

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

**MUNICIPIO DE GUAYANILLA
AUDITORÍA 2014-2015
30 DE JUNIO DE 2015**

**MUNICIPALITY OF GUAYANILLA
COMMONWEALTH OF PUERTO RICO**

SINGLE AUDIT REPORT
For the Fiscal Year Ended June 30, 2015
(With Independent Auditor Report Thereon)

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Basic Financial Statements and
Supplemental Schedule
Single Audit Report
Fiscal Year Ended June 30, 2015

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PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Guayanilla, Puerto Rico**

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of **Guayanilla**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements. I was engaged to audit the financial statements of the governmental activities. These financial statements 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.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America 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 I 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, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion 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 auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Basis for Adverse Opinion on the Castillo del Niño Fund and on the Business-Type Activities

Management has not included the Castillo del Niño Fund in the Municipality's financial statements. Accounting principles generally accepted in the United States of America require that Castillo del Niño Fund to be presented as a major enterprise fund and financial information about the Castillo del Niño Fund to be part of the business-type activities, thus increasing that activity's assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, and changing its net position. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses of the business-type activities and the omitted major fund has not been determined.

Adverse Opinion

In my opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on the Castillo del Niño Fund and on the Business-Type Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the Castillo del Niño Fund and the business-type activities of the Municipality, as of June 30, 2015, or the changes in financial position or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion on Governmental Activities

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. I was unable to satisfy myself about such balances through alternate procedures. Therefore, I was unable to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying statement of net position for \$28,630,651 net of accumulated depreciation of \$32,670,680 and the amount of depreciation expense stated at \$1,330,09 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 deferred outflow/ inflows of resources and the net pension liability in the statement of position, and the pension expense for the current period change of the net pension liability in the statement of activities, of the government wide financial statements were derived from the application of the proportional share included in the unaudited financial statements, notes and the required supplementary information of the State Employees' Retirement System Administration, which is a cost-sharing multiple-employer pension plan. Such amounts represents the 100%, 48% and 9% of the deferred outflows/ inflows of resources, total liabilities as of June 30, 2015, and expenses for the fiscal year ended, respectively. I was unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/ inflows of resources, net pension liability, and pension expense of the governmental activities and the note disclosure of the pension plan. Accordingly, I was unable to determine whether any adjustments to these amounts and disclosure were necessary.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Disclaimer of Opinion

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

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund other than the Castillo del Niño Fund, and the aggregate remaining fund information 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.

Emphasis of Matter

As discussed in Note 1 (O) to the financial statements, during the fiscal year 2014-2015, the Municipality adopted new accounting guidance, GASB 68, Accounting and Financial Reporting for Pensions and the related GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB 68. The financial statements were restated, as a result of the implementation of these standards. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the employees, retirement systems information on pages 5 through 18, 76 through 78 and 79 through 80, respectively, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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. I were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to the Municipality, in accordance with auditing standards generally accepted in the United States of America. I do not express an opinion or provide any assurance on the information.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The 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 also not a required part of the financial statements. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, it is inappropriate to and I do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 29, 2016, on my consideration of the Municipality's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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's internal control over financial reporting and compliance.



Pedro C. Ortiz Ledee, CPA
License Number 5200

Guayama, Puerto Rico
March 29, 2016



**Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015**

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

As management of the Municipality of Guayanilla (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements as of and for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2014. This MD & A is prepared in order to comply with the Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments.*" and, among other purposes, to provide the financial statements users with the following major information:

- a broader basis in focusing important issues;
- acknowledgement of an overview of the Municipality's financial activities;
- provides for an evaluation of its financial condition as of the end of fiscal year 2014-2015 compared with prior year results;
- identification of uses of funds in the financing of the Municipality's variety of activities and;
- assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- Total Net Position (deficit) of the Municipality Governmental Activities as of the end of fiscal year amounted to \$(13,613,077).
- The Municipality's Governmental Activities total Net Position increased by \$355,216.
- At the end of fiscal year 2015, total liabilities of the Municipality Governmental Activities amounted to \$48,655,299. Out of said amount, \$46,273,730 corresponded to long-term liabilities of which \$14,767,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.

Governmental Funds' Highlights:

- As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balance of \$2,128,953 an increase of \$141,823 from prior year, as restated.
- At the end of the current fiscal year, the fund deficit of the Municipality's General Fund amounted to (\$1,406,016) or \$1,107,885 less than the previous fiscal year, as restated.
- The actual General Fund budgetary activities resulted in favorable balance of \$1,131,169.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2015. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

The Municipality's basic financial statements include three components: (1) government-wide financial statements (GWFS), (2) fund financial statements (FFS), and (3) notes to the basic financial statements (NBFS). This report also contains additional required information in addition to the basic financial statements themselves. These components are described below.

The basic financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below.

a) Government-Wide Financial Statements

The GWFS are composed of: (1) the statements of net position (SNP) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2015. The GWFS are prepared using methods that are similar to those used by most private businesses.

Both of the government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental activities (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

1. Statement of Net Position

The purpose of SNP is to attempt to report all assets owned, deferred outflows of resources, all liabilities owed and deferred inflows of resources of the Municipality. The Municipality reports all its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

The difference between the Municipality's total assets and deferred outflows resources and total liabilities and deferred inflows of resources is reported in the SNP and is presented as *net position*, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net position, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

2. Statement of Activities

The SA presents information showing how the Municipality's net position changed during the fiscal year ended June 30, 2015, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although SA looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as *net change in net position*, which is essentially the same concept.

The focus of SA is on the *net cost* of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

GWFS and FFS present all of the Municipality's governmental activities, which are supported mostly by taxes, intergovernmental revenues (such as federal and state grants and contributions), and charge for services. All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; public housing and welfare; and economic and urban development.

b) Fund Financial Statements

The Municipality's FFS consist of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position, the results of operations of the Municipality's governmental, with an emphasis on the Municipality's major governmental funds.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions. All of the funds of the Municipality can be divided into two categories: governmental funds and proprietary funds.

1. Governmental funds

Governmental funds are used to account for most of the services provided by the Municipality. These funds are used to account for essentially the same functions reported as governmental activities in the GWFS. Unlike GWFS, the focus of governmental funds in the FFS is directed to specific activities of the Municipality rather than the Municipality as a whole; therefore, governmental funds in FFS report the Municipality's operations in more detail than the GWFS.

Governmental funds in FFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) debt service fund, (3) special revenue funds, (4) capital projects funds and (5) permanent funds.

Governmental funds FFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, governmental funds FFS focus on near-term inflows and outflows of expendable financial resources, consequently, they measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include capital assets within a very short period of time, but do not include capital assets such as land and buildings. Governmental fund liabilities generally include amounts that normally are going to be paid within a short period after the end of the fiscal year. The difference between a fund's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources is reported as the fund balance or deficit, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year.

Because the focus of governmental funds FFS is narrower than that of the GWFS, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and the governmental activities reported in the government-wide financial statements.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

The Municipality has three major governmental funds. Each major fund is presented in a separate column in the balance sheet – governmental funds and the statement of revenues, expenditures and changes in fund balances – governmental funds. The three major governmental funds are: (1) General Fund, (2) Municipal Hospital Fund, and (3) Debt Service Fund.

c) Notes to Basic Financial Statements

The NBFS provide additional information that is essential for a full understanding of the data provided in the GWFS and FFS. The NBFS can be found immediately following the basic financial statements.

d) Other Supplementary Information

The basic financial statements are followed by a section of other required supplementary information consisting of budgetary comparison schedule – general fund and the Schedule of the Municipality's Proportionate Share of the Net Pension Liability, and the Schedule of Municipality Contributions, as required by GASB.

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**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Guayanilla, governmental activities liabilities exceeded total assets by \$13,613,077 at the end of 2015, as compared with \$14,236,293, as restated, at the end of the previous year. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis the most important components of the \$355,216 increase reflected in the governmental activities Net Position figure.

	Governmental activities	
	June 30, 2015	June 30, 2014, as restated
<i>Assets:</i>		
Current assets	\$ 5,500,549	\$ 5,592,144
Non-current assets:		
Capital assets, net	28,630,651	28,462,249
Total assets	34,131,200	34,054,393
 <i>Deferred outflows of resources:</i>	1,098,957	177,149
 <i>Liabilities:</i>		
Current liabilities, excluding long-term obligations	2,381,569	3,003,415
Long-term obligations:		
Due within one year	1,740,265	1,693,158
Due after one year	44,533,465	43,503,262
Total liabilities	48,655,299	48,199,835
 <i>Deferred outflows of resources:</i>	187,935	-
 <i>Net position (deficit):</i>		
Invested in capital assets, net of related debt	18,708,651	18,088,249
Restricted	3,539,034	4,180,632
Unrestricted	(35,860,762)	(36,237,174)
Total net position	\$ (13,613,077)	\$ (13,968,293)

The Statement of Activities reflects that for fiscal year 2015, the net effect of total expenses over the revenues derived from several programs plus current operating revenues, amounted to an increase of \$355,216 in governmental activities. Approximately thirty-one percent (31%) of the Municipality's governmental activities total revenue came from taxes, while twenty-two percent (22%) resulted from grants and contributions, including federal aid. The Municipality's governmental activities expenses included items such as general government, health and welfare, public works, public safety, culture, recreation and education, community development, and interest on long term obligations.

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**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

Approximately thirty-six percent (36%) of total expenses resulted from general government, twenty-five percent (25%) resulted from health and welfare, seventeen percent (17%) resulted from public works, seven percent (7%) resulted from public safety, seven percent (7%) resulted from culture, recreation and education, four percent (4%) resulted from community development, and four percent (4%) resulted from interest on long term obligations. The following is a condensed presentation of the Municipality's results of operations as reported in the statement of activities for the fiscal years ended June 30, 2015 and 2014:

	Governmental activities	
	June 30, 2015	June 30, 2014
Program revenues:		
Program-specific operating grants and contributions	\$ 1,990,991	\$ 2,320,813
Program-specific capital grants and contributions	1,432,506	544,727
Charges for services	1,916,437	1,675,855
Total program revenues	<u>5,339,934</u>	<u>4,541,395</u>
General revenues:		
Property taxes	2,300,888	2,101,831
Municipal license taxes	1,183,586	1,168,146
Sales taxes	1,116,488	1,118,234
Construction excise taxes	265,989	40,290
Unrestricted grants and contributions	4,999,220	6,173,864
Other general revenues (various sources)	471,695	940,060
Total general revenues	<u>10,337,866</u>	<u>11,542,425</u>
Total revenues	<u>15,677,800</u>	<u>16,083,820</u>
Program expenses:		
General government	5,481,816	4,973,000
Health and welfare	3,836,692	2,781,655
Public works	2,672,603	3,111,882
Public safety	1,004,202	1,124,539
Culture, recreation and education	1,103,456	1,191,736
Community development	595,403	145,681
Urban and economic development	-	198,046
Interest on long-term obligations	628,412	645,560
Total expenses	<u>15,322,584</u>	<u>14,172,099</u>
Net increase (decrease) in net position	355,216	1,911,721
Net position, at beginning of fiscal year, as restated	<u>(13,968,293)</u>	<u>(15,880,014)</u>
Net position, at end of fiscal year	<u><u>\$(13,613,077)</u></u>	<u><u>\$(13,968,293)</u></u>

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES

Analysis of Financial Position of Governmental Funds

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's compliance with finance-related legal requirements. Specifically, unreserved fund balance may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balance amounting to \$2,128,953, which represents an increase of \$141,823 when compared with the prior year, as restated. Out of the indicated balance, \$3,539,034 were restricted for the following purposes: 1) to liquidate accounts payable (\$4,065); (b) to pay debt service (\$690,782) and; (c) for capital projects and other special purposes (\$2,844,187). As of June 30, 2015, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of (\$1,410,081).

