>
	<u><b>\$ 8,438,608</b></u>

**B. Fees, fines and charges for services revenues reported in the general fund are comprised of the following:**

	<u>Amount</u>
Construction permits	\$ 376,362
Medical emergency services	228,172
Licenses and permits	15,773
Fees	85,069
Rental of municipal property	169,228
Fines	43,180
Waste removal and disposal services	<u>26,801</u>
	<u><b>\$ 944,585</b></u>

## NOTE 16 – PENSION PLAN

### General Information about the Pension Plan

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

Under Act 447, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. For active participants of the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the hybrid pension plan established by Act No. 3. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

Participants under the defined contribution plan established by Reform System 2000 will receive a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return. New participants under the hybrid plan established by Act No. 3 will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). The minimum monthly pension for current retirees is \$500.

Disability benefits previously provided by Act No. 447 and Reform System 2000 were eliminated by Act No. 3 and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 ( $\$5,000 \times .25\%$ ).

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to \$1,853,575.

#### **NOTE 16 – PENSION PLAN (CONTINUED)**

As required by Act 32 of June 25, 2015, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Municipality's AUC for the fiscal year 2014-15 amounted to \$240,007, of which \$69,984 (29.16%) was subsidized by the OMB. This subsidy resulted in an overpayment by the Municipality in the amount of \$77,145, which was recognized as other asset in the financial statements.

#### **Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions**

As per the requirements of the GASB Statements No. 67 and 68, ESR is required, as the pension plan's administrator, to provide to each of its participating employers audited actuarial and financial information used in the calculation of their proportionate share of the plan's net pension liability, pension expense and deferred outflows/inflows of resources related to pensions as of the measurement date. For the fiscal year ended June 30, 2015, the measurement date is June 30, 2014. In addition, the ESR has to provide all the required actuarial and historical data to be reported in the notes to the financial statements of the Municipality and as Required Supplementary Information (RSI).

However, as indicated in the Basis for Disclaimer Opinion section of the independent auditors' report, the ESR has not provided to the Municipality the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. The ESR has informed its participating employers that the audited actuarial and financial data will be available in a future date during the calendar year 2016. The effects of this departure from U.S. generally accepted accounting principles in the assets, liabilities, deferred outflows/inflows of resources and net position of the Municipality's governmental activities cannot be determined at this time.

#### **NOTE 17 – POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in note 16, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonuses and death benefits. However, beginning July 1, 2013, Act No. 3 of 2013 eliminated all Special Law benefits to future retirees.

**NOTE 17 – POSTEMPLOYMENT BENEFITS (CONTINUED)**

For the fiscal year ended June 30, 2015, the costs related to these post-employment benefits amounted to \$118,641, of which \$60,900 (51.33%) was subsidized by OMB. These benefits are recorded as expenditures in the general fund.

**NOTE 18 - COMMITMENTS**

**A. Operating leases**

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to \$266,604. Management believes that the summary of the future minimum rental commitments under non-cancelable equipment leases with terms exceeding one year is not significant.

**B. Encumbrances**

As of June 30, 2015 the Municipality has encumbrances outstanding totaling \$562,218, which represent the estimated amount of expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. As required by current standards, outstanding encumbrances as of June 30, 2015 are reported as unassigned amounts in the general fund. Purpose classification follows:

<u>Purpose</u>	<u>General Fund- unassigned fund balance</u>
Public Safety	\$ 14,991
Public works and sanitation	282,250
Culture and recreation	34,285
Health, welfare and community development	13,249
Education	2,400
General government and other purposes	215,043
	<u>\$ 562,218</u>

Fund balance of major and other governmental funds (special revenue, capital project and debt service funds) is classified as restricted, some or all of which may be encumbered. Encumbrances of restricted fund balance are not reported separately from this classification because the encumbrance does not further restrict the purpose for which the resources may be used.

**NOTE 19 – CONTINGENCIES**

**A. Federal and State grants**

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine that the expenditures comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

**B. Litigations**

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of various legal cases as of June 30, 2015 and not to be covered by insurance, the Municipality accrued an estimated loss of \$417,563 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

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**NOTE 20 – RESTATEMENT OF FUND BALANCE AND NET POSITION**

The following table disclosed the net change in fund balances and net position at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

Description	Fund Balance		Net Position
	General Fund	Other Governmental Funds	Government-Wide Statements
<b>Fund balance / net position, at beginning of year, as previously reported</b>	<b>\$ (4,624,037)</b>	<b>\$ 5,981,259</b>	<b>\$ 95,775,924</b>
<u>Reclassification of fund balances</u>	3,385,924	(3,385,924)	-
<u>Correction of errors:</u>			
Overstatement of claims and judgments	-	-	343,446
Understatement of property tax advances debt	-	-	(115,617)
Understatement of note payable to P.R. Department of Labor	-	-	(220,586)
<b>Fund balance / net position, at end of year, as restated</b>	<b>\$ (1,238,113)</b>	<b>\$ 2,595,335</b>	<b>\$ 95,783,167</b>

