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

MUNICIPIO DE GURABO
AUDITORÍA 2014-2015

30 DE JUNIO DE 2015

O.C.A.M.
AREA DE ASESORAMIENTO
GERENCIAL Y FISCAL
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2015

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2015

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Gurabo**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the **Municipality of Gurabo** 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

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

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

Summary of opinions	Type of opinion:
Governmental activities	Qualified
Each mayor fund	Unqualified
Aggregate remaining fund information	Unqualified

Basis for Qualified Opinion on Governmental Activities

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

Qualified opinion

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

Unmodified opinions

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 to 12 and 9 to 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016, on our consideration of the **Municipality of Gurabo** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Gurabo** internal control over financial reporting and compliance.

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

March 15, 2016
Aguas Buenas, Puerto Rico

The stamp No. **199135** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO

MANAGEMENT'S DISCUSSION ANALYSIS
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the ***Municipality of Gurabo*** of the Commonwealth of Puerto Rico **(the "Municipality")** provides this ***Management's Discussion and Analysis*** of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended **June 30, 2015**. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality's in the Govermental Activities has reported assets and net positive amounting to **$78,112,720** and **$20,607,718** respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to **$57,016,783** ***(73 percent of total Municipality's assets)***.

- The Municiaplity in the same activities has reported total liabilities amounting to **$55,066,748** in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to **$47,325,050** ***(86 percent of total liabilities)***.

- The Municipality has reported total revenues amounting to **$31,021,388** in the accompanying Statement of activities, for the Fiscal Year Ended **June 30, 2015**. The most significant revenues amounting in this statement are property taxes and municipal licenses taxes and, sales and use tax and construction taxes amounties to **$13,638,459** ***(45 percent of total revenues)*** and **$3,533,042** ***(11 percent of total revenues)***, respectively.

- The Municipality has reported a net change in net assets of revenues over expenditures amounting to **$9,129,414** in the accompanying statement of activities.

- The Municipality's governmental funds reported combined ending fund balances of **$26,068,067** which represent the fund balances of the general fund, other governmental funds and debt service fund combined (all known as the Municipality's major funds).

- The Municipality has reported a deficit for the general fund amounting to **($6,377,837)**.

- The Municipality has reported an excess of revenues and other financing sources over expenditures and other financing uses amounting to **$9,066,334** in the governmental funds. Such amount correspond to General Fund, debt service and capital proyects fund.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: **(1)** the government-wide financial statements, **(2)** the fund financial statements, and **(3)** the notes to the financial statements **(collectively known as the basic financial statements)**.

Government-Wide Financial Statements

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

Statement of Net Assets

The statement of net *assets* presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" **(equity)**. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended **June 30, 2015**. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods **(such as uncollected taxes and earned but unused vacation leave)**. This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.
Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues **(such as federal grants)**. Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

Fund Financial Statements

The Municipality's fund financial statements, which 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 and results of operations of the Municipality's governmental funds.

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.

Fund Financial Statements (continued)

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, liabilities, fund equity, revenue, 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.

The fund financial statements focus on: **(1)** individual parts of the Municipality's government and **(2)** reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: **(1)** general fund, **(2)** debt service fund, **(3)** special fund and **(4)** capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year **(June 30, 2015)**. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

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

For financial reporting purposes the Municipality has three major funds: **(1)** the general fund **(2)** the debt service fund and **(3)** loans and bonds funds.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

Government-wide Financial Statements Summary

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by **$20,607,718** at **June 30, 2015**.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets **(e.g., land, buildings, machinery, equipment and all other property)**, less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Otherwise, Municipality's Basic Financial Statement, not present increase in capital actives and acrued depreciation expenses, because al the time prepare the financial statement, Municipal Administrative was reevaluating actives files to stablish of capitalization. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements:

Condensed Statement of Net Assets:

	June 30, 2014	June 30, 2015
Current assets	$19,917,985	$ 21,095,937
Capital assets	58,285,762	57,016,783
Total assets	**78,203,747**	**78,112,720**
Current liabilities	17,912,256	7,741,698
Non-current liabilities	45,309,559	47,325.050
Total liabilities	**63,221,815**	**55,066,748**
Deferred inflows of resources:		
Deferred municipal taxes	1,891,443	2,448,254
Net assets/(liabilities):		
Net investment in capital assets	18,818,409	18,499,493
Restricted	9,184,846	16,289,717
Unrestricted	(14,912,766)	(17,915,537)
Total net assets	**$ 13,090,489**	**$ 20,607,718**

An additional portion of the Municipality's net assets **(1 percent)** represents resources that are subject to restrictions on how they may be used. At the end of the current fiscal year, the Municipality has reported positive balances in two categories of net assets.

Condensed Statement of Activities:	June 30, 2014	June 30, 2015
Revenues:		
Program revenues:		
Charges for services	$ 15,249	$ 12,150
Operating grants and contributions	3,535,021	2,113,897
Capital grants and contributions	2,206,646	1,226,223
General revenues:		
Property taxes	9,976,137	10,854,988
Municipal license taxes	2,937,959	2,783,471
Sales and use taxes	2,247,591	2,529,430
Construction excise tax	1,981,653	1,003,612
Grants and contributions	4,729,912	5,401,690
Interest, fines and penalties	150,950	286,657
Rent	202,477	203,157
Other	137,680	4,606,113
Total revenues	**28,120,275**	**31,021,388**
Expenses:		
General government	15,280,219	11,982,210
Public safety	1,415,888	1,836,724
Public works	2,759,725	3,814,304
Recreation	477,675	1,184,559
Health and welfare	2,583,366	2,443,247
Family and social development	491,836	552,877
Economic development	1,536,190	680,478
Interest on long-term debt	873,925	997,575
Total expenses	**25,418,824**	**23,491,974**
Change in net position before special item	2,701,451	7,529,414
Special Item, gain on sale of land	_____	1,600,000
Changes in net position after special item	2,701,451	9,129,414
Net assets – at beginning of year	**10,389,038**	**11,478,304**
Net assets – at end of year	**$13,090,489**	**$20,607,718**

Fund Financial Statements Summary

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.Governmental Funds - The focus of the Municipality's *governmental funds* is to provide information on near-term inflows, outflows, and balance of *spendable resources.* Such information is useful in assessing the Municipality's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of fiscal year. The following is a condensed presentation of the Municipality's balance sheet and results of operations of governmental funds:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2015

Condensed Balance Sheet – Governmental funds:

	June 30, 2014	June 30, 2015
Total Assets – Major Funds	$23,379,486	$21,730,256
Total Assets – Nonmajor Funds	1,912,951	4,337,811
Total assets	**$25,292,437**	**$26,068,067**
Total Liabilities – Major Funds	$18,604,980	$10,945,442
Total Liabilities – Nonmajor Funds	462,633	960,415
Total liabilities	**19,067,613**	**11,905,857**
Deferred inflows of resources	6,860,655	5,751,707
Fund Balances – Major Funds	2,086,149	5,033,107
Fund Balances – Nonmajor Funds	(1,450,318)	(3,377,396)
Total Fund Balance	**(635,831)**	**8,410,503**
Total liabilities, deferred inflows of resourses and fund balance	**$25,292,437**	**$26,068,067**

Condensed Statement of Operations – Governmental funds:

Total Revenues – Major Funds	$25,762,566	$28,006,535
Total Revenues – Nonmajor Funds	2,357,709	3,352,270
Total revenues	**28,120,275**	**31,358,805**
Total expenditures – Major Funds	34,019,634	23,457,312
Total expenditures – Nonmajor Funds	2,375,324	3,835,159
Total expenditures	**36,394,958**	**27,292,471**
Excess (deficiency) of revenues over (under) expenditures	(8,274,683)	4,066,334
Other financing sources (uses) Major	1,679,039	3,402,906
Other financing sources (uses) Nonmajor		(22,906)
Special item, proceed from sales of land		1,600,000
Expenses Over Revenues – Major	(6,578,038)	9,552,129
Revenues Over Expenses – Nonmajor	(17,606)	(505,795)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	**5,963,673**	**(635,831)**
FUND BALANCE (DEFICIT) AT END OF YEAR	**$ (631,971)**	**$ 8,410,503**

Capital Assets

The Municipality has invested **$86,753,353** in capital assets used in governmental activities, which have an accumulated depreciation and amortization of **$29,736,570** at June 30, 2015. The net capital assets increased during the current fiscal year due to the current fiscal year capital additions **$343,205,** which were partially offset by the depreciation and amortization expense.

Debt Administration

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 Junce 30, 2015 the Municipality's total bonded debt amounted to **$48,033,015,** consisting of bonds and notes payables. Such debt is backed by the full faith and credit of the Municipality.

Financial Contact

The Municipality's financial statements are designed to present users **(citizens, taxpayers, 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 on the 2nd. floor of the **Gurabo City Hall, Gurabo, Puerto Rico**.

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

	PRIMARY GOVERNMENT
	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash in bank	$ 1,458,293
Cash with fiscal agent	13,548,500
Accounts receivable:	
Property tax	3,499,088
Sale and usage tax	368,247
Government agencies	2,231,809
Capital assets, net	57,016,783
Total Assets	78,112,720
LIABILITIES	
Accounts payable and accrued expenses	2,747,718
Advances from federal agencies	35,089
Due to other agencies	1,442,891
Long-term debt:	
Due within one year	3,516,000
Due in more than one year	47,325,050
Total Liabilities	55,066,748
DEFERRED INFLOWS OF RESOURCES	
Deferred municipal taxes	2,448,254
NET POSITION	
Net investment in capital assets	18,499,493
Restricted for:	
Debt service	6,986,723
Capital project	8,000,131
Other purpose	1,302,863
Unrestricted	(17,915,537)
Total Net Position	$ 20,607,718

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

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

		PROGRAM REVENUES			
FUNCTIONS AND PROGRAMS	**EXPENSES**	**CHARGE FOR SERVICES**	**OPERATING GRANTS AND CONTRIBUTIONS**	**CAPITAL GRANTS AND CONTRIBUTIONS**	**NET (EXPENSE)/ REVENUE**
Governmental activities:					
General administration	$(11,982,210)				$(11,982,210)
Public safety	(1,836,724)		$ 366,539		(1,470,185)
Education and recreational	(1,184,559)	$12,150	161,149		(1,011,260)
Public works and sanitation	(3,814,304)			$1,226,223	(2,588,081)
Health and welfare	(2,443,247)		1,320,377		(1,122,870)
Family and social development	(552,877)		227,472		(325,405)
Economic development	(680,478)		38,360		(642,118)
Interest	(997,575)				(997,575)
Total governmental activities	$(23,491,974)	$12,150	$2,113,897	$1,226,223	(20,139,704)
General revenue:					
Taxes:					
Property taxes					10,854,988
Municipal tax					2,783,471
Sale and usage tax					2,529,430
Construction excise tax					1,003,612
Grants and entitlements					5,401,690
Rent					203,157
Interest					286,657
Other					4,606,113
Total general revenues					27,669,118
Changes in net position before special item					7,529,414
Special item:					
Gain on sale of land					1,600,000
Changes in net position					9,129,414
Net position at beginning, as restated					11,478,304
Net position at end					$ 20,607,718