The following table presents the condensed financial position of governmental funds at June 30, 2015 and 2014:

	2015	2014
<i>Assets:</i>		
Total assets (major funds)	\$ 3,922,133	\$ 4,541,764
Total assets (other governmental funds)	3,626,872	2,843,571
Combined total assets	7,549,005	7,385,335
<i>Liabilities and deferred inflows of resources:</i>		
Total liabilities and deferred inflows of resources (major funds)	4,282,835	4,635,149
Total liabilities and deferred inflows of resources (other governmental funds)	1,137,217	763,056
Combined total liabilities	5,420,052	5,398,205
<i>Fund balances (deficits):</i>		
Restricted	3,539,034	4,505,096
Unassigned	(1,410,081)	(2,517,966)
Combined total fund balances	2,128,953	1,987,130
<i>Total liabilities deferred inflows of resources and fund balances</i>	\$ 7,549,005	\$ 7,385,335

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**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

Major Governmental Funds

General Fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$1,811,048 at June 30, 2015. Such assets consist principally of \$1,164,029 of cash and due from other funds (\$437,167). The GF's total liabilities amounted to \$3,065,116 at June 30, 2015. Such liabilities are composed accounts payable and accrued liabilities (\$489,964), intergovernmental payable (\$223,507), amounts due to other governmental funds (\$1,398,541), unearned revenues (\$953,104) and deferred inflows from unavailable revenues (\$151,948). At the end of the current fiscal year, restricted fund balance reached \$4,065 and unassigned fund deficit of the GF amounted to (\$1,410,081), while total fund deficit reached (\$1,406,016).

Municipal Hospital Fund (MHF) – The MHF's total assets amounted to \$407,048 at June 30, 2015, which consist principally of cash in commercial banks (\$5,541) and accounts receivables and due from other funds totaling (\$401,507). The MHF's total liabilities amounted to \$52,516 at June 30, 2015, which are composed of accounts payable. At the end of the current fiscal year, restricted and total fund balance reached \$354,532.

Debt service fund (DSF) – The DSF's total assets amounted to \$1,704,037 at June 30, 2015, which consist principally of restricted cash in fiscal agent (\$1,567,269). The DSF's total liabilities amounted to \$938,131 at June 30, 2015, which is composed of matured bonds due and payable (\$640,000) and matured interest due and payable (\$298,131). At the end of the current fiscal year, DSF's total and restricted fund balance reached \$690,782.

Other Governmental Funds – (OGF) – OGF's total assets amounted to \$3,626,872 at June 30, 2015, which consist principally of cash in commercial banks and in fiscal agent totaling (\$1,724,058) and short-term amounts due from other funds (\$1,567,724). The OGF's total liabilities amounted to \$1,137,217 at June 30, 2015, which are composed principally of accounts payable (\$301,698) and short-term amounts due to other funds (\$772,870) and unearned revenues (\$62,649). At the end of the current fiscal year, restricted and total fund balance reached \$2,489,655.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

Analysis of Operating Results of Governmental Funds

Major Governmental Funds

General fund– The total fund deficit of the GF decreased by \$1,107,885 during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to \$9,433,026, \$8,269,482, and (\$55,659), respectively, for the fiscal year ended June 30, 2015.

Approximately thirty-four percent (34%) (\$3,176,047) of the GF's total revenues for the current fiscal year came from property, municipal license, construction excise and sales and use taxes, while sixty-one percent (61%) (\$5,721,288) resulted from intergovernmental grants and contributions.

The largest expenses of the GF for the fiscal year ended June 30, 2015 were related to: general administrative and operating costs (\$4,675,209), which were classified as "general government" and accounted for fifty-seven percent (57%) of total expenses, and public works (\$1,745,631), which accounted for twenty-one percent (21%).

Municipal Hospital Fund (MHF) – The total revenues of the MHF for the current fiscal year amounted to \$2,107,530, and came from charges for service (\$1,782,530) and intergovernmental grants and contributions (\$325,000).

Total expenditures amounted to \$2,077,253 for the fiscal year ended June 30, 2015, and came from health and welfare.

Debt service fund (DSF) – The total fund balance of the DSF decreased by \$605,844 during current fiscal year. Total revenues, expenditures and other financing uses (net) amounted to \$1,464,433, \$1,320,412 and \$(749,865), respectively, for the fiscal year ended June 30, 2015.

Approximately fifty-three percent (53%) (\$771,255) of DSF's total revenues for the current fiscal year came from restricted property taxes, while forty-seven percent (47%) (\$692,577) came from restricted sales and use taxes. Total expenditures for the current fiscal year came from principal and interests on bonds payable (\$1,320,412).

Other Governmental Funds – (OGF) – The total revenues of the OGF for the current fiscal year amounted to \$2,439,602, and came principally from federal grants and contributions (\$1,547,268), state government (\$829,161) and charges of services (\$61,694).

Total OGF expenditures amounted to \$3,635,621 for the fiscal year ended June 30, 2015, and came principally from health and welfare (\$1,002,291), public works (\$1,222,534), culture, recreation and education (\$722,612) and community development (\$518,980).

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

BUDGETARY HIGHLIGHTS

a) General Fund

The original and the final budget of the general fund for the fiscal year ended June 30, 2015 amounted to \$10,029,364. Over the course of the fiscal year, the Municipality revised the GF's budget in order to include increases and decreases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. The laws and regulations of the Commonwealth mandate a balanced budget.

The total actual revenues (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 were \$9,379,187, which is \$650,177 less than the budgeted revenues. In addition, the total actual expenditures (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 were \$8,248,018, which is \$1,781,346, lower than the budgeted expenditures.

The most significant fluctuations in actual revenues occurred in property, construction excise taxes, intergovernmental grants and contributions and miscellaneous revenues.

Also, the most significant fluctuations in actual expenditures and encumbrances occurred in general government, health and welfare and public works.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2015 amounted to \$28,630,651 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, infrastructure, improvements, machinery and equipment, and furniture and fixtures. The total increase in the Municipality's investment in capital assets for the current fiscal year was \$168,402.

The major classes of capital assets (net of accumulated depreciation) were the following:

Description	Amount
Land	\$ 2,226,254
Construction in progress	1,093,355
Buildings	20,228,800
Buildings improvements	4,046,942
Infrastructure	423,787
Machinery and equipment, and furniture and fixtures	304,838
Licensed vehicles	<u>306,675</u>
 Total Assets	 <u>\$ 28,630,651</u>

During the current year, construction in progress amounted to \$1,133,380 was reclassified to building, structures and improvements category.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

b) Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act establishes that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Funds and the annual amounts collected with respect to such Municipality's Sales and Use Tax and Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a Special Additional Tax and a Sales and Use Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax and the Sales and Use Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Funds, are not sufficient to cover such debt service. In the particular case of the Municipality of Guayanilla, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

The Municipality finances a significant portion of its construction activities through bond and note issuances, and through state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

At June 30, 2015, the Municipality's total bonded debt amounted to \$14,767,000, consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The following is a summary of the debt activity for the fiscal year ended June 30, 2015:

- Bonds payable as of June 30, 2015 totaled \$640,000.
- The Municipality has also certain outstanding notes payable due to Puerto Rico Department of Treasury (\$1,415,452). Such notes payable decreased by \$180,000 during the current fiscal year mainly due to the principal payments made during the same period.
- The Municipality has also certain outstanding notes payable due to CRIM (\$2,944,939). Such notes payable decreased by \$95,175 during the current fiscal year mainly due to the principal payments made during the same period.

Pension Obligation

During the fiscal year 2014-2015, the Municipality has adopted the GASB 68, *Accounting and Reporting for Pensions*. This statement replaces GASB 27, *Accounting for Pensions by State and Local Governments* and requires that an employer report a net pension liability and related changes in the net pension liability, instead of a net pension obligation. Net pension liability as of June 30, 2015 amounts to \$23,484,728.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2014-2015.

FINAL COMMENTS

The Municipality of Guayanilla is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community, urban and economic development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, sales taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government. Since the Municipality is significantly dependent on the intergovernmental grants and contributions received from the government of the Commonwealth of Puerto Rico and from property tax advances received from CRIM, the municipality could suffer a significant financial burden for certain scheduled intergovernmental revenues that could not be collected during the fiscal year 2014-2015.

REQUEST FOR INFORMATION

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 1875, Guayanilla, PR 00656, call (787) 835-2660, or visit our website at www.guayanillapr.net.

**Basic Financial Statements and
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015**

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Statement of Net Position

June 30, 2015

	Governmental Activities
Assets	
Current assets:	
Cash in commercial banks	\$ 2,237,215
Cash in fiscal agent	2,227,747
Accounts receivable, net of allowance for doubtful accounts:	
Property taxes	61,644
Intergovernmental	533,991
Sales tax	104,709
Construction excise taxes	13,249
Interest	2,283
Miscellaneous	319,711
Total current assets	5,500,549
Noncurrent assets:	
Capital assets, net of accumulated depreciation and amortization of \$32,670,680	28,630,651
Total noncurrent assets	28,630,651
Total assets	34,131,200
Deferred outflow of resources	
Pension related outflows	1,098,957
Total deferred outflows of resources	1,098,957
Liabilities	
Current Liabilities:	
Accounts payable	844,178
Intergovernmental payables	223,507
Accrued interest payable on long-term debt	298,131
Unearned revenues	1,015,753
Current portion of long-term obligations:	
Bonds payable	697,000
Other debts	1,043,265
Total current liabilities	4,121,834
Noncurrent liabilities	44,533,465
Total liabilities	48,655,299
Deferred inflow of resources	
Pension related inflows	187,935
Total deferred inflows of resources	187,935
Net position	
Invested in capital assets, net of related debt	18,708,651
Restricted for:	
Debt service	765,906
Other specified purposes	2,848,252
Unrestricted	(35,935,886)
Total net position	\$ (13,613,077)

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Statement of Activities
Fiscal Year Ended June 30, 2015

Functions/programs	Expenses	Charges for services	Program Revenues		Net Expenses and Charges in Net Position
			Operating grants and contributions	Capital grants and contributions	
Governmental activities:					
General government	\$ 5,481,816	\$ -	\$ -	\$ -	\$ (5,481,816)
Health and welfare	3,836,692	1,805,876	1,196,909	-	(833,907)
Public works	2,672,603	750	853	1,198,828	(1,472,172)
Public safety	1,004,202	-	-	-	(1,004,202)
Culture, recreation and education	1,103,456	109,811	447,323	233,678	(312,644)
Community Development	595,403	-	345,906	-	(249,497)
Interest on long-term obligation	628,412	-	-	-	(628,412)
Total governmental activities	<u>\$ 15,322,584</u>	<u>\$ 1,916,437</u>	<u>\$ 1,990,991</u>	<u>\$ 1,432,506</u>	<u>(9,982,650)</u>
General Revenues:					
Taxes:					
Property taxes					2,300,888
Municipal license taxes					1,183,586
Sales taxes					1,116,488
Construction excise taxes					265,989
Total taxes					<u>4,866,951</u>
Grants and contributions, not restricted to specific programs					4,999,220
Interests on deposits					30,408
Miscellaneous					441,287
Total general revenues					<u>10,337,866</u>
Net changes in net position					355,216
Net position at beginning of the year, as restated					(13,968,293)
Net position at the end of the year					<u>\$ (13,613,077)</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Balance Sheet – Governmental Funds
June 30, 2015