## NOTE 21 – SUBSEQUENT EVENTS

### **Puerto Rico Fiscal and Economic Growth Plan**

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

### **New Guidelines for the Calculation of the Contribution In Lieu of Taxes (“CELI”)**

On October 16, 2015, the Puerto Rico Commission of Energy (“CEPR”) approved the new guidelines for the energetic subsidy (contribution) received by the 78 municipalities of the Commonwealth from the Puerto Rico Electric Power Authority (PREPA) in lieu of the payment of municipal license taxes (“CELI”). These guidelines limit to the subsidy to be received by the municipalities, by establishing a maximum threshold amount of energy consumption charges that can be incurred by the municipalities. Any charges in excess of that maximum threshold will be paid by the municipalities based on the prevailing service rates in effect during the billing period. If the municipalities do not pay the amounts billed, they are subject to a possible service cancellation by the PREPA.

In addition to these energy consumption limits, the CELI will not be applicable to every municipal property or installation. It will only be available for those facilities used for the rendering of not-for-profit services to the community; for corporations that provide public health services; and for the consumption charges incurred by the public lighting infrastructure. Those municipal installations and properties used for for-profit activities or occupied by not-for-profit entities that do not provide municipal services or by persons and businesses that are not municipal entities are excluded from the CELI subsidy.

Finally, the guidelines require that the municipalities implement efficiency and conservation measures for a reduction of 15% in the energy consumption to be incurred in the next three fiscal years. All of these requirements are effective beginning November 16, 2015 (fiscal year 2015-16).

**NOTE 21 – SUBSEQUENT EVENTS (CONTINUED)**

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

A law project has been submitted to the Congress of the United States of America requesting the application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its instrumentalities. The benefits available under Chapter 9 would permit the Commonwealth to restructure its debt with its bondholders, with the purpose of decreasing the interest costs and debt service requirements that consume a significant part of the Commonwealth's operating budget. During the past months, the Governor and Resident Commissioner of Puerto Rico have been persistently lobbying for the approval of this law project, including various public hearings in Congress, arguing that the Commonwealth will incur in a default of its debt service requirements for the fiscal year 2015-16 citing that both the Governmental Development Bank of Puerto Rico and the Puerto Rico Treasury Department are suffering from severe cash flow shortfalls that put in jeopardy the fulfillment of their debt obligations. The continuing economic and fiscal crisis of the island will seriously affect the amount and quality of services provided to the citizenry and the amount of subsidies and funds provided by the state to the municipalities.

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$8,163,571	\$8,163,571	\$ 8,512,817	\$ 349,246
Municipal license taxes	10,200,000	27,200,000	21,835,918	(5,364,082)
Fees, fines and charges for services	1,516,033	1,516,033	501,236	(1,014,797)
Intergovernmental:				
Commonwealth Government	3,620,031	3,620,031	4,389,428	769,397
Interest	550,000	550,000	553,355	3,355
Miscellaneous	820,000	820,000	676,634	(143,366)
<b>Total revenues</b>	<b>24,869,635</b>	<b>41,869,635</b>	<b>36,469,388</b>	<b>(5,400,247)</b>
<b>Expenditures</b>				
Current:				
General government	10,329,644	18,472,170	10,486,219	7,985,951
Public safety	2,866,898	2,708,663	2,520,707	187,956
Public works and sanitation	6,817,593	6,469,387	6,023,357	446,030
Culture and recreation	2,176,598	2,155,661	2,070,688	84,973
Health, welfare and community development	2,461,920	2,355,928	2,206,582	149,346
Education	183,482	174,326	167,925	6,401
<b>Total expenditures</b>	<b>24,836,135</b>	<b>32,336,135</b>	<b>23,475,478</b>	<b>8,860,657</b>
<b>Deficiency of revenues under expenditures</b>	<b>33,500</b>	<b>9,533,500</b>	<b>12,993,910</b>	<b>3,460,410</b>
<b>Other financing sources (uses)</b>				
Transfers - in	-	-	-	
Transfers - out	(33,500)	(9,533,500)	(9,532,838)	662
<b>Total other financing sources (uses)</b>	<b>(33,500)</b>	<b>(9,533,500)</b>	<b>(9,532,838)</b>	<b>662</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,461,072</b>	<b>\$ 3,461,072</b>

See notes to the Budgetary Comparison Schedule

## **NOTE 1 – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING**

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1991, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year-end are reported in the governmental funds statements as unassigned fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

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.