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2015

	MAJOR FUNDS				
ASSETS:	GENERAL FUND	DEBT SERVICE FUNDS	LOANS AND BONDS FUNDS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash:					
Cash in bank	$ 30,861		$ 894,237	$ 533,195	$ 1,458,293
Cash with fiscal agent		$ 7,621,569	5,815,201	111,730	13,548,500
Receivables:					
Property taxes	1,910,762	1,588,326			3,499,088
Sale tax	253,787	114,460			368,247
Due from other governmental agencies	469,310	1,328,342		434,157	2,231,809
Due from other funds	1,703,401			3,258,729	4,962,130
Total Assets	$ 4,368,121	$10,652,697	$6,709,438	$4,337,811	$26,068,067
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE:					
Liabilities:					
Accounts payable and accrued expenses	$ 1,794,009			$ 5,764	$ 1,799,773
Bonds payable		$ 1,472,000			1,472,000
Interest payable		865,632			865,632
Due to other fund	3,258,728		$ 783,840	919,562	4,962,130
Due to other government	1,442,891				1,442,891
Advances from federal agencies				35,089	35,089
Unavailable income		1,328,342			1,328,342
Total Liabilities	6,495,628	3,665,974	783,840	960,415	11,905,857
Deferred inflows of resources:					
Deferred municipal tax	2,448,254				2,448,254
Deferred property taxes	1,802,076	1,501,377			3,303,453
	4,250,330	1,501,377			5,751,707
Fund Balance (deficit)					
Restricted for:					
Debt service		5,485,346			5,485,346
Capital project			5,925,598	2,074,533	8,000,131
Other purpose				1,302,863	1,302,863
Unassigned	(6,377,837)				(6,377,837)
Total Fund Balance (deficit)	(6,377,837)	5,485,346	5,925,598	3,377,396	8,410,503
Total Liabilities and Fund Balance	$ 4,368,121	$10,652,697	$6,709,438	$4,337,811	$26,068,067

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

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

Fund Balances in Governmental Funds	$ 4,676,458
Amounts reported for Governmental Activities in the Statement of Net Position *are different because:*	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	57,228,727
Deferred amounts in the governmental fund financial statements:	
Property tax	3,303,453
Unearned revenue	1,328,342
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds and notes payable	(46,561,015)
Accrued interest	(82,313)
Compensated absences	(1,912,411)
Due to Heath Insurance Administration	(895,624)
Total net position in statement of net position	$ 17,085,617

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

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

	MAJOR FUNDS				
	GENERAL FUND	DEBT SERVICE FUNDS	LOANS AND BONDS FUNDS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:					
Taxes:					
Property taxes	$ 5,681,951	$5,510,454			$11,192,405
Municipal tax	2,783,471				2,783,471
Sales and usage tax	1,902,704	626,725			2,529,429
Construction excise taxes	1,003,612				1,003,612
Grants and entitlements	5,389,540			$3,352,270	8,741,810
Rental income	17,307		$ 198,000		215,307
Interest	282,942	3,715			286,657
Other	4,606,114				4,606,114
Total Revenues	21,667,641	6,140,894	198,000	3,352,270	31,358,805
Expenditures:					
General administration	11,696,690				11,696,690
Public safety	945,035			780,669	1,725,704
Education and recreational	427,616			27,230	454,846
Public works and sanitation	3,130,590		1,085,781	1,015,584	5,231,955
Health and welfare	807,653			1,590,756	2,398,409
Family and social development	470,066			5,702	475,768
Economic development	265,260			415,218	680,478
Debt service:					
Principal		2,550,000	141,543		2,691,543
Interest		1,754,486	182,592		1,937,078
Total expenditures	17,742,910	4,304,486	1,409,916	3,835,159	27,292,471
Excess of Revenue over Expenditures	3,924,731	1,836,408	1,211,916	(482,889)	4,066,334
Other financing sources (uses):					
Operating transfer from other funds	454,334	909,130	226,394		1,589,858
Operating transfer to other funds	(1,024,864)	(454,334)	(87,754)	(22,906)	(1,589,858)
Proceed form loan			3,380,000		3,380,000
Total other financing sources	(570,530)	454,796	3,518,640	(22,906)	3,380,000
Special item:					
Proceed from sales of land	1,600,000				1,600,000
Excess of revenues and other financing sources over (under) expenditures and other financing sources	4,954,201	2,291,204	2,306,724	(505,795)	9,046,334
Fund balance beginning of year, as restated	(11,332,038)	3,194,142	3,618,874	3,883,191	(635,831)
Fund balance at end of year	$ (6,377,837)	$5,485,346	$5,925,598	$3,377,396	$ 8,410,503