	GOVERNMENTAL FUNDS				Total Governmental Funds
	General Fund	Municipal Hospital Fund	Debt Service Fund	Other Governmental Funds	
Assets					
Cash in commercial banks	\$ 1,164,029	\$ 5,541	\$ -	\$ 1,067,645	\$ 2,237,215
Cash in fiscal agent	4,065	-	1,567,269	656,413	2,227,747
Account receivable, net of doubtful accounts:					
Property taxes	-	-	61,644	-	61,644
Construction excise taxes	13,249	-	-	-	13,249
Sales tax	29,585	-	75,124	-	104,709
Interest	2,283	-	-	-	2,283
Other	8,722	184,987	-	3,047	196,756
Due from other funds	437,167	166,520	-	1,567,724	2,171,411
Due from governmental entities	151,948	50,000	-	332,043	533,991
Total assets	<u>\$ 1,811,048</u>	<u>\$ 407,048</u>	<u>\$ 1,704,037</u>	<u>\$ 3,626,872</u>	<u>\$ 7,549,005</u>
Liabilities, deferred inflows of resources and fund balance					
Liabilities					
Accounts payable	\$ 489,964	\$ 52,516	\$ -	\$ 301,698	\$ 844,178
Intergovernmental	223,507	-	-	-	223,507
Due to other funds	1,398,541	-	-	772,870	2,171,411
Unearned revenues	953,104	-	-	62,649	1,015,753
Matured bonds due and payable	-	-	640,000	-	640,000
Matured interests due and payable	-	-	298,131	-	298,131
Total liabilities	<u>3,065,116</u>	<u>52,516</u>	<u>938,131</u>	<u>1,137,217</u>	<u>5,192,980</u>
Deferred inflows of resources					
Unavailable revenues:					
Intergovernmental revenues	151,948	-	75,124	-	227,072
Total deferred outflows of resources	<u>151,948</u>	<u>-</u>	<u>75,124</u>	<u>-</u>	<u>227,072</u>
Fund balance					
Fund balance:					
Restricted	4,065	354,532	690,782	1,852,816	2,902,195
Committed	-	-	-	636,839	636,839
Unassigned	(1,410,081)	-	-	-	(1,410,081)
Total fund balances	<u>(1,406,016)</u>	<u>354,532</u>	<u>690,782</u>	<u>2,489,655</u>	<u>2,128,953</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 1,811,048</u>	<u>\$ 407,048</u>	<u>\$ 1,704,037</u>	<u>\$ 3,626,872</u>	<u>\$ 7,549,005</u>

The accompanying notes to the basic financial statements are an integral part of this statement

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) – Governmental Funds
Fiscal Year Ended June 30, 2015

	GOVERNMENTAL FUNDS				Total Governmental Funds
	General Fund	Municipal Hospital Fund	Debt Service Fund	Other Governmental Funds	
Revenues					
Taxes:					
Property taxes	\$ 1,377,685	\$ -	\$ 771,255	\$ -	\$ 2,148,940
Municipal license	1,183,586	-	-	-	1,183,586
Construction excise taxes	265,989	-	-	-	265,989
Sales tax	348,787	-	692,577	-	1,041,364
Charges of service	66,076	1,782,530	-	61,694	1,910,300
Intergovernmental grants and contributions:					
Federal government		-	-	1,547,268	1,547,268
State government	5,721,288	325,000	-	829,161	6,875,449
Investment earnings	29,274	-	601	533	30,408
Miscellaneous	440,341	-	-	946	441,287
Total Revenues	<u>9,433,026</u>	<u>2,107,530</u>	<u>1,464,433</u>	<u>2,439,602</u>	<u>15,444,591</u>
Expenditures					
Current:					
General government	4,675,209	-	-	159,137	4,834,346
Health and welfare	739,269	2,077,253	-	1,002,291	3,818,813
Public works	1,745,631	-	-	1,222,534	2,968,165
Public safety	870,058	-	-	10,067	880,125
Culture, recreation and education	239,315	-	-	722,612	961,927
Community development	-	-	-	518,980	518,980
Debt service:					
Principal	-	-	692,000	-	692,000
Interest	-	-	628,412	-	628,412
Total Expenditures	<u>8,269,482</u>	<u>2,077,253</u>	<u>1,320,412</u>	<u>3,635,621</u>	<u>15,302,768</u>
Excess (Deficiency) of Revenues over expenditures	<u>1,163,544</u>	<u>30,277</u>	<u>144,021</u>	<u>(1,196,019)</u>	<u>141,823</u>
Other financing sources (uses)					
Transfer in from other funds	-	-	55,659	805,524	861,183
Transfer out to other funds	(55,659)	-	(805,524)	-	(861,183)
Total Other Financing Sources (uses)	<u>(55,659)</u>	<u>-</u>	<u>(749,865)</u>	<u>805,524</u>	<u>-</u>
Net change in fund balances (deficits)	1,107,885	30,277	(605,844)	(390,495)	141,823
Fund balance (deficit) at beginning of year, as restated	(2,513,901)	324,255	1,296,626	2,880,150	1,987,130
Fund balance (deficit) at end of year	<u>\$ (1,406,016)</u>	<u>\$ 354,532</u>	<u>\$ 690,782</u>	<u>\$ 2,489,655</u>	<u>\$ 2,128,953</u>

The accompanying notes to the basic financial statements are an integral part of this statement

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Position
June 30, 2015

Aggregate fund balance reported in the balance sheet - governmental funds	\$ 2,128,953
Governmental activities' amounts reported in the statement of net position and the balance sheet - governmental funds are different because:	
Revenues that are not available and measurable are not recognize in the governmental funds, but these revenues are reported in the governmental-wide Statement of Activities	350,027
Capital assets (net of accumulated depreciation of \$32,670,680) used in governmental activities are not financial resources, therefore, are not reported in the governmental funds	28,630,651
Amounts presented in the Statement of Net Position, but not in Fund Balances due to different basis of accounting:	
Deferred outflows of resources related to pension	1,098,957
Deferred inflows of resources related to pension	(187,935)
The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds:	
Bonds payable	(14,127,000)
Note payable to Puerto Rico Treasury Department	(1,482,008)
Notes payable to Municipal Revenue Collection Center (CRIM)	(3,163,389)
Notes payable to Water and Sewer Authority	(666,114)
Notes payable to Retired System Administration	(276,050)
Notes payable to Department of Work and Human Resources	(121,478)
Compensated absences	(2,199,963)
Contingencies	(113,000)
Net Pension Liability	<u>(23,484,728)</u>
Net position as reported in the accompanying statement of net position	<u>\$ (13,613,077)</u>

The accompanying notes to the basic financial statements are an integral part of this statement

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances (Deficits) – Governmental Funds and the Statement of Revenues, Expenses
and Changes in Fund Net Position
Fiscal Year Ended June 30, 2015

Net change in fund balances- total governmental funds \$ 141,823

Governmental activities amounts reported in the statement of activities and the statement of revenues, expenditures and changes in fund balances governmental funds are different because:

Governmental funds report capital assets additions 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. In the current period, these amounts are:

Capital Assets Additions	1,498,461	
Depreciation Expense	<u>(1,330,059)</u>	
Excess of Capital Assets Additions over Depreciation Expense		168,402

Accounts receivables not collected within current fiscal year or soon enough thereafter to pay current liabilities are not recognized in Governmental Funds, but these receivables are reported in the Government-Wide Statements of Activities and Change in Net Position.

Prior year revenues	(116,818)	
Current year revenues	<u>350,027</u>	
Total		233,209

Net change in deferred inflows and deferred outflows related to pension 733,873

Repayment of debt proceeds principal is expenditures in the governmental funds, but the payment reduces the long-term liabilities in the Statement of Net Position. In the current year the repayments were: 692,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of:

Decrease in notes payable to Puerto Rico Treasury Department	184,033	
Decrease in note payable to Municipal Revenue Collection Center (CRIM)	95,174	
Decrease in payable to Retired System Administration	473,593	
Decrease in payable to Department of Work and Human Resources	60,732	
Increase in payable to Water and Sewer Authority	(233,880)	
Increase in compensated absences liability	(297,417)	
Increase in contingencies	(113,000)	
Increase in the net pension liability	<u>(1,783,326)</u>	
		<u>(1,614,091)</u>

Net changes in net position reported in the accompanying statements of activities \$ 355,216

The accompanying notes to the basic financial statements are an integral part of this statement

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

1. Summary of Significant Accounting Policies

The Municipality of Guayanilla, Commonwealth of Puerto Rico (the Municipality), is a local municipal government constituted in 1833 in the Commonwealth of Puerto Rico. The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Law 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 municipal governments legally separated from the state government of the Commonwealth of Puerto Rico (the Commonwealth).

The Constitution of the Commonwealth 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 legislative power of the Municipality is exercised by the Municipal Legislature, whose members are also elected every four years. The judiciary power is exercised by the General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality.

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.

a) Financial Reporting Model

The accompanying basic financial statements present the financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Municipality as of June 30, 2015, in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2015 in conformity with GAAP.

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (FFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI consists of: (1) a Management's Discussion and Analysis (MD&A), (2) a budgetary comparison schedule – general fund and (3) the Schedule of the Municipality's Proportionate Share of the Net Pension Liability, and the Schedule of Municipality Contributions, as required by GASB. RSI is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2015, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

The *Budgetary Comparison Schedule – General Fund* is a comparison of the actual results (using the budgetary basis of accounting, which differs from GAAP) with the original budget and the final amended budget for the General Fund. A budget to GAAP reconciliation is presented providing information of differences between the budgetary basis of accounting and GAAP.

b) *Financial Reporting Entity*

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality. The accompanying basic financial statements did not include the financial statements of Castillo del Niño, an operational unit and a business-type activity of the Municipality. In accordance with GASB No. 14 and GASB No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow: (1) The organization is legally separate entity; (2) The Municipality appoints a voting majority of the organization's board; (3) There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

Organizations meeting the above criteria are included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are considered to be blended component units of the Municipality: (1) The organization's governing body is substantively the same as the Municipality's governing body and (a) there is a financial benefit or burden relationship between the Municipality and the organization, or (b) management of the Municipality has operational responsibility for the organization; (2) The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it; (3) The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is based on the nature and significance of the organization's relationship with the Municipality. Based on the application of the criteria outlined above, the Municipality's management has concluded that there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2015.

c) *Government-Wide Financial Statements*

The accompanying GWFS are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements do not report fund information but rather report information of all governmental activities of the Municipality as a whole.

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These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses. The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net position provides short-term and long-term information about the Municipality's financial position by presenting all of the Municipality's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between these items reported as "net position" (equity) and/or net liabilities (accumulated deficit). This statement assists management in assessing the level of services that can be provided by the Municipality in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets and discloses legal and contractual restrictions on resources.

Net position (liabilities) is classified in the accompanying statement of net position within the following three categories:

- **Invested in capital assets, net of related debt** – This net position category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net position** – This net position category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net position for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

The classification of restricted net position identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designations of resources, including earmarking, are not reported as restricted net position. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

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- **Unrestricted net position** – This category consists of net position that are neither externally nor legally restricted, nor invested in capital assets. However, assets reported within unrestricted net liabilities often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified. When both restricted and unrestricted resources are available for use, it is the Municipality’s policy to generally use restricted resources first, and then unrestricted resources as they are needed.