**NOTE 2 – BUDGET TO GAAP RECONCILIATION**

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (budgetary basis)</b>	<b>\$ 3,461,072</b>
Budget to GAAP differences:	
<b>Entity differences:</b>	
Non-budgeted funds recorded as revenues for financial reporting purposes	2,942,828
Non-budgeted funds recorded as expenditures for financial reporting	(6,402,130)
Non-budgeted transfers-in	9,756,493
Non-budgeted transfers-out	(104,251)
<b>Basis of accounting differences:</b>	
Revenues and transfers-in recorded for financial reporting purposes but not in budgetary basis	101,792
Expenditures recorded for financial reporting purposes but not in budgetary basis	(936,834)
Expenditures recorded in budgetary basis but not for financial reporting purposes	771,623
<b>Timing differences:</b>	
Current year encumbrances recorded as expenditures for budgetary reporting purposes	562,218
Prior year encumbrances recorded as expenditures for financial reporting purposes	(854,629)
<b>Net change in fund balance (GAAP basis):</b>	<b><u>\$ 9,298,182</u></b>

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Direct Program:			
Rural Housing Preservation Grants	10.433	N/A	\$ 10,326
Community Facilities Loans and Grants	10.766	N/A	1,312,814
Pass-through programs from:			
<u>P.R. Department of Education</u>			
Child and Adult Care Food Program	10.558	Not Available	1,125,748
<b>Subtotal U.S. Department of Agriculture</b>			<b>2,448,888</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct Program:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	939,050
Shelter Plus Care	14.238	N/A	28,275
Section 8 Housing Choice Vouchers	14.871	N/A	1,064,792
Pass-through programs from:			
<u>P.R. Department of Family</u>			
Emergency Solutions Grants Program	14.231	Not Available	29,380
<b>Subtotal U.S. Department of Housing and Urban Development</b>			<b>2,061,497</b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Pass-through programs from:			
P.R. Governor's Office - Governor's Authorized Representative (GAR)			
Disaster Grants - Public Assistance (Presidentially-Declared Disasters)	97.036	Not Available	8,190
<b>Subtotal U.S. Department of Homeland Security</b>			<b>8,190</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Pass-through programs from:			
<u>P.R. Department of Family - Administration of Families and Children</u>			
Community Services Block Grant	93.569	Not Available	63,729
<u>P.R. Department of Family - Administration for the Care and Integral Development of Children</u>			
Head Start	93.600	Not Available	10,527,760
Early Head Start	93.600	Not Available	407,595
<b>Subtotal U.S. Department of Health and Human Services</b>			<b>10,999,084</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 15,517,659</b>

See notes to Schedule of Expenditures of Federal Awards.

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

**NOTE 3 - RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS**

Description	Head Start	Other Governmental Funds	Total
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 10,935,355	\$ 4,582,304	\$ 15,517,659
Difference between total grant awarded and the amount recorded as expenditures under modified-accrual basis for Section 8 HCV Program	-	145,746	145,746
Non-federal awards expenditures	-	2,229,658	2,229,658
Total expenditures, fund statements	<u>\$ 10,935,355</u>	<u>\$ 6,957,708</u>	<u>\$ 17,893,063</u>

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

To the Honorable Mayor and  
Municipal Legislature  
Municipality of Guayama  
Guayama, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Guayama, as of and for the year ended June 30, 2015, and the related notes to the financial statements. We were engaged to audit the financial statement of the governmental activities. These financial statements which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated March 18, 2016. The report on the governmental fund financial statements was qualified for the interfund balances and we did not express an opinion on the governmental activities because we were unable to obtain sufficient and competent evidential matter related to the capital assets, the landfill closure, and post-closure care cost liability.

**Internal Control over Financial Reporting**

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

identified. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weakness as items 2015-001 to 2015-005.

### Compliance and Other Matters

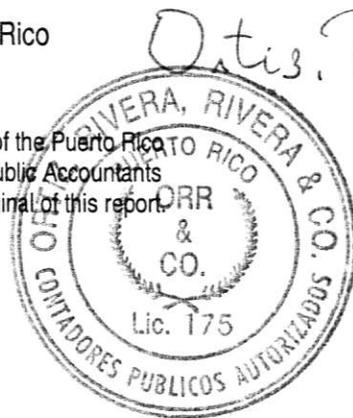
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 are described in the accompanying schedule of findings and questioned costs as items 2015-001 to 2015-005.

### 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.

San Juan, Puerto Rico  
March 18, 2016

The stamp E210227 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the original of this report.



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

To the Honorable Mayor  
and Municipal Legislature  
Municipality of Guayama  
Guayama, Puerto Rico

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

We have audited Municipality of Guayama's compliance with the types of compliance requirements described in the *OMB* Compliance Supplement that could have a direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2015. Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

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

### **Basis for Qualified Opinion on Major Federal Programs**

As identified in the findings numbers listed in the table below and described in the accompanying Schedule of Findings and Questioned Costs, the Municipality, did not comply with requirements regarding the following:

<b>Awarding Agency</b>	<b>Federal Program</b>	<b>Compliance Requirements</b>	<b>Finding Number</b>
Department of Health and Human Services	93.600 – Head Start	Matching, Level of Effort, Earmarking	2015-007
Department of Health and Human Services	93.600 – Head Start	Reporting	2015-008
Department of Housing and Urban Development	14.218 – CDBG - Entitlement	Special Test-Environmental Reviews	2015-010
Department of Agriculture	10.558 – Child and Adult Care Food Program	Reporting	2015-013

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

### **Qualified Opinion on Head Start, CDBG-Entitlement Grant, and Child and Adult Care Food Program**

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Major Federal Programs” paragraph, the Municipality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Head Start, CDBG-Entitlement Grant, Child and Adult Care Food Program, for the year ended June 30, 2015.