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

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

Net change in fund balances – total governmental funds	$ 5,312,289
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	2,453,952
Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.	(2,110,747)
Governmental funds report principal payments on long-term debt as expenditures, whereas the principal payments reduce the long-term debt in the statement of net position.	2,691,543
Governmental fund report proceeds from loans as other financial sources, whereas the proceed from loan increase the long term debt in the statement of net position.	(3,380,000)
Changes in accrued expenses which do not require the use of current financial resources:	
Deferred property tax	(1,665,759)
Unavailable revenue	1,328,342
Interest	939,503
Compensating absences	(256,437)
Charms and judgement	82,682
Changes in Net Position of Governmental Activities	$ 5,395,368

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

1. ORGANIZATION AND REPORTING ENTITY

ORGANIZATION:

The Municipality of Gurabo (the Municipality) was established in 1826. The Municipality is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the government of the Commonwealth of Puerto Rico.

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

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

Reporting entity

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government wide and fund financial statements

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

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

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Debt Service Fund

   This fund is used to account for the accumulation of resources from addition property tax and sales and use tax for and the payment of, general long-term debt principal, interest and related cost.

3) Loans and Bond – Funds

   The fund accounts for proceeds and disbursements from general obligations for capital project and operating expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting

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

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method revenue are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days (except property taxes that are 60 days) of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

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

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

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

Cash, cash equivalents, cash with fiscal agent and investment

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, cash equivalents, cash with fiscal agent and investment (Continued)

Cash with fiscal agent in the governmental fund consists of unused proceeds from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

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

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

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

Interfund receivables and payables

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

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements. The Municipality elected not to capitalize infrastructure acquired before the implementation date of GASB 34 (June 30, 2003).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets (Continued)

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

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

Building	40 years
Equipment	5 years
Infrastructure	40 years
Building improvements	40 years
Furnishing	5 years
Computer	3 years
Vehicles	5 years

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

Impairment of Capital Assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund balance

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

- **No spendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.

- **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restrict its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

- **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision making authority (governing body through resolutions) and can only be changed by similar resolutions, no later than the end of the fiscal year.

- **Assigned** – Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by an official or body to which the governing body delegates authority in conformity with the by-laws of the Authority. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund balance (Continued)

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

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Cost of insurance policies for the year ended June 30, 2015 amounted to $413,824. The current insurance policies have not been cancelled or terminated. In addition, the Municipal Revenue Collection Center (the CRIM) deducted $283,992 for worker's compensation insurance covering all municipal employees.

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed. Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Position.

Pensions

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates

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

Subsequent Events

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

3. PROPERTY TAX

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

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

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

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

3. PROPERTY TAX (CONTINUED)

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first $15,000 of the assessed value. For such exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than $3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to $50,000 of the assessed value to retailers having annual net sales of less than $150.000.

The annual rate for fiscal year 2015 is 12.03% for real property and 8.03% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 5% and 3%, respectively, represent the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth contributes an annual tax rate of 0.2% of the property tax collected and the remaining rate is paid by the taxpayer.

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

	General Fund	Debt Service Fund	Total
Gross property taxes receivable	$12,918,523	$10,741,776	$23,660,299
Less allowance for uncollectible accounts	11,007,761	9,153,450	20,161,211
Net property taxes receivable	$ 1,910,762	$ 1,588,326	$ 3,499,088
Deferred tax revenues in GFFS	$ 1,802,076	$ 1,501,377	$ 3,303,453

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2015, $2,712,677 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a deferred inflows of resources in the accompanying combined balance sheets and statement of net position.