The accompanying statement of activities presents the Municipality’s results of operations by showing, how the Municipality’s net position changed during the fiscal year ended June 30, 2015, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality’s functions, programs or other services either contributes to or draws from the Municipality’s general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) public works, (5) culture, recreation and education, (6) health and welfare and (7) community development. The governmental operations of the Municipality’s departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

- Municipal legislature
- Mayor's office
- Department of finance
- Department of human resources
- Department of municipal secretary
- Department of internal audit

Health and welfare:

- Department of health
- Department of elderly affairs

Public works:

- Department of public works
- Department of sanitation
- Department of recycling services
- Department of transportation

Public safety:

- Department of emergency management – civil defense
- Department of municipal police

Culture, recreation and education:

- Department of sports and recreation

Community Development:

- Office of federal programs

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The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in two broad categories: (1) program revenues and (2) general revenues.

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.

- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes, construction excise taxes and sales and use taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The *general government* function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the FFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

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The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities.

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the governmental fund financial statements.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net position for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are primarily financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public is financed primarily through user charges.

d) Governmental Fund Financial Statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds.

These financial statements report the financial position and results operations of the Municipality's governmental funds and fund types by presenting sources, uses and balances of current and non-current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental fund and fund types, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds and fund types according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds and fund types is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

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- **General fund** – The general fund is the Municipality’s main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities not accounted for and reported 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) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Debt service fund** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for all financial resources that are restricted, committed, or assigned to expenditure for 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/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2015, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

The outstanding balance of general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, and claims and judgments) are only accounted for in the accompanying statement of net position. The debt service payments of such debts, as applicable, are generally accounted for in the general fund.

- **Special revenue funds** – The special revenue funds are major and non-major governmental funds, as defined below, used by the Municipality to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality’s general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.
- **Capital projects funds** – Capital projects funds are major and non-major governmental funds, as defined below, used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds are accounted for also in the capital projects funds.

The capital projects funds has been used 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.

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The focus of the GFFS is on major governmental funds and fund types, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds and fund types between major and non-major categories within the GFFS. Major individual governmental and proprietary funds and fund types are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the GFFS if its total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures\expenses for these purposes mean all expenditures\expenses, including operating and non-operating expenditures\expenses, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying FFS are: (1) the General Fund, (2) the Municipal Hospital Fund and (3) the Debt Service Fund.

General fund – This is the fund used to account for all financial resources and governmental activities not accounted for and reported in another fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and others.

Municipal Hospital Fund – This is the fund used to account for all the transactions of the Municipality's Hospital. The primary objective of this fund is to provide medical services to the community.

Debt service fund – This is the fund used to account for revenues derived from property and sales taxes accumulated for the payment of, general long-term debt principal, interest, and related costs.

The accompanying GFFS are accompanied by other statements and schedules required by GAAP: (1) the reconciliation of the balance sheet – governmental funds to the statement of net position, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

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e) Measurement Focus and Basis of Accounting

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and rent) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values.

An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include certain charges for services and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of ***derived tax revenue transactions*** (such as municipal license taxes), which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of ***imposed non-exchange revenue transactions*** (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen.

Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

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Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to another government (such as the Municipality), and the provider government requires the recipient government to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these types of transactions, receivables and revenues are generally recorded as follows:

- For reimbursement-type (commonly known as “expenditure-driven awards”), receivables and revenues are recorded when all eligibility requirements imposed by the provider have been met. The Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.
- For other types of grants (mainly grants and contributions with purpose restrictions but with no time requirements), receivables and revenues are recorded when all applicable eligibility requirements are met. When the provider is a government (including the government of the United States of America) the applicable recognition period for both, the provider and the recipient, is the provider's fiscal year and begins on the first day of that year.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying statement of net position. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying governmental fund financial statements. Therefore, the accompanying governmental fund financial statements include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the governmental fund financial statements.

Governmental fund financial statements – The accompanying governmental fund financial statements are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting.

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Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality considers most revenues to be available if collected generally within 90 days after June 30, 2014, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as unearned (earned and unavailable) revenues at June 30, 2014.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying governmental fund financial statements, except for amounts recorded as unearned (earned and unavailable) revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed previously, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, certain charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

Interest on deposits is recorded when earned only if collected within 90 days after the fiscal year-end since these revenues would be considered both measurable and available.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and an expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated with current available financial resources. GASBI No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities.

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Therefore, the accompanying balance sheet – governmental funds generally reflects assets that will be converted into cash to satisfy current liabilities. Long-term assets (except for accounts receivables and inter-fund advances) 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. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

Modifications to the accrual basis of accounting in accordance with GASBI No. 6 include:

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2015, which have been recorded as governmental fund liabilities at June 30, 2015, which is the date when resources are available in the debt service fund (generally, June 30).
- Notes payable, obligations under capital leases, compensated absences, and amounts subject to accrued claims and judgments under litigation are recorded only when they mature (when payment is due).
- Certain accrued liabilities not due and payable or not normally expected to be liquidated with current available and expendable financial resources are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature.
- Executory purchase orders and contracts are recorded as assignments of fund balance in the governmental funds FFS.

The measurement focus of the governmental funds financial statements is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities and the statement of revenues, expenses and changes in fund net position, but are not recorded in the accompanying governmental fund financial statements.

f) Stewardship, Compliance and Accountability

Budgetary Control

According to Law No. 81, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

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The Mayor must submit, for each fiscal year commencing on July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than the immediately preceding May 31. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 15.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within six (6) days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to eight (8) days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have three (3) days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This regulation permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances, and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the function/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

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Budgetary Accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying budgetary comparison schedule provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2015. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2015. Copies of that report may be obtained by writing to the Municipality's Director of Finance and Budget.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general funds' budgetary basis and GAAP actual amounts are presented at the bottom of the respective budgetary comparison schedules.

The Municipality does not legally adopt budgets for the special revenue fund – federal grants and special revenue fund – state and local grants. The financial resources received by these funds are not subject to budgeting by the Municipality since the resources received each year from the respective grantors varies from year to year, and the respective amounts are granted at their discretion.

g) Deposits

The Municipality's deposits are composed of: (1) cash on hand, (2) demand deposits in commercial banks, (3) demand deposits in the Government Development Bank for Puerto Rico (fiscal agent) and (4) cash equivalents in commercial banks.

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The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

Cash in commercial banks of the special revenue fund – federal grants, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain federal financially assisted programs.

Cash in commercial banks and cash in fiscal agent of the special revenue fund – state and local grants, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain state and local financially assisted programs.

Cash in commercial bank and cash in fiscal agent in the capital project fund – state and local grants, consists principally of the balance of interest bearing and non-interest bearing accounts related to state and local grants, and unspent proceeds of bonds, which are restricted for the acquisition, construction or improvement of major capital assets.

Cash in fiscal agent in the debt service fund consists of cash related to property tax and sales and use tax collections, which are restricted for the payment of the Municipality's debt service of bonds payable, as required by law.

h) Accounts and Notes Receivable

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2015. Major receivable balances for the governmental activities include property taxes, sales taxes and medical billings receivables.

Tax receivables in the general fund represent uncollected property, construction excise and sales taxes. Restricted tax receivables in the debt service fund consist of uncollected property and sales taxes, which are restricted for the payment of the Municipality's debt service, as established by law.

Intergovernmental receivables are composed of amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federal and state funded programs.

These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

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Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Advances between funds, as reported in the GFFS, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

i) Other Current Assets

Other current assets in the accompanying statement of net position and the balance sheet – governmental funds consist principally of prepaid costs, which are capitalized rather than charged to operations.

j) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment (including equipment held under capital leases), furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost basis of \$100 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$100 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities and the statement of revenues, expenses and changes in fund net position. In the governmental funds, all capital assets are recorded as expenditures in the corresponding function/program identified with the asset.

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net position as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

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Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Building and site improvements	40
Infrastructure	40
Work of art	10
Vehicles	5
Furniture and fixtures	5
Machinery and equipment	3 to 5

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

k) Unearned Revenues

In the governmental fund financial statements, unearned revenue arises when one of the following situations occur:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (reported as “*earned and unavailable revenue*” in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2015 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for unearned revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

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l) Deferred Outflows/ Inflows of Resources

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2015, the Municipality has deferred outflows of resources in the statement of net position, related to the contributions made to the pension plan during the fiscal year 2014-2015.

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period (s) and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2015 the Municipality has deferred inflows of resources related to the deferrals of pension expense in the statement of net position and deferred inflows of resources related to unavailable intergovernmental revenues in the balance sheet.

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

1. Government-mandated or voluntary non-exchange transactions received before the time requirements have been met – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet 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.

m) Compensated Absences

The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2015 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent

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on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per fiscal year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per fiscal year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each fiscal year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each fiscal year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously. After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is in the statement of net position. A liability for compensated absences is reported in the governmental fund financial statements only when matured (when payment is due), for example, as a result of employee resignations or retirements.

n) Long-term Debt

The long-term liabilities reported in the accompanying statements of net position include the Municipality's bonds payable, notes payable, accrued compensated absences and accrued legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due in July 1 of the following fiscal year are recorded as fund liabilities in the GFFS when resources are available in the debt service fund (generally at June 30). In the GFFS, the face amount of debt issued is reported as other financing sources when issued.

o) Pensions

The Municipality has 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'

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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.

p) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each fiscal year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronym), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA, by its Spanish acronym), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2015 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. 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. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

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The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's 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 because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from a health insurance company for its employees. Different health insurance coverage and premium options are negotiated each year by the Municipality. The current insurance policies have not been cancelled or terminated at June 30, 2015. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

q) Fund Balances

On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions No. 54* (GASB No. 54). GASB No. 54, which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. Also, this statement establishes fund balance classifications that comprise a hierarchy upon use of the resources reported in governmental funds. According these provisions, the fund balances are reported in five categories:

- ***Nonspendable*** – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- ***Restricted*** – Amounts are restricted by external parties (creditors, grantors, contributors or law/ regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- ***Committed*** – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.
- ***Assigned*** – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.

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- **Unassigned** – Represent the residual classification for the Municipality’s General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts is restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

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 balance amounts as of and for the fiscal year ended June 30, 2015.

When an expenditure is incurred for purposes for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

At June 30, 2015, the accompanying fund financial statements reported fund balances as restricted, committed and unassigned.

r) Inter-fund Activities

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying GFFS:

- **Inter-fund loans** – Represent resources (assets) provided by one governmental fund to other governmental fund with a requirement and commitment for repayment (reimbursement), which are recorded as “*due from*” in the lender governmental fund and “*due to*” in the borrower governmental fund. For amounts not expected to be collected, inter-fund receivables/payables are reduced to their estimated realizable (settlement) value, and the portion of the inter-fund loan that is not expected to be repaid is reported as a “*transfer-in*” from the governmental fund that provided the loan.
- **Inter-fund transfers (transfers-in/out)** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as “*other financing uses*” in the governmental fund making transfers and as “*other financing sources*” in the governmental fund receiving transfers.
- **Inter-fund reimbursements** – Represent repayments (reimbursements) from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the GFFS, inter-fund activity has not been eliminated, as permitted by GAAP.

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s) *Use of Estimates*

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

t) *Future Adoption of Accounting Pronouncements*

The GASB has issued the following standards that have effective dates after June 30, 2015:

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).
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).

The impact of these Statements on the Municipality’s basic financial statements has not yet determined by the Municipality’s management.

u) *Adoption of New Accounting Pronouncements*

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2015:

- GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (Issued 06/12)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.
This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing

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decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

2. Deposits

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

On July 1, 2004, 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 credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, 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 is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit 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 investments portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments to periods of three months or less and (3) keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalent 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. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor.