### **Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs (Community Facilities Loan and Grants) identified in the summary of auditors’ results section of the accompanying Schedule of Findings and Questioned costs for the year ended June 30, 2015.

### **Other Matters**

The results of our procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-009, 2015-011, and 2015-012. Our opinion on each major federal program is not modified with respect to these matters.

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

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

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-007, 2015-008, 2015-010, and 2015-013 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-009, 2015-011, and 2015-012 to be significant deficiencies.

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

The purpose of this report on internal control over compliance is solely to described 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.

San Juan, Puerto Rico  
March 18, 2016

*Ortiz, Rivera, Rivera & Co.*

The stamp E210228 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



1. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued:

Governmental activities	Disclaimer
General funds	Qualified
Head Start fund	Qualified
Bond Issuances fund	Qualified
Debt Service fund	Unmodified
Other governmental fund	Qualified

Internal control over financial reporting:

Material weakness (es) identified?  Yes  No

Reportable condition(s) identified that are not considered to be material weakness?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

Material weakness (es) identified?  Yes  No

Significant deficiency (is) identified?  Yes  None reported

Type of auditors' report issued on compliance for major programs:

Head Start	Qualified opinion
Community Development Block Grant/Entitlement Grants	Qualified opinion
Child and Adult Care Food Program	Qualified opinion
Community Facilities Loan and Grants	Unmodified opinion

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

Yes  No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
10.766	Community Facilities Loan and Grants
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grants/Entitlement Grants
93.600	Head Start /Early Head Start

Dollar threshold used to distinguish between Type A and Type B programs: \$465,530

Audited qualified as low-risk auditee?  Yes  No

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**2015-001: Accounting Records and Reporting System**

Condition

The Municipality did not maintain complete accounting records.

Criteria

Chapter VIII, Article 8.010 (b) of State Act Number 81- *Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico* of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) states that uniform accounting system used by the Municipality must produce reliable reports and financial statements provide complete information about the results of the Municipality's operations and include the necessary internal controls to account for all funds, capital assets and other assets.

Cause

The Municipality has not established effective internal control procedures over the accounting system.

Recommendation

We recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system which adequately summarizes the accounting information of all the financial transactions related to assets, liabilities, revenues and expenditures of the

Municipality's funds. Also, the accounting records of the Municipality should be precisely enough, to support the amounts presented in the financial statements.

**2015-002: Accounting Records - Implementation of GASB 68**

Condition

Management has not recorded the deferred inflows/outflows of the resources, and net position liability related to pensions in governmental activities and, has not recorded and expense for the current period change in that liability.

Criteria

Statement No. 68 of the Government Accounting Standard Board, *Accounting and Financial Reporting for Pensions*, required to recognize a liability as employees earn their pension benefits (that is, as they provide services to the government). The employers participating in cost-sharing plans will recognize their proportionate share of the collective pension amounts for all benefits provided through the plan. Pension amounts to be recognized by employers include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. To the extent that a long-term obligation to provide pension benefits (that is, total pension liability) is larger than the value of the assets available in the plan to pay pension benefits, there is a collective net pension liability for which each employer will need to report its proportionate share in their financial statements.

Cause

The Employees' Retirement System of the Government of Puerto Rico did not provide the data related to pension expense and obligation change attributable to the Municipality.

Recommendation

Obtain the pension data from the Employees' Retirement System of the Government of Puerto Rico.

**2015-003: Accounting Records – Capital Assets**

Condition

The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.

Criteria

GASB 34 requires that all capital assets, including infrastructure, must be presented in the statement of net position and that there must be depreciated during its useful life. Chapter VIII, Article 8.010 © (3) of the State Law Number 81- Autonomous Municipalities Act of the Commonwealth of Puerto Rico of August 30, 1991, states that Municipality should maintain updated property accounting records.

Cause

The lack of an adequate capital assets register did not permit the proper accounting over the capital assets, the accumulated depreciation and the depreciation expense presented in the financial statements of the Municipality.

Recommendation

We recommend management and the Property Division of the Municipality to make an inventory of the capital assets, support it with adequate documentation and reconcile it with the capital assets subsidiary ledger. Also, the accounting staff should determine if the accumulated depreciation and depreciation expense are properly calculated.

**2015-004: Accounting Records – Interfund Transactions**

Condition

The Municipality does not maintain an accurate record over the interfund transactions.