5. SALE AND USAGE TAX

Pursuant to an amendment to Puerto Rico Internal Revenue Code, Act 117 of July 4, 2006, the Municipal Legislature approved a city tax contribution (SUT), effective October 3, 2006 to 1.5% over all transactions of sales of goods and services made on Gurabo boundaries. The retails are required to file monthly sales tax returns by 10th days following the month in which the taxes are collected.

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

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

6. INTERGOVERNMENTAL REVENUES

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

7. CAPITAL ASSETS

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

Primary Government	Balance June 30, 2014	Additions	Retirements and reclassifications	Balance June 30, 2015
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 17,884,361			$ 17,884,361
Capital assets being depreciated:				
Buildings and building governments	39,324,380	$ 1,038,178		40,362,558
Furniture texture and equipment	4,732,392	75,624		4,808,016
Infrastructure	13,199,801	30,000		13,229,801
Vehicles	9,158,467	1,310,150		10,468,617
Total capital assets being depreciated	66,415,040	2,453,952		68,868,992
Less accumulated depreciation for:				
Buildings and building improvements	(10,230,192)	(1,009,095)		(11,239,287)
Furniture texture and equipment	(4,176,035)	(76,323)		(4,252,358)
Infrastructure	(5,199,726)	(330,745)		(5,530,471)
Vehicles	(8,019,870)	(694,584)		(8,714,454)
	(27,625,823)	(2,110,747)		(29,736,570)
Total depreciable capital assets, net	38,789,217	343,205		39,132,422
Governmental activities capital assets net	$ 56,673,578	$ 343,205	$	$ 57,016,783

7. CAPITAL ASSETS (CONTINUED)

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

	Governmental Activities
General administration	$ 111,766
Public safety	111,020
Public works	1,036,302
Education, culture and recreation	729,713
Health and welfare	44,838
Family and social development	77,108
Total depreciation expense	$2,110,747

8. LONG-TERM DEBT

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

Primary government: Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Bonds and notes payable	$47,152,558	$3,380,000	$2,499,543	$48,033,015	$2,616,000
Compensated absences	1,655,974	256,437		1,912,411	900,000
Claims and judgments	82,682		82,682		
	48,891,214	3,636,437	2,582,225	49,945,426	3,516,000
Due to Puerto Rico					
Health Insurance Administration	895,624			895,624	
Total	$49,786,838	$3,636,437	$2,582,225	$50,841,050	$3,516,000

8. LONG-TERM DEBT (CONTINUED)

Governmental activities:

Bonds and notes payable:

$3,380,000 series of 2014, payable in annual installments ranging from $75,000 to $320,000 through July 1, 2034 plus interest at 1.5% over prime rate but not less than 7% (7% as of June 30, 2015).	$3,380,000
$325,000 series of 1997, payable in annual installments of $19,000 to $23,000 through January 1, 2020 plus interest at 5%.	105,000
$704,000 series of 2000, payable in annual installments of $33,000 to $47,045 through January 1, 2024 plus interest at 4.5%.	354,045
$665,000 series of 2002, payable in annual installments of $25,000 to $55,000 through July 1, 2026 plus interest ranging from 4.80% to 5.6%.	455,000
$2,715,000 series of 2002, payable in annual installments of $105,000 to $215,000 through July 1, 2027 plus interest at 1.25% over LIBOR (1.53% as of June 30, 2015).	1,825,000
$375,000 series of 2002, payable in annual installments of $17,000 to $29,000 through January 1, 2027 plus interest at 4.50%.	263,000
$7,595,000 series of 2007, payable in annual installments of $200,000 to $635,000 through July 1, 2031 plus interest at 1.25% over LIBOR plus 1.25% (1.53% as of June 30, 2015).	6,430,000
$1,010,000 series of 2007, payable in annual installments of $25,000 to $85,000 through July 1, 2032 plus interest at 1.25% over LIBOR (1.53% as of June 30, 2015).	890,000
$225,000 series of 2008, payable in annual installments of $5,000 to $20,000 through July 1, 2032 plus interest at 1.25% over LIBOR (1.53% as of June 30, 2015).	190,000
$780,000 series of 2008, payable in annual installments of $20,000 to $70,000 through July 1, 2032 plus interest at 1.25% over LIBOR (1.53% as of June 30, 2015).	680,000
$7,470,000 series of 2008, payable in annual installments of $185,000 to $615,000 through July 1, 2032 plus interest at 1.25% over LIBOR (1.53% as of June 30, 2015).	6,480,000
$1,210,000 series of 2008, payable in annual installments of $30,000 to $100,000 through July 1, 2032 plus interest at 1.25% over LIBOR (1.53% as of June 30, 2015).	1,045,000
$280,000 series of 2008, payable in annual installments of $5,000 to $30,000 through July 1, 2033 plus interest at 1.25% over LIBOR (1.53% as of June 30, 2015).	$ 250,000