In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury.

Deposits of GDB, amounting to \$2,227,747 at June 30, 2015, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have

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been incurred by the Municipality through June 30, 2015. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. 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** – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for 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.

Cash and cash equivalents at June 30, 2015, are classified in the accompanying balance sheet – governmental funds a follows:

	General fund	Municipal Hospital Fund	Debt Service fund	Other Governmental Funds	Total
Cash in commercial banks	\$ 1,164,029	\$ 5,541	\$ -	\$ 1,067,645	\$ 2,237,215
Cash in GDB, as fiscal agent	4,065	-	1,567,269	656,413	2,227,747
Total	\$ 1,168,094	\$ 5,541	\$ 1,567,269	\$ 1,724,058	\$ 4,464,962

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3. Municipal License Taxes

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Guayanilla. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2015, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed and due five (5) working days after April 15 of each year, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration before the due date ended five (5) working days after April 15 of each year.

The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (five (5) working days after April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the general fund. Unearned municipal license tax revenues recorded in the accompanying GWFS and the general fund amounted to \$953,104 at June 30, 2015. Those unearned municipal license revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2015-2016, therefore, generally cannot be used to pay obligations of the fiscal year 2014-2015.

4. 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).

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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

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80. 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.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue \$348,787 in the general fund corresponding to the 1% imposition and \$692,577 in the debt service fund corresponding to the Municipal Redemption Fund.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10th day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable in the general and debt service funds at June 30, 2015, of \$29,585 and \$75,124, respectively, represents the tax collected on June (or before) by individuals, organizations and entities but reported and paid to the Municipality on or before July 10, net of uncollectible accounts.

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 increasing the Commonwealth 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.

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. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

The purpose of the Act No. 18 of January 24, 2014 is to create a special fund called Municipal Administration Fund (FAM) under custody of the Governmental Development Bank of Puerto Rico (“GDB”) that 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 includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

The 6% corresponding to the Commonwealth’s sales and use tax will be deposited in COFINA. From these funds during a transitory period from February 1, 2014 to June 30, 2014 the Commonwealth will deposit \$43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- .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.

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 municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act’s provisions. The Municipality of Juana Díaz 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 has 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,

**MUNICIPALITY OF GUAYANILLA,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

- .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),
- .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.

The purpose of the Act No. 19 of January 24, 2014 is to create 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 (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

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 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.

5. Property Taxes

The Municipality is authorized by Law No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of \$15,000 (at 1957 estimated market prices).

The Municipal Revenue Collection Center (CRIM, by its Spanish acronym) is a governmental entity not related to the Municipality which is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality and all other municipalities in the Commonwealth of Puerto Rico. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds (estimated collections) to the Municipality based on the initial estimated (forecasted) collection amounts for the fiscal year.

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Fiscal Year Ended June 30, 2015

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 the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year. This settlement has to be completed on a final basis not later than December 31 following the fiscal year end. If in any given fiscal year, CRIM remits to the Municipality property tax advances that are less than the property taxes actually collected by CRIM on behalf of the Municipality, then CRIM will liquidate, the amount owed to the Municipality, during the months of September and December of the next fiscal year. However, if advances exceed the amount actually collected by CRIM, then CRIM will reduce the amount of the monthly property tax advances during the next fiscal year.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2015 was 6.58 percent (of which taxpayers pay 6.38 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2015 was 8.58 percent (of which 8.38 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively), except for property assessed for less than \$3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

According to Law No. 81, included within the total personal and real property tax rates of 6.58 percent and 8.58 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth of Puerto Rico but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the debt service fund of the Commonwealth of Puerto Rico, for the payment of the general long-term debt of the state government.

In addition, included within the total personal and real property tax rates of 6.58 percent and 8.58 percent, respectively, there is a portion of the tax rate in the amount of 1.75 percent that is restricted for the Municipality's debt service requirements of bonds. Such amounts are recorded in the Municipality's debt service fund.

The portion of the property taxes recorded in the general fund is used to finance the operating activities of the Municipality, including the payment of: (1) the insurance premiums acquired through the Puerto Rico Department of Treasury, (2) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM's operating expenses, (4) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens, (5) certain notes payable to CRIM and to the Puerto Rico Department of Treasury and, (6) certain amounts due to certain agencies and component units of the Commonwealth, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS. The 0.20 percent of unrestricted personal and real property taxes paid by the Puerto Rico Department of Treasury as a subsidy is recorded in the Municipality's general fund.

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The Additional Lottery System of the Commonwealth of Puerto Rico (the Additional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth of Puerto Rico's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth of Puerto Rico, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth of Puerto Rico. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

6. Intergovernmental Receivables and Payables

Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows:

	General Fund	Municipal Hospital Fund	Other Governmental Funds	Total
<i>Intergovernmental receivables:</i>				
Entity:				
Municipal Revenue Collection Center (CRIM)	\$ 151,948	\$ -	\$ -	\$ 151,948
Puerto Rico Office of the Commissioner of Municipal Affairs	-	-	134,501	134,501
Puerto Rico Health Department	-	50,000	-	50,000
Puerto Rico Department of Labor	-	-	80,593	80,593
Puerto Rico Office of the Elderly	-	-	38,719	38,719
Puerto Rico Administration for Integral Care and Development of Children	-	-	78,230	78,230
Total intergovernmental receivables	\$ 151,948	\$ 50,000	\$ 332,043	\$ 533,991
<i>Intergovernmental payables:</i>				
Puerto Rico Department of Labor	\$ 118,254	\$ -	\$ -	\$ 118,254
Employees Retirement System of the Government of the Commonwealth of Puerto Rico	56,401	-	-	56,401
Puerto Rico Department of Treasury	28,795	-	-	28,795
Employees Association of the Commonwealth of Puerto Rico	19,652	-	-	16,652
Puerto Rico General Services Administration	405	-	-	405
Total intergovernmental payables	\$ 223,507	\$ -	\$ -	\$ 223,507

Intergovernmental receivables and payables represent the pending settlements of the aforementioned intergovernmental transactions.

**MUNICIPALITY OF GUAYANILLA,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2014-2015, and not paid by the Municipality at June 30, 2015. Following is a detail of these accounts payable and accrued liabilities by major fund:

	General fund	Municipal Hospital Fund	Other Governmental Funds	Total
Accounts payable	\$ 309,764	\$ 52,516	\$ 301,698	\$ 663,978
Accrued liabilities	180,200	-	-	180,200
Total	\$ 489,964	\$ 52,516	\$ 301,698	\$ 844,178

8. Inter-fund Transactions

The composition of inter-fund balances at June 30, 2015 and for the fiscal year then ended is as follows:

Due/advances to:	Due / advances from:			
	General Fund	Municipal Hospital Fund	Other Governmental Funds	Total Governmental Funds
General Fund	\$ -	\$ 150,000	\$ 1,248,539	\$ 1,398,539
Other Governmental Funds	437,167	16,520	319,185	772,872
Total	\$ 437,167	\$ 166,520	\$ 1,567,724	\$ 2,171,411

Transfers out:	Transfer in:		
	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
General Fund	\$ 55,659	\$ -	\$ 55,659
Debt Service	-	805,524	805,524
Total	\$ 55,659	\$ 805,524	\$ 861,183

**MUNICIPALITY OF GUAYANILLA,
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The principal purposes of inter-fund receivables and payables are to recognize in the outstanding balance of the loans granted, the effect of the practice of pooling cash in a current account, and to temporarily cover the payroll and other operating costs of several federally, and local and state funded programs.

The principal purposes of inter-fund transfers are to make a routinary transfer of resources from the general fund to the debt service fund to cover the principal and interest payment on certain bond.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers at June 30, 2015.

9. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2015:

a) Governmental Activities

	Cost basis at beginning of fiscal year	Additions	Reductions/ Reclassifications	Cost basis at end of fiscal year
<i>Cost basis:</i>				
Capital assets, not being depreciated:				
Land	2,226,254	-	-	2,226,254
Construction in progress	1,133,380	1,093,355	(1,133,380)	1,093,355
Total capital assets, not being depreciated	3,359,634	1,093,355	(1,133,380)	3,319,609
Capital assets, being depreciated:				
Buildings	29,474,898	-	1,133,380	30,608,278
Buildings improvements	8,605,806	-	-	8,605,806
Infrastructure	9,682,642	-	-	9,682,642
Machinery and equipment, and furniture and fixtures	3,499,600	207,674	-	3,707,274
Licensed vehicles	5,180,290	197,432	-	5,377,722
Total capital assets, being depreciated	56,443,236	405,106	1,133,380	57,981,722
Total cost basis of capital assets	\$ 59,802,870	\$ 1,498,461	\$ -	\$ 61,301,331
	Accumulated depreciation at beginning of fiscal year	Additions	Reductions/ Reclassifications	Accumulated Depreciation at end of fiscal year
Accumulated depreciation:				
Buildings	\$ 9,630,947	\$ 748,531	\$ -	\$ 10,379,478
Buildings improvements	4,303,751	255,113	-	4,558,864
Infrastructure	9,198,022	60,833	-	9,258,855
Machinery and equipment, and furniture and fixtures	3,269,183	133,253	-	3,402,436
Licensed vehicles	4,938,718	132,329	-	5,071,047
Total accumulated depreciation	31,340,621	1,330,059	-	32,670,680
Net capital assets, governmental activities	\$ 28,462,249	\$ 168,402	\$ -	\$ 28,630,651

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Notes to Basic Financial Statements
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The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2015.

Depreciation and amortization expense of governmental activities for the fiscal year ended June 30, 2015 was charged to functions/programs in the accompanying statement of activities as follows:

Activities	Amount
General government	\$ 103,517
Public safety	15,442
Economic and urban development	30,653
Health and welfare	78,220
Community development	173,112
Public works	382,675
Culture, recreation, and education	546,441
Total depreciation and amortization expense	\$ 1,330,060

10. Unearned Revenues and Deferred Inflows of Resources

At June 30, 2015, unearned revenues recorded in the GWFS and the governmental fund financial statements are as follows:

	General Fund	Other Governmental Fund	Total
<i>Unearned revenues:</i>			
Municipal licenses taxes	\$ 953,104	\$ -	\$ 953,104
Homeland Security Grants	-	3,130	3,130
Child Care Food Program	-	39,031	39,031
Housing Preservation Grant	-	6,995	6,995
Others	-	13,493	13,493
Total unearned revenues	\$ 953,104	\$ 62,649	\$ 1,015,753

The deferred inflows of resources of \$151,948 in the General Fund, represents the property taxes receivable, due from the Municipal Revenue Collection Center (CRIM), related to the 2014-2015 final settlement. This amount was not collected by the Municipality at June 30, 2015.

The deferred inflows of resources of \$75,124 in the Debt Service Fund, represents the sales taxes receivable as of June 30, 2015, which were transfer by the Commonwealth of Puerto Rico during the month of October 2015.