Criteria

Article 8.004 © of the State Law Number 81 – “Autonomous Municipalities Act of the Commonwealth of Puerto Rico of August 30, 1991, states that the restricted funds received by the Municipality should be only used for the purposes established by these resources. In addition, Article 8.010 © (2) and (3) of the aforementioned law, states that Municipalities should maintain accurate accounting records and funds controls.

Cause

The accounting staff did not maintain adequate subsidiary ledgers over the interfund transactions and the due from and due to account balances.

Recommendation

We recommend management to implement procedures in order to obtain and maintain accurate subsidiary records that supports the interfund transactions. These records should include the purpose of the transfers, the name of the funds that received the loans and the balance of the interfund, by each fund.

**2015-005: Accounting Records – Municipal Solid Waste Landfill Closure and Postclosure Care and Maintenance Costs**

Condition

The Municipality did not adjust in its government wide financial statements, the required liability for closure and post closure care costs based on a study of the activities of the solid waste landfill.

Criteria

Regulations set forth by the U. S. Environmental Protection Agency (EPA) in its "Solid Waste disposal Facility Criteria", the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. GASB 18 requires the Municipality to perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality must adjust the liability recorded in its statement of net position at June 30, 2015.

Cause

The Municipality failed to perform a study of the operation of the waste landfill, in accordance with the requirements of the EPA, in order to update the closure and post closure liability.

Recommendation

We recommend management to perform the study of the activities that need to be implemented at the Municipality's solid waste land fill facilities and determine the amount of the liability that should be reported in the governmental activities.

### 3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

#### Head Start - CFDA No. 93.600

- **Condition 2015-006 – Cash Management**

The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.

Cause

The Program did not maintain appropriate cash management procedures in order to disburse the funds requested to the pass-through entity in a timely manner.

Effect

The Program is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.21 (b).

Criteria

Code of Federal Regulation 45, Subpart C, Section 92.21 (b) states that methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205.

Recommendation

We recommended management to continue strengthening its disbursement procedures to minimize the time between the transfer of funds by the pass through entity and the disbursements made by the Program.

Questioned Costs

None

**HEAD START – CFDA NO. 93.600**

• **Condition 2015-007 – Matching**

During the fiscal year 2014-2015, the Municipality did not maintain adequate internal controls of the rental valuation procedures and accounting system of the Program.

Criteria

The Code of Federal Regulation 2, Section 215.23 states that the value of donated space should not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality.

The Matching or Cost Sharing of the Code of Federal Regulation, 45 Section 92.24 establishes:

Records. Costs and third party in kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs.

Cause

The Program did not maintain appropriate internal controls of its financial accounting and reporting to support the financial reports submitted to the pass-through entity.

Effect

The Program's financial management system is not updated to assure compliance with the matching requirements and the Program reported in-kind rent cost sharing based on estimates, which were not performed by an independent appraisal.

Recommendation

The Program should update its financial accounting system and strengthen its internal controls to assure compliance with the requirements of Matching.

Questioned Costs

None

**HEAD START – CFDA NO. 93.600**

• **Condition 2015-008 - Reporting**

During the fiscal year 2014-2015, the Municipality did not maintain adequate of internal controls of the accounting transactions of the Program.

Criteria

The Code of Federal Regulations, 45 CFR, Section 92.20 establishes the financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Clause 10 of the grant agreement with the pass-through entity states as a requirement the use of the official accounting system provided by the pass-through entity, with the purposes of audit or federal monitoring. It is required to register all transactions through the system and no payments will be processed if they have not been registered in the accountings system. It is required to keep the information up to date in the accounting system at all times.

Cause

The Program did not maintain appropriate internal controls of its financial accounting and reporting to support the financial reports submitted to the pass-through entity.

Effect

The Program's financial management system is not updated to assure compliance with the reporting requirements.

Recommendation

The Program should update its financial management system to assure compliance with the requirements of reporting.

Questioned Costs

None

**COMMUNITY DEVELOPMENT BLOCK GRANTS/ ENTITLEMENT GRANTS – CFDA NO. 14.218**

• **Condition 2015-009 - Cash Management**

During the fiscal year 2014-2015, the Program's internal controls did not meet the compliance requirements of cash management.

Criteria

Code of Federal Regulations, Title 24 Housing and Urban Development states that the State should use procedures to minimize the time elapsing between the transfer of grant funds and disbursement of funds by the State to units of general local government. Units of general local government should also use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for CDBG activities.

Cause

The Program and the Finance Department of the Municipality did not maintain appropriate cash management procedures in order to drawdown funds only for immediate needs in a timely manner.

Effect

The Program is not in compliance with the Code of Federal Regulations, Title 24.

Recommendation

The Municipality should strengthen its internal controls for accurately projecting the cash needs of the Program that will serve to minimize the time between the receipt of funds from the grantee and their actual disbursements.

Questioned Costs

None

**COMMUNITY DEVELOPMENT BLOCK GRANTS/ ENTITLEMENT GRANTS – CFDA NO. 14.218**

• **Condition 2015-010 – Environmental Reviews**

During the fiscal year 2014-2015, the Program did not have controls in place for compliance with the requirements of environmental reviews.