(Continue)

8. LONG-TERM DEBT (CONTINUED)

Bonds and notes payable (Continued):

$4,350,000 series of 2010, payable in one installment of $770,000 on July 1, 2016 plus interest at 4.75%.	770,000
$7,030,000 series of 2012, payable in annual installments of $135,000 to $570,000 through July 1, 2036 plus interest at 1.5% over prime rate plus 1.5% but not less than 6% (6% as of June 30, 2015).	6,675,000
$1,630,000 series of 2014, payable in annual installments of $215,000 to $285,000 through July 1, 2019 plus interest at 1.5% over prime rate but not less than 6% (6% as of June 30, 2015).	1,245,000
$810,000 series of 2014, payable in annual installments of $100,000 to $140,000 through July 1, 2019 plus interest at 1.5% over prime rate but not less than 6% (6% as of June 30, 2015).	615,000
$1,835,325 series of 2014, payable in annual installments of $35,000 to $90,000 through July 1, 2035 and a final installment of $1,005,325 on July 1,2015 plus interest at 1.5 % over prime rate but not less than 6% (6% as of June 30, 2015).	1,770,325
$7,308,975 series of 2013, payable in annual installments of $155,000 to $350,000 through July 1, 2027 and a final payment of $3,888,975 on July 1, 2028 plus interest at 1.5% over prime rate but not less than 5.375%.	7,028,975
$3,488,000 series of 2012, payable in annual installments of $141,543 through July 1, 2021 and a final installment of $2,406,238 on July 1, 2022 plus interest at 1.25% over at prime rate but not less than 5.375% (5.375% as of June 30, 2015).	3,255,496
$158,000 series of 2008, payable in annual installments of $5,000 to $13,000 through July 1, 2032, plus interest at 1.25% over LIBOR (1.53% at June 30, 2015).	141,000
$1,156,000 series of 2008, payable in annual installments of $157,000 to $217,000 through July 1, 2017, plus interest at 1.25% over LIBOR (1.53% as of June 30, 2015).	561,000
$450,000 series of 2011, payable in annual installments of $25,000 to $45,000 through July 1, 2025, plus interest at 1.50% over prime rate but not less than 6% (6% at June 30, 2015).	375,000
$3,379,175 series of 2013, payable in annual installments of $70,000 to $160,000 through July 1, 2027, plus interest at 5.375% and a final installment of $1,799,175 on July 1, 2028.	3,249,175
	$48,033,016

8. LONG-TERM DEBT (CONTINUED)

The annual debt service requirements to maturity long-term debt as of June 30, 2015 are as follows:

Governmental-Type Activities

Bonds and Notes Payable Year Ended June 30	Principal	Interest	Aggregated payments
2016	$ 2,452,543	$ 1,885,197	$ 4,337,740
2017	1,910,543	1,579,612	3,490,155
2018	2,069,543	1,507,508	3,577,051
2019	1,969,543	1,431,445	3,400,988
2020	2,099,543	1,353,787	3,453,330
2021-2025	11,828,826	5,544,349	17,373,175
2026-2030	16,439,150	3,128,838	19,567,988
2031-2035	7,993,000	773,994	8,766,994
2036-2039	1,270,325	67,200	1,337,525
	$48,033,016	$17,271,930	$65,304,946

9. INTERFUND BALANCES AND ACTIVITIES

BALANCE DUE TO / FROM OTHER FUNDS:

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

	Due to			
Due from	General fund	Loans and bonds Funds	Other governmental Fund	Total
General fund		$783,840	$919,561	$1,703,401
Other governmental funs	$3,258,729			3,258,729
Total	$3,258,729	$783,840	$919,561	$4,962,130

9. INTERFUND BALANCES AND ACTIVITIES (CONTINUED)

TRANSFER TO / FROM OTHER FUNDS:

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

	Transfer from			
Transfer to	General fund	Debt Services Fund	Loans and Bond Fund	Total
General fund		$909,130	$115,734	$1,024,864
Debt service fund	$454,334			454,334
Loans and bonds fund			87,754	87,754
Other governmental fund			22,906	22,906
Total	$454,334	$909,130	$226,394	$1,589,858

10. EMPLOYEE'S RETIREMENT PLAN

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

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

As of June 30, 2014, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately $22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken. Future employer contributions have been pledged for the payment of debt service, consequently further depletion of ERS's assets could result in the inability to pay benefits.

10. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

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

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

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

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

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2014 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

10. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

2. Increased the minimum pension for current retirees from $400 to $500 per month.

3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.

4. The retirement age for active System 2000 participants will be gradually increased from age 60 to age 65.

5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.

6. Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.

7. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

8. The employee contribution rate was increased from 8.275% to 10%.

9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the ERS.

11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

12. Survivor benefits were modified.

The employer contribution to the above mentioned plans during the last three years were on follows:

2015	$410,502
2014	414,430
2013	258,000

This amounts represented the required contribution for the corresponding year.

10. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

A. Employer's proportionate share amount of collective net pension liability.

B. Employer's proportionate percentage of collective net pension liability (including the basis on which it was determined) and change on its proportion since prior measurement debts.

C. Significant assumption used to measure total pension liability, including inflation, salary changes, discounts rate and mortality.

D. Measurement date of collective net pension liability and date of actuarial valuation on which the total liability is base.

E. Information about plan fiduciary net position

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

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

11. CONTINGENCIES

As of June 30, 2015, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

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

12. RECLASIFICATION AND PRIOR PERIOD ADJUSTMENT AND OTHER INCOME

Reclassifications:

The sales and usage tax fund as reported in 2014 financial statements has been reclassify to the general fund to conform to state legislation. The fund balances were reclassified is as follow:

	GENERAL FUNDS	SALES AND USAGE FUND
Fund balance as previously reported	$ (7,620,620)	$(3,711,418)
Reclassification	(3,711,418)	3,711,418
	$(11,332,038)	$

Prior period adjustment:

In addition, the net position as prior reported has been restated to correct error consisting of overstatement of capital assets.

	AMOUNT
Net position as prior reported	$13,090,469
Restatement	(1,612,165)
Net position, as restated	$11,478,304

Other income:

During the year ended June 30, 2015, the Appeal Court of the Commonwealth of Puerto Rico stated that any contract executed by the Municipality related to disposition of solid waste without the approval the Municipal Legislature Body is null. Accordingly, the Municipality wrote-off the amount due to a supplier that provided services of solid waste disposal amounting to $3,734,045. Such amount is reported as other income in the statements of revenues, expenditures and change in fund balance and statement of activities.

REQUIRED SUPPLEMENTARY INFORMATION

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

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AT BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes:				
Property taxes