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**MUNICIPALITY OF GUAYANILLA,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

11. Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2015 is as follows:

	<u>Balance at beginning of fiscal year (as restated)</u>	<u>Borrowing or additions</u>	<u>Payment and deductions</u>	<u>Balance at end of fiscal year</u>	<u>Balance due within one year</u>
<i>Governmental activities:</i>					
Bonds payable:					
General obligation and public improvement bonds	\$15,449,000	\$ -	\$ 682,000	\$14,767,000	\$ 697,000
Notes payable:					
Puerto Rico Department of Treasury:					
Financing agreement for payment of the excess of property tax advances over collections through 1992					
	1,595,452	-	180,000	1,415,452	180,000
Municipal Revenue Collection Center:					
Law No. 42 of January 26, 2000	2,948,561	-	90,088	2,858,473	92,874
Law No. 146 of October 11, 2001 – Delinquent property tax accounts sold	91,553	-	5,087	86,466	5,087
Fiscal Year 2013-2014 Final Settlement	218,450	-	-	218,450	218,450
Puerto Rico Aqueduct and Sewer Authority	432,234	434,041	200,161	666,114	55,000
Retirement System Administration - Special Law	197,544	-	197,544	-	-
Retirement System Administration	552,099	-	276,049	276,050	276,049
State Department of Labor - Debt Agreement	79,764	-	26,586	53,178	28,265
State Department of Labor - Debt Agreement	102,446	-	34,146	68,300	36,302
State Department of Treasury - Debt Agreement	70,589	-	4,033	66,556	44,470
Compensated absences	1,902,546	868,590	571,173	2,199,963	106,768
Contingencies	-	113,000	-	113,000	-
Net Pension Liability	21,701,402	1,783,326	-	23,484,728	-
Totals for governmental activities	<u>\$45,341,640</u>	<u>\$ 3,198,957</u>	<u>\$ 2,266,867</u>	<u>\$46,273,730</u>	<u>\$1,740,265</u>

Historically, the general fund has been used to liquidate the notes payable to CRIM, the Puerto Rico Department of Treasury, compensated absences and any other long-term liabilities other than bonds.

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Notes to Basic Financial Statements
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a) Debt Limitation

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

b) Bonds Payable

The Municipality issues general obligation and public improvement serial bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt is composed of bonds payable. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

As more fully described in Note 5, the Municipality levies an annual additional special property tax of 1.75 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at the Government Development Bank for Puerto Rico, fiscal agent, whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual and semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

As more fully described in Note 4, the Municipality impose and collect sales and uses taxes of one point five (1.5) percent, of which the Municipality has elected to restrict a portion amounting .4% for the payment of long-term bonds. The collections of this sales and use tax are recorded in the Municipality's debt service fund.

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Notes to Basic Financial Statements
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For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2015:

<u>General Obligation and Public Improvement Bonds:</u>	<u>Outstanding balance</u>
1996 serial bonds (face amount of \$238,000) due in annual principal installments ranging from \$7,000 to \$18,000; plus interests due in annual installments at fixed rate (4.5%) through January, 1, 2020.	\$ 83,000
1998 serial bonds (face amount \$122,000) due in annual principal installments ranging from \$3,000 to \$9,000; plus interests due in semiannual installments at fixed rate (4.5%) through January, 1, 2022.	56,000
1998 serial bonds (face amount \$715,000) due in annual principal installments ranging from \$10,000 to \$70,000; plus interests due in semiannual installments at variable rates (4.73% at June 30, 2014) through July 1, 2023.	435,000
2001 serial bonds (face amount \$1,300,000) due in annual principal installments ranging from \$20,000 to \$115,000; plus interests due in semiannual installments at variable rates (1.3% at June 30, 2014) through July 1, 2025.	865,000
2003 serial bonds (face amount of \$1,230,000) due in annual principal installments ranging from \$20,000 to \$100,000; plus interests due in semiannual installments at variable rates (4.45% at June 30, 2014) through July 1, 2027.	875,000
2003 serial bonds (face amount of \$405,000) due in annual principal installments ranging from \$5,000 to \$30,000; plus interests due in semiannual installments at variable rates (1.5% at June 30, 2014) through July 1, 2027.	285,000
2003 serial bonds (face amount of \$875,000) due in annual principal installments ranging from \$15,000 to \$65,000; plus interests due in semiannual installments at variable rates (1.5% at June 30, 2014) through July 1, 2027.	575,000
2004 serial bonds (face amount of \$330,000) due in annual principal installments ranging from \$5,000 to \$25,000; plus interests due in semiannual installments at variable rates (4.45% at June 30, 2014) through July 1, 2028.	240,000
2005 serial bonds (face amount of \$730,000) due in annual principal installments ranging from \$15,000 to \$55,000; plus interests due in semiannual installments at variable rates (4.45% at June 30, 2014) through July 1, 2024.	455,000

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Notes to Basic Financial Statements
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<u>General Obligation and Public Improvement Bonds:</u>	<u>Outstanding balance</u>
2005 serial bonds (face amount of \$525,000) due in annual principal installments ranging from \$35,000 to \$65,000; plus interests due in semiannual installments at variable rates (1.5% at June 30, 2014) through July 1, 2015.	65,000
2006 serial bonds (face amount of \$835,000) due in annual principal installments ranging from \$15,000 to \$70,000; plus interests due in semiannual installments at variable rates (4.45% at June 30, 2014) through July 1, 2025.	585,000
2007 serial bonds (face amount of \$150,000) due in annual principal installments ranging from \$5,000 to \$10,000; plus interests due in semiannual installments at variable rates (1.5% at June 30, 2014) through July 1, 2031.	110,000
2007 serial bonds (face amount of \$560,000) due in annual principal installments ranging from \$10,000 to \$50,000; plus interests due in semiannual installments at variable rates (1.5% at June 30, 2014) through July 1, 2027.	445,000
2008 serial bonds (face amount of \$3,190,000) due in annual principal installments ranging from \$50,000 to \$265,000; plus interests due in semiannual installments at variable rates (1.5% at June 30, 2014) through July 1, 2032.	2,825,000
2009 serial bonds (face amount of \$560,000) due in annual principal installments ranging from \$40,000 to \$75,000; plus interests due in semiannual installments at variable rates (1.5% at June 30, 2014) through July 1, 2018.	270,000
2010 serial bonds (face amount of \$2,760,000) due in annual principal installments ranging from \$40,000 to \$230,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2014) through July 1, 2034.	2,525,000
2010 serial bonds (face amount of \$625,000) due in annual principal installments ranging from \$10,000 to \$65,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2014) through July 1, 2034.	570,000

**MUNICIPALITY OF GUAYANILLA,
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Notes to Basic Financial Statements
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<u>General Obligation and Public Improvement Bonds:</u>	<u>Outstanding balance</u>
2010 serial bonds (face amount of \$198,000) due in annual principal installments ranging from \$20,000 to \$38,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2014) through July 1, 2016.	68,000
2011 serial bonds (face amount of \$2,565,000) due in annual principal installments ranging from \$35,000 to \$215,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2014) through July 1, 2035.	2,400,000
2011 serial bonds (face amount of \$1,110,000) due in annual principal installments ranging from \$15,000 to \$95,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2014) through July 1, 2035.	<u>1,035,000</u>
Total bonds payable	<u>\$ 14,767,000</u>

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code.

Interest expense on bonds payable amounted to \$628,412 for the fiscal year ended June 30, 2015.

Annual debt service requirements of maturity for bonds payable are as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 697,000	\$ 655,579	\$ 1,352,579
2017	686,000	789,899	1,475,899
2018	695,000	775,602	1,470,602
2019	735,000	735,728	1,470,728
2020	711,000	695,217	1,406,217
2021-2025	4,113,000	2,872,555	6,985,555
2026-2030	3,590,000	1,693,528	5,283,528
2031-2035	3,230,000	611,304	3,841,304
2036-2040	310,000	10,076	320,076
Total	<u>\$ 14,767,000</u>	<u>\$ 8,839,488</u>	<u>\$ 23,606,488</u>

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c) Notes Payable to Puerto Rico Department of Treasury

- **Financing Agreement for Payment of the Excess of Property Tax Advances over Collections** – On August 14, 2002 the Municipality entered into a financing agreement with the Puerto Rico Treasury Department to pay a debt related to the excess of property tax advances over collections made by the Puerto Rico Treasury Department prior to the creation of CRIM in 1993. The face amount of the loan was \$2,421,452, and bears no interest. The note is payable in monthly installments through December 1, 2023. At June 30, 2015, the balance of this note amounted to \$1,415,452.

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u> <u>Amount</u>
2016	\$ 180,000
2017	180,000
2018	210,000
2019	240,000
2020	240,000
2021-2025	365,452
Total	<u>\$ 1,415,452</u>

d) Notes Payable to Municipal Revenue Collection Center

The Municipality had the following notes payables to Municipal Revenue Collection Center (CRIM, by its Spanish acronym) at June 30, 2015:

- **Act No. 42** – Act No. 42 of January 26, 2000 was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement allows for the financing of a debt that the municipalities of Puerto Rico have with CRIM, arising from the final settlements of property tax advances versus actual collections through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238 of August 15, 1999.

In addition, on February 12, 2002, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining excess of property tax advances through fiscal year 2000 and 2001. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB. The outstanding principal balances of the note payable to CRIM amounted \$2,858,473, at June 30, 2015.

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<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Amount</u>
2016	\$ 98,710	\$ 175,192
2017	104,913	168,990
2018	111,504	162,398
2019	118,510	155,392
2020	125,957	147,946
2021-2025	758,922	610,590
2026-2030	1,029,249	340,268
2031-2032	510,708	39,883
Total	<u>\$ 2,858,473</u>	<u>\$ 1,800,659</u>

- **Law No. 146 - Financing of delinquent property tax accounts sold** – On September 24, 2002, CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001, as amended (Law No. 146). The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by Public Finance Corporation (PFC), a subsidiary of the Government Development Bank for Puerto Rico, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse.

The original face amount of the note allocated by CRIM to the Municipality was for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years.

During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest, except for property tax receivables collections related to the transaction explained in the above paragraph, which will be applied as principal payment to reduce the debt balance. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. Interest payments on this financing agreement are accounted for in the general fund. The outstanding principal of the note payable to CRIM amounted to \$86,466, at June 30, 2015.

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Fiscal Year Ended June 30, 2015

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Amount</u>
2016	\$ 5,086	\$ 5,378
2017	5,086	5,062
2018	5,086	4,745
2019	5,086	4,429
2020	5,086	4,113
2021-2025	25,431	15,818
2026-2030	25,431	7,909
2031-2032	10,174	949
Total	\$ 86,466	\$ 48,403

e) Puerto Rico Aqueduct and Sewer Authority

In July 29, 2015 the Municipality entered into a new financing agreement with the Puerto Rico Aqueduct and Sewer Authority, for the payment of debt related to service received until June 30, 2015. The balance at June 30, 2015 of this agreement was \$666,114.

f) Retirement System Administration

In June 28, 2013 the Municipality entered into a financing agreement with the Retirement System Administration, for the payment of debt related to the employees' retirement system and retirement special laws. The balance at June 30, 2015 of this agreement was \$276,050.

g) State Department of Labor

In fiscal year 2013-2014 the Municipality entered into a two (2) financing agreements with the State Department of Labor, for the payment of debt related to unemployment benefits of the employees. The balance at June 30, 2015 of these agreements were \$53,178 and \$68,300, respectively.

h) State Department of Treasury

In fiscal year 2014-2015 the Municipality entered into a financing agreement with the State Department of Treasury, for the payment of debt related to employees' withheld income taxes. The balance at June 30, 2015 of this agreement was \$66,556.