Criteria

Compliance with environmental review procedures. The environmental review procedures set forth at 24 CFR part 58 must be completed for each activity (or project as defined in 24 CFR part 58), as applicable. Section 58.38 states that the responsible entity must maintain a written record of the environmental review undertaken under this part for each project. This document will be designated the "Environmental Review Record" (ERR), and should be available for public review. The responsible entity must use the current HUD-recommended formats or develop equivalent formats as follows:

- (a) ERR Documents. The ERR should contain all the environmental review documents, public notices and written determinations or environmental findings required by this part as evidence of review, decision making and actions pertaining to a particular project of a recipient. The document should:
- (1) Describe the project and the activities that the recipient has determined to be part of the project;
  - (2) Evaluate the effects of the project or the activities on the human environment;
  - (3) Document compliance with applicable statutes and authorities, in particular those cited in Sec. 58.5 and 58.6; and
  - (4) Record the written determinations and other review findings required by this part (e.g., exempt and categorically excluded projects determinations, findings of no significant impact).
- (b) Other documents and information. The ERR should also contain verifiable source documents and relevant base data used or cited in EAs, EISs or other project review documents. These

documents may be incorporated by reference into the ERR provided that each source document is identified and available for inspection by interested parties. Proprietary material and special studies prepared for the recipient that are not otherwise generally available for public review shall not be incorporated by reference but shall be included in the ERR.

Cause

The Program did not maintain appropriate records available for review as required by Section 58.38.

Effect

The Program is not in compliance with the Code of Federal Regulations, Title 24.

Recommendation

The Municipality should designate the Environmental Review Record and have it available for public review prior to engaging in project activities as obligations and disbursements.

Questioned Costs

None

**COMMUNITY DEVELOPMENT BLOCK GRANT – CFDA NO. 14.218**

• **Condition 2015-011 – Procurement and Suspension and Debarment**

During the fiscal year 2014-2015, the Municipality did not maintain adequate internal controls to ascertain including in its contracts all required clauses. During the contract provisions test, we examined two contracts project contracts to ascertain completeness of clauses noting the following clauses were not included:

- Energy Policy and Conservation Act (Pub L. 94-163,89 Stat 871)
- Retention of all required records for three years as required by 24 CFR, Section 511.73

Criteria

The Code of Federal Regulations, Section 85.36, states that when procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from

its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Cause

The Municipality's contracts did not include all the required clauses.

Effect

The Program is not in compliance the Code of Federal Regulations 24, Section 85.36.

Recommendation

We recommend Management to ascertain that Municipality's contracts include all required clauses.

Questioned Costs

None

**CHILD AND ADULT CARE FOOD PROGRAM – CFDA NO. 10.558**

• **Condition 2015-012 - Cash Management**

During the fiscal year 2014-2015, the Program's internal controls did not meet the compliance requirements of cash management and maintained a high average balance of \$273,710.

Criteria

Code of Federal Regulations 7, Section 3016.21 (b) states basics standards as methods and procedures for payment should minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with regulations at 31 CFR Part 205. The CRF Part 205, Rules and Procedures for Efficient Federal-State Funds Transfers; Final Rule, Section 205.12 (b) states rules applicable to Federal Assistance Programs as follows:

- Cash advance (pre-issuance or post-issuance) funding means that a Federal Program Agency transfers the actual amount of Federal funds to a State that will be paid out by the State, in a lump sum, not more than three business days prior to the day the State issues checks or initiates EFT payments.

- Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes.

Cause

The Program did not maintain appropriate cash management procedures.

Effect

The Program is not in compliance with the Code of Federal Regulations 7, Section 3016.21 (b); and 31, Section 205.12 (b).

Recommendation

We recommend management to make an analysis of the cash balance and verify if there are carryovers to determine if those carryovers have to be reimburse to the pass-through entity.

Questioned Costs

None

**CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558)**

- **Condition 2015-013 - Reporting**

During the fiscal year 2014-2015, the Municipality did not maintain adequate of internal controls of the accounting transactions of the Program.

Criteria

The Code of Federal Regulations, 7 CFR, Section 226.7 establishes State agency responsibilities for financial management as that each State agency should maintain an acceptable financial management system, adhere to financial management standards and otherwise carry out financial management policies in accordance with 7 CFR part 3015, 7 CFR part 3016 and 7 CFR part 3019, as applicable. State agencies or FNSRO's, where applicable, should also have a system in place for monitoring and reviewing the institutions' documentation of their nonprofit status to ensure that all Program reimbursement funds are used: (1) Solely for the conduct of the food service operation; or (2) to improve such food service operations, principally for the benefit of the participants.

Code of Federal Regulation 7, Section 3016.20 (b) (1) and (2) states the financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Cause

The Program did not maintain appropriate internal controls of its financial accounting and reporting to support the financial reports submitted to the pass-through entity.

Effect

The Program's financial management system is not updated to assure compliance with the reporting requirements.

Recommendation

The Program should update its financial management system to assure compliance with the requirements of reporting.

Questioned Costs

None

<b>Program</b>	<b>Finding /Non Compliance</b>	<b>Status</b>
<b>All programs</b>	<b>Condition 2014-06 - Single Audit Submission</b>  The Municipality did not comply with the required due date for the submission of the Single Audit Report.	Condition corrected.
<b>Head Start and Early Head Start</b>  CFDA No. 93.600	<b>Condition 2014-07 - Cash Management</b>  The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.	Condition still prevails.
<b>Head Start and Early Head Start</b>  CFDA No. 93.600	<b>Condition 2014-08 – Matching, Level of Effort, Earmarking</b>  The Program does not maintain an effective accounting system to account for the matching contribution and the 15% of administrative earmark.	Condition still prevails.
<b>Head Start and Early Head Start</b>  CFDA No. 93.600	<b>Condition 2014-09 – Reporting</b>  The Municipality did not maintain adequate internal controls over the accounting transactions of the Program.	Condition still prevails.
<b>Community Development Block Grants/Entitlement Grants</b>  CFDA No. 14.218	<b>Condition 2014-10 - Cash Management</b>  During the fiscal year 2013-2014, the Program maintains excess of cash in the bank account reconciliations.	Condition still prevails.
<b>Community Development Block Grants/Entitlement Grants</b> CFDA No. 14.218	<b>Condition 2014-11 – Matching, Level of Effort, Earmarking</b>  The Program did not comply with the administrative earmarking during the fiscal year 2013-2014.	Condition corrected.

<b>Program</b>	<b>Finding /Non Compliance</b>	<b>Status</b>
Community Development Block Grants/Entitlement Grants CFDA No. 14.218	<b>Condition 2014-12 – Procurement, Suspension, and Debarment</b>  The Program did not included in the contracts, all the required clauses.	Condition still prevails.
Community Development Block Grants/Entitlement Grants CFDA No. 14.218	<b>Condition 2014-13 – Program Income</b>  The Program did not comply with the program income requirement.	Condition corrected.
Community Development Block Grants/Entitlement Grants CFDA No. 14.218	<b>Condition 2014-14 – Reporting</b>  The Program accounting records were not updated as of June 30, 2014.	Condition corrected.
Community Development Block Grants/Entitlement Grants  CFDA No. 14.218	<b>Condition 2014-15 – Special Test- Environmental Reviews</b>  The Program did not provide sufficient evidence about the environmental reviews for improvement projects.	Condition still prevails.
Community Development Block Grants/Entitlement Grants CFDA No. 14.218	<b>Condition 2014-16 – Subrecipient Monitoring</b>  The Program did not maintain adequate procedures to monitor the subrecipient’s use of Federal awards.	Condition corrected.
Section 8 Housing Choice Voucher  CFDA No. 14.871	<b>Condition 2014-17 – Special Test – Reasonable Rent</b>  The determination of the reasonable rent to owners was not properly documented by the Program.	Condition still prevails.

<b>Program</b>	<b>Finding /Non Compliance</b>	<b>Status</b>
<b>Child and Adult Care Food Program</b> CFDA No. 10.558	<b>Condition 2014-18 - Cash Management</b>  The Program maintains high average balances in the monthly bank reconciliations.	Condition still prevails.
<b>Child and Adult Care Food Program</b> CFDA No. 10.558	<b>Condition 2014-19 – Period of Availability</b>  The Program disbursed funds for goods after the period of availability.	Condition corrected.
<b>Child and Adult Care Food Program</b> CFDA No. 10.558	<b>Condition 2014-20 – Reporting</b>  The Municipality did not maintain adequate internal controls of the accounting transactions of the Program.	Condition still prevails.
<b>Head Start and Early Head Start</b> CFDA No. 93.600	<b>Condition 13-III-04 - Cash Management</b>  The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.	Condition still prevails.
<b>Head Start and Early Head Start</b> CFDA No. 93.600	<b>Condition 13-III-05 - Matching, Level of Effort, Earmarking</b>  The Program does not maintain an effective accounting system to account for the matching contribution and the 15% of administrative earmark.	Condition still prevails.
<b>Head Start and Early Head Start</b> CFDA No. 93.600	<b>Condition 13-III-06 - Reporting</b>  The Municipality did not maintain adequate internal controls over the accounting transactions of the Program.	Condition still prevails.