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

i) Fiscal Year 2013-2014 Settlement Statement

During fiscal year 2014-2015, CRIM, as required by law, prepared the final settlement for the fiscal year 2013-2014, whereby a comparison was made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. According to the final settlement, advances to the Municipality exceeded the amount actually collected by the CRIM, and therefore, according to law, a payable to the CRIM amounted to \$218,450 should be recorded in the GWFS at June 30, 2015.

j) Compensated Absences

At June 30, 2015, the government-wide statement of net position includes a liability amounting \$2,199,963, which represents the accrued sick leave benefits and the accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

12. Pension Plan and Employees' Retirement Systems

a) Act No. 447 and System 2000 (until June 30, 2013)

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

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

The system operates under Act 447, approved on May 15, 1951 effective on January 1, 1952 and Act 1 of February 16, 1990 for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Act No. 305 of September 24, 1999 amended Act. No. 447 of 1951 and Act 1 of February 16, 1990 to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan.

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Fiscal Year Ended June 30, 2015

There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was \$10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

The Act No. 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 9.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

b) Act No. 3 of 2013 (beginning July 1, 2013)

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

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").
- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act No. 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

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- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.
- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment).
- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.
- Increased employee contributions from 8.275% to a minimum of 10.00%.
- After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.
- Retirement age was modified as follows:
 - Act No. 447 regular employees: age 58 to 61,
 - Act No. 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
 - Act No. 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).
- Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).
- Due to changes to Special Laws, the minimum monthly pension for current retirees was increased from \$400 to \$500.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 (\$5,000 x .25%).
- Survivor benefits were modified.

The actual combined employer and employee contributions for the current and past two years, which are equal to the statutory required contributions, are as follows:

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

<u>Fiscal year ended June 30,</u>	<u>Total</u>
2015	\$ 297,362
2014	294,941
2013	261,820
Totals	<u>\$ 854,123</u>

c) Act No. 32 of 2013 (beginning July 1, 2013)

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

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

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars (\$140,000,000).
- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars (\$1,000,000,000). If, for any fiscal, the certified AUC is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

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

The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population.

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The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE).

d) ***Pension liability, pension expense and deferred outflows/ inflows of resources***

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).

During March 2016, the ERS issued unaudited information related to the GASB 68. Based on that information, at June 30, 2015, the Municipality reported \$23,484,728 of its proportionate share of the net pension liability, which represents 0.07804% of its participation in the ESR. Also, the Municipality recognized pension expense in its governmental activities in the amount of \$1,346,815.

At June 30, 2015, the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Deferred outflows/ inflows of resources- pensions	\$ 801,595	\$ 187,935
Employer's contributions subsequent to measurement date (2015)	297,362	-
Total unearned revenues	\$ 1,098,957	\$ 187,935

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2015. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

13. Other Postemployment Benefits

In addition to the pension benefits described Note 18, 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.

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Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2014, Act 3 of 2014 modified these Special Laws benefits as follows:

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

Act No. 3 also established that employers will contribute \$2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

14. Commitments, Contingencies and Uncertainties

Claims and Judgments

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are allowed to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsels with the information currently available cannot determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment. All potential claims are accrued in the financial statements at June 30, 2015.

In addition, at June 30, 2015, the Municipality reported liabilities amounting \$113,000 in the statement of net position. These amounts represents, in its majority, plaintiffs for collection of money and other matters based on the advice of the legal counsels of the Municipality.

Federal Financially Assisted Programs

The Municipality receives financial assistance from the federal government in the form of grants and entitlements. Receipts of grants are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal law and regulations, including the expenditure of resources for eligible purposes.

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

Substantially all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133). Disallowance as a result of these audits may become liabilities of the Municipality

Other Commitments

At June 30, 2014 the general fund had commitments of approximately \$1,544 for executory purchase orders or contracts that will be honored during the subsequent year.

15. Fund Balance (Deficit)

As of June 30, 2015, fund balance (deficit) is comprised of the following:

Fund balances (deficit)	General Fund	Municipal Hospital Fund	Debt Service Fund	Other Governmental Fund	Total
<i>Restricted for:</i>					
General government	\$ 4,065	\$ -	\$ -	\$ 27,917	\$ 31,982
Health and welfare	-	354,532	-	317,358	671,890
Public works	-	-	-	1,449,364	2,086,203
Public safety	-	-	-	48,907	48,907
Culture and recreation and education	-	-	-	9,270	9,270
Debt service	-	-	690,782	-	690,782
<i>Committed</i>					
Public works	-	-	-	636,839	636,839
<i>Unassigned</i>	(1,410,081)	-	-	-	(1,410,081)
Total fund balances (deficit)	<u>\$(1,406,016)</u>	<u>\$ 354,532</u>	<u>\$ 690,782</u>	<u>\$ 2,489,655</u>	<u>\$ 2,128,953</u>

16. Accounting Changes and Restatements

a) Governmental Fund Financial Statements

The following restatements have been made in the Governmental Fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund	Loans Fund	Other Governmental Total
Fund balance, beginning	\$ (2,659,120)	\$ 531,635	\$ 2,080,515
To reclassify Puerto Rico Aqueduct and Sewer Authority debt	145,219	-	-
Major fund reclassification	-	(531,635)	531,635
To adjust cash with fiscal agent balance	-	-	268,000
Fund balance, beginning as restated	<u>\$ (2,513,901)</u>	<u>\$ -</u>	<u>\$ 2,880,150</u>

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

b) Governmental Wide Financial Statements

The following restatements have been made in the Governmental Wide financial statements, which are reported as an adjustment to the beginning net position:

<u>Description</u>	<u>Governmental Activities</u>
Net position - beginning	\$ 7,287,960
To adjust cash with fiscal agent balance	268,000
Cumulative effect of application of GASB 68, net pension liability	<u>(21,524,253)</u>
Net position - beginning, as restated	<u>\$ (13,968,293)</u>

17. Subsequent Events

Management has evaluated subsequent events through March 29, 2016, which is the date the financial statements were available to be issued and determined that no material subsequent events require disclosure or an estimate to be recorded as June 30, 2015.

End of Notes to Basic Financial statements

**Required Supplementary Information
Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2014**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
 Budgetary Comparison Schedule – General Fund
 Fiscal Year Ended June 30, 2015

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget –
	Original	Final	(See Note A)	over (under)
Revenues:				
Property taxes	\$ 1,342,781	\$ 1,342,781	\$ 1,377,685	\$ 34,904
Municipal license taxes	2,039,746	2,039,746	1,183,586	(856,160)
Sales taxes	348,000	348,000	319,202	(28,798)
Construction excise taxes	215,000	215,000	252,740	37,740
Intergovernmental grants and contributions	5,391,872	5,391,872	5,721,288	329,416
Interest on deposits	25,000	25,000	26,991	1,991
Charges for services	56,000	56,000	66,076	10,076
Miscellaneous	610,965	610,965	431,619	(179,346)
Total revenues	10,029,364	10,029,364	9,379,187	(650,177)
Expenditures, encumbrances and other financing uses:				
General government	3,917,280	3,995,832	4,598,086	(602,254)
Health and welfare	1,616,929	1,658,889	739,269	919,620
Public works	3,263,129	3,141,931	1,745,631	1,396,300
Public safety	942,981	925,881	870,058	55,823
Culture, recreation and education	222,745	240,531	239,315	1,216
Transfer out to other governmental funds	66,300	66,300	55,659	10,641
Total expenditures, encumbrances and other financing uses	10,029,364	10,029,364	8,248,018	1,781,346
Excess (deficiency) of revenues over (under) expenditures, encumbrances and other financing sources (uses)	\$ -	\$ -	\$ 1,131,169	\$ 1,131,169
Reconciliation of differences:				
Sources/inflows of financial resources:				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule				\$ 9,379,187
Differences - budgetary basis to GAAP:				
Differences in bases of accounting:				
GAAP adjustment to revenues				53,839
Total revenues and as reported on the statement of revenues, expenditures and changes in fund balances				\$ 9,433,026
Uses/outflows of financial resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 8,248,018
Differences - budgetary basis to GAAP:				
Prior year expenditure are not outflows of budgetary resources, but are expenditure for financial purposes				78,667
Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes				(1,544)
Transfer to other funds are outflows of budgetary resources but are not expenditure for financial reporting purposes				(55,659)
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				\$ 8,269,482

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Notes to Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2015

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the General Fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2014 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2015.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

Puerto Rico Government Employees Retirement System
Schedule of the Municipality's Proportionate Share of the Net Pension Liability

Fiscal Year 2014-2015

	<u>2015</u>
Municipality's proportion of the net pension liability	0.07804%
Municipality's proportionate share of the net pension liability	<u>\$ 504,517</u>
Municipality's covered-employee payroll	<u>\$ 2,083,096</u>
Municipality's proportionate share of the net pension liability as a percentage of the covered-employee payroll	<u>24.22%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>0.42%</u>

The amounts presented for the fiscal year 2014-2015 were determined by an actuarial valuation.

GASB 68 required supplementary information is not available for fiscal years prior to 2015. Information for future years will be added prospectively.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

Puerto Rico Government Employees Retirement System
Schedule of the Municipality's Contributions

Fiscal Year 2014-2015

	<u>2015</u>
Contractually required contribution	\$ 297,362
Contributions in relation to the contractually required contribution	<u>(297,362)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Municipality's covered-employee payroll	<u>\$ 2,083,096</u>
Municipality's contributions as a percentage of the covered-employee payroll	<u>14.275%</u>

The amounts presented for the fiscal year 2014-2015 were determined by an actuarial valuation.

GASB 68 required supplementary information is not available for fiscal years prior to 2015.
Information for future years will be added prospectively.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2015

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Rural Housing Preservation Grant Program	10.433		\$ 43,476
Pass-through the Department of Education of the Commonwealth of Puerto Rico:			
Child and Adult Care Food Program	10.558	N/AV	18,384
Total U.S. Department of Agriculture			61,860
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Section 8 Housing Choice Vouchers	14.871		628,940
Pass-through the Office of the Commissioner of Municipal Affairs of the Commonwealth of Puerto Rico:			
Community Development Block Grants/ State's Program	14.228	27-AB/ 27-FC/ 27-DR/ 27-DREF	345,906
Pass-through – State Department of Family			
Emergency Solutions Grant Program	14.231	N/AV	10,602
Total U.S. Department of Housing and Urban Development			985,448
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through – Governor Office- Governor's Authorized Representative:			
Disaster Grants – Public Assistance	97.036	N/AV	12,720
Total U.S. Department of Homeland Security			12,720

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2015

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE:			
Pass-Through the Office of the Elderly:			
Special Program for the Aging, Title III, Part C		150238R2 150300R2	197,717
	93.045		
Pass-Through – State Department of Family:			
Community Services Block Grant	93.569	N/A	20,057
Pass-Through the Administration for Integral Care and Development of Children of the Commonwealth of Puerto Rico:			
Child Care and Development Block Grant	93.575	241-2015-000099	255,595
Total U.S. Department of Health and Human Service			<u>473,369</u>
TOTAL EXPENDITURE OF FEDERAL AWARDS			<u>\$ 1,533,397</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Notes to Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2015

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of **Guayanilla**, Puerto Rico (Municipality) and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
2. The Municipality in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
3. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 – FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if 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 identifying number assigned by the pass-through entity for federal awards received as a sub recipient. Numbers identified as N/AV are not available.

NOTE 5 – MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

PEDRO C. ORTIZ LEDEE

CERTIFIED PUBLIC ACCOUNTANT

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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Guayanilla, Puerto Rico**

I 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 business-type activities, each major fund, and the aggregate remaining fund information of Municipality of **Guayanilla**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements. I was engaged to audit the financial statements of the governmental activities. These financial statements collectively comprise the Municipality's basic financial statements and have issued my report thereon dated March 29, 2016. I did not express an opinion on the governmental activities because I was unable to obtain sufficient and competent evidential matter related to the capital assets and the net pension liability. An adverse opinion was issued for the business-type activities and for the enterprise fund because management did not included the Castillo del Niño fund in the Municipality's financial statements.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Municipality's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, I do not express an opinion on the effectiveness of the Municipality's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not design 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Finding 2015-002 and 2015-003.

A *significant deficiency* is a deficiency, or 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. I consider the deficiencies described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 2015-001.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality’s financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 item 2015-001.

Municipality’s Response to Findings

Municipality’s response to the findings identified in my 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 the financial statements and, accordingly I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.


Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 29, 2016



PEDRO C. ORTIZ LEDEE

CERTIFIED PUBLIC ACCOUNTANT

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

**To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Guayanilla, Puerto Rico**

Report on Compliance for Each Major Federal Program

I have audited Municipality of **Guayanilla**, Puerto Rico (Municipality) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality's major federal programs for the fiscal year ended June 30, 2015. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

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

Basis for Qualified Opinion on Community Development Block Grant/ State's Program

As described in the accompanying Schedule of Findings and Questioned Costs, the Municipality, did not comply with requirement regarding CFDA 14.228 Community Development Block Grant/ State's Program as described in finding number 2015-004 for Reporting. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

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

Qualified Opinion on Community Development Block Grant/ State’s Program

In my opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Community Development Block Grant/ State’s Program” 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 the Community Development Block Grant/ State’s Program for the year ended June 30, 2015.

Unmodified Opinion on the Other Major Federal Program

In my 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 the other major federal program (Section 8 Housing Choice Voucher) identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The results of my auditing 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 item 2015-005. My opinion on each major federal program is not modified with respect to these matters.

Municipality’s response to the noncompliance findings identified in my 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 I 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 my audit of compliance, I considered the 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, I do not express an opinion on the effectiveness of the Municipality’s internal control over compliance.

My 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, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses and significant deficiencies.

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)

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. I considered the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-004 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. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-005 to be significant deficiencies.

Municipality’s response to the internal control over compliance findings identified in my 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 I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.


Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 29, 2016



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2015

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued on the basic financial statements:

Opinion Units

Type of Opinions

Governmental activities	Disclaimer
Business-type activities	Adverse
General Fund	Unmodified
Municipal Hospital Fund	Unmodified
Debt Service Fund	Unmodified
Aggregated remaining fund	Unmodified
Castillo del Niño Fund- enterprise fund	Adverse

Internal Control over financial reporting:

Material weakness identified?	Yes	X	No
Significant deficiencies identified?	Yes	X	None reported
Noncompliance material to financial statements noted?	Yes	X	No

Federal awards

Internal Control over major programs:

Material weakness identified?	Yes	X	No
Significant deficiencies identified?	Yes	X	None reported

Type of auditor’s report issued on compliance for major programs:

Qualified Opinion for Community Development Block Grant/ State’s Program
Unmodified Opinion for Section 8 Housing Choice Voucher

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	X	No
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Identification of major programs

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant/ State’s Program
14.871	Section 8 Housing Choice Voucher

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes No X

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	2015-001
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CONDITION	<p>During the examination of the accounting records, I noted that the Municipality does not summarize, in a formal accounting system, the financial transactions of the general fund and the special revenue funds. The accounting records of the Municipality are maintained simultaneously, through a manual and a computerized accounting system for which no reconciliation procedures are made among them.</p> <p>In addition, the financial information of Castillo del Niño, an enterprise fund, was not included in the financial statements of the Municipality for the fiscal year 2014-2015.</p>
CRITERIA	<p>Article 8.010 (b) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> 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 the system used must produce reliable reports and financial statements, provide complete information about the results of operations and include the necessary internal controls to account for all funds, capital assets and other assets.</p>
CAUSE	<p>The Municipality has not established effective internal control procedures over the accounting system.</p>
EFFECT	<p>The lack of an adequate accounting system affects the Municipality's ability to measure financial and nonfinancial performance of funds, programs and activities. Also, the Municipality is not having reliable financial information to operate in an economical, efficient and effective manner.</p>
RECOMMENDATION	<p>I 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.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	2015-002
REQUIREMENT	ACCOUNTING RECORDS- CAPITAL ASSETS
CONDITION	The Municipality does not have an effective system to account for the capital assets, including the infrastructure assets. I noted that the Municipality does not maintain a capital assets subsidiary ledger that includes, the cost of the assets, the accumulated depreciation and the depreciation expense. Also, the Municipality did not maintain adequate supporting documentation of the cost of the capital assets, including the infrastructure, reported in the statement of net position at June 30, 2015.
CRITERIA	GASB Statement 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. Also, Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociados de Puerto Rico de 1991</i> of August 30, 1991, states that Municipality should maintain updated property accounting records.
CAUSE	The lack of an adequate capital assets subsidiary ledger, for financial reporting purposes, did not permit the proper accounting over the capital assets additions, the accumulated depreciation and the depreciation expense presented in the financial statements of the Municipality.
EFFECT	The Municipality’s government wide financial statements do not present fairly, the financial position of the governmental activities, and the change in net position.
RECOMMENDATION	I 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-003
REQUIREMENT	ACCOUNTING RECORDS – NET PENSION LIABILITY
CONDITION	<p>The Municipality recorded the proportionate net pension liability of its participation in the State Employee Retirement System Administration and the related deferred outflows/ deferred inflows of resources and pension expense, in the government wide financial statements based on unaudited information provided by the State Employees’ Retirement System Administration, which is a cost-sharing multiple-employer pension plan. I was unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/ inflows of resources, net pension liability, and pension expense of the governmental activities and the note disclosure of the pension plan.</p>
CRITERIA	<p>GASB Statement No. 68 states the accounting and financial reporting requirements for pension plans provided to employees of state and local governments that are administered through cost-sharing pension plan. This statement requires that the Municipality report in its proportionate share of the collective net pension liability, pension expense and deferred outflows/ inflows of resources related to pensions as of the measurement date. It also requires disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.</p>
CAUSE	<p>The State Employee Retirement System Administration did not provided in a timely manner, to the Municipality, audited information related to the pension plan.</p>
EFFECT	<p>The Municipality’s Government-Wide Financial Statements presents unaudited amounts related to the net pension, deferred inflows/ outflows of resources and the pension expense.</p>
RECOMMENDATION	<p>I recommend management to request to the State Employees Retirement System Administration, the audited actuarial and financial information and make the necessary adjustments in the Government Wide financial statements in order to comply with the requirements of the GASB Statement No. 68.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER **2015-003 (CONTINUED)**

REQUIREMENT **ACCOUNTING RECORDS – NET PENSION LIABILITY**

**MANAGEMENT RESPONSE
AND CORRECTIVE ACTION**

Once the information is available, the Municipality will request the audited information related to the pension plan, including the proportional net pension liability, deferred inflows/ outflows of resources and pension expense to the Employees' Retirement System Administration of Puerto Rico and we will make the necessary adjustments in our accounting records.

Implementation Date: July 2016

Responsible Person: Mr. Adán Feliciano
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-004
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	During the reporting test, I noted that the Program did not maintain adequate accounting records, and did not summarize the information of all the financial transactions, related to assets, liabilities, revenues and expenditures of the Program, in an adequate accounting system. Also, I found that the accumulative expenditures (for grant years 2008, 2009, 2010, 2011, 2012 and 2013) reported in the quarterly report, submitted to the pass-through entity (OCAM), has a net difference of \$39,297 with the checks register of the Program.
CRITERIA	Code of Federal Regulations 24, Section 85.20 (a) (2) requires that fiscal control and accounting procedures must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Code of Federal Regulations 24, Section 85.20 (b) (2) requires that 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 failed to establish adequate internal controls over the transactions recorded on its accounting records and the accurate submission of the quarterly reports.
EFFECT	The Program is submitting quarterly reports, to the pass-through agency, that were not supported with adequate accounting records.
RECOMMENDATION	The Program should continue improving its internal control over the recording of the financial transactions in order to assure that the information submitted to the pass-through entity is adequately supported and recorded in complete accounting registers.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-004 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION	The Program accountant was instructed to reconcile on a monthly basis the accounting records and the bank reconciliation and to assure that the quarterly reports are supported and easily traceable to the accounting records. Implementation Date: July 2016 Responsible Person: Mr. Adán Feliciano Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-005
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST- ENVIRONMENTAL REVIEWS
CONDITION	The Program did not provide sufficient evidence about the environmental reviews for a project of housing rehabilitation paid with CDBG funds (grant year 2008). I did not found a written determination stating that the review was not required for this project. Also, the Program formalized the contract with the contractor, before the receipt of the State Historic Preservation Office certification.
CRITERIA	As stated in 24 CFR 58.22, (a) neither a recipient nor any participant in the development process, including public or private nonprofit or for profit entities, or any of their contractors, may commit HUD assistance under a program listed in 58.1 (b) on an activity or project until HUD or the State has approved the recipient's RROF and the related certification from the responsible entity. In addition, until the RROF and the related certification have been approved neither a recipient nor any participant in the development process may commit non HUD funds on or undertake an activity or project under a program listed in 58.1 (b) if the activity or project would have an adverse environmental impact or limit the choice of reasonable alternatives. (b) If a project or activity is exempt under §58.34, or is categorically excluded (except in extraordinary circumstances) under §58.35(b), no RROF is required and the recipient may undertake the activity immediately after the responsible entity has documented its determination as required in §58.34(b) and §58.35(d), but the recipient must comply with applicable requirements under §58.6.
CAUSE	The Program incurred in such disbursements without the necessary environmental reviews or without documenting adequately, that a review was not required.
EFFECT	The Program is not in compliance with 24 CFR 58.22.
RECOMMENDATION	Management should not encumber or expend CDBG funds on an activity or project until the environmental reviews are obtain or a written determination is made, stating that the review is not necessary.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-005 (CONTINUED)
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST- ENVIRONMENTAL REVIEWS
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION	<p>The Program staff was instructed to assure compliance with the record retention policies and procedures established by the Municipality. The project commented in the Finding was a categorically excluded project in which the Program staff documented its determination as required by the Program regulation, but such documents were missing, and therefore, not available for examination by external auditors.</p> <p>Implementation Date: July 2016</p> <p>Responsible Person: Mr. Adán Feliciano Finance Department Director</p>

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 Summary of Prior Year Audit Findings
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The following schedule contains the original number and title of each of the findings of federal awards included in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133* and the Schedule of Prior Years' Audit Findings for the Fiscal Year ended June 30, 2015. The following legend indicates the current status of the prior years' audit findings:

FINDING NUMBER	CFDA NUMBER	DESCRIPTION
2014-004	14.228	Allowable Cost Full corrective action was taken.
2014-005	14.228	Davis-Bacon Act Full corrective action was taken.
2014-006	14.228	Procurement and Suspension and Debarment Full corrective action was taken.
2014-007	14.228	Reporting No corrective action has been taken. Finding reference 2015-004.
2014-008	14.228	Special Test- Environmental Reviews No corrective action has been taken. Finding reference 2015-005.
2014-009	14.871	Reporting Full corrective action was taken.
2013-006	14.228	Procurement and Suspension and Debarment Full corrective action was taken.
2013-007	14.228	Reporting No corrective action has been taken. Finding reference 2015-004.

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FINDING NUMBER	CFDA NUMBER	DESCRIPTION
2013-009	14.871	Reporting Full corrective action was taken.
12-03	14.228	Suspension and debarment Full corrective action was taken.