<b>Program</b>	<b>Finding /Non Compliance</b>	<b>Status</b>
Community Development Block Grants/Entitlement Grants CFDA No. 14.218	<b>Condition 13-III-07 – Allowable Cost</b>  The Municipality did not maintain adequate internal controls over Financial Assistance to Small Business.	Condition corrected.
Community Development Block Grants/Entitlement Grants CFDA No. 14.218	<b>Condition 13-III-08 - Cash Management</b>  During the fiscal year 2013-2014, the Program maintains excess of cash in the bank account reconciliations.	Condition still prevails.
Community Development Block Grants/Entitlement Grants CFDA No. 14.218	<b>Condition 13-III-09 – Procurement, Suspension, and Debarment</b>  The Municipality did not maintain adequate internal controls over Excluded Party List.	Condition corrected.
Community Development Block Grants/Entitlement Grants  CFDA No. 14.218	<b>Condition 13-III-10 – Program Income</b>  The Municipality did not maintain adequate internal controls over program income.	Condition corrected.
Community Development Block Grants/Entitlement Grants CFDA No. 14.218	<b>Condition 13-III-11 – Reporting</b>  The Municipality did not maintain adequate internal controls over reporting	Condition corrected.
Community Development Block Grants/Entitlement Grants CFDA No. 14.218	<b>Condition 13-III-12 – Special Test- Environmental Reviews</b>  The Program did not provide sufficient evidence about the environmental reviews for improvement projects.	Condition still prevails.

Program	Finding /Non Compliance	Status
<p><b>Community Development Block Grants/Entitlement Grants</b></p> <p>CFDA No. 14.218</p>	<p><b>Condition 13-III-13 – Special Test-Rehabilitation</b></p> <p>The Municipality did not maintain adequate internal controls over rehabilitation</p>	<p>Condition corrected.</p>
<p><b>Child and Adult Care Food Program</b></p> <p>CFDA No. 10.558</p>	<p><b>Condition 13-III-14– Cash Management</b></p> <p>The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.</p>	<p>Condition still prevails.</p>



MUNICIPIO AUTÓNOMO DE GUAYAMA  
OFICINA DE FINANZAS

CORRECTIVE ACTION PLAN

March 28, 2016

Cognizant or Oversight Agency for Audit:

Municipality of Guayama respectfully submits the following corrective action plan for the year ended June 30, 2015.

Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2015.

The findings from the June 30, 2015 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**FINDINGS - FEDERAL AWARD PROGRAM AUDITS**

**A. Head Start - CFDA No. 93.600**

- **Finding Number 2015-006: Cash Management**

Recommendation

-

We recommended management to continue strengthening its disbursement procedures to minimize the time between the transfer of funds by the pass through entity and the disbursements made by the Program.

Action Taken

This situation is caused by the short time between the date the passthrough entity transfers the funds to the Municipality and the closing of the accounting cycle of the Program. However, the Program has adopted mechanisms, directed to minimize the time between the receipts of funds and the payments of the obligations.

- **Finding Number 2015-007: Cash Matching**

Recommendation

The Program should update its financial accounting system and strengthen its internal controls to assure compliance with the requirements of Matching.

Action Taken

Management gave specific instructions and has adopted the necessary internal controls in order to improve the accounting of the in-kind contributions made by the Municipality to the Program.

- **Finding Number 2015-008: Reporting**

Recommendation

The Program should update its financial management system to assure compliance with the requirements of reporting.

Action Taken

The Program has adopted and improved the internal controls through the acquisition of a new accounting system that will permit that the financial information will be completed and updated.

**B. Community Development Block Grants/ Entitlement Grants - CFDA No. 14.218**

- **Finding Number 2015-009: Cash Management**

Recommendation

The Municipality should strengthen its internal controls for accurately projecting the cash needs of the Program that will serve to minimize the time between the receipt of funds from the grantee and their actual disbursements.

Action Taken

The Program made administrative changes directed to improve the accounting and the management of the assigned funds. Management gave instructions to make drawdowns only when is necessary.

- **Finding Number 2015-010: Environmental Reviews**

Recommendation

The Municipality should designate the Environmental Review Record and have it available for public review prior to engaging in project activities as obligations and disbursements.

Action Taken

Management gave instructions that no matter the projects did not require environmental reviews, the personnel in charge has to document the projects that are considered categorical exclusions. The projects mentioned in this finding were categorically excluded.

- **Finding Number 2015-011: Procurement and Suspension and Debarment**

Recommendation

We recommend Management to ascertain that Municipality's contracts include all required clauses.

Action Taken

Management gave the instructions to work on the update of a contract model which includes all the required clauses.

**C. Child and Adult Care Food Program - CFDA No. 10.558**

- **Finding Number 2015-012: Cash Management**

Recommendation

We recommend management to make an analysis of the cash balance and verify if there are carryovers to determine if those carryovers have to be reimburse to the pass-through entity.

Action Taken

Management gave instructions to make an analysis of the balances maintained by the Program and to implement the necessary internal controls in order to maintain the minimum required balances.

- **Finding Number 2015-013: Reporting**

Recommendation

The Program should update its financial management system to assure compliance with the requirements of reporting.

Action Taken

The Program has adopted and improved the internal controls through the acquisition of a new accounting system that will permit that the financial information will be completed and updated.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please notify to Arnaldo X. Rodríguez, Director of Federal Program, and Mirna Navarro Head Start Director at (787) 866-0703.

Cordially,



Lilliam D. Rodriguez López  
Finance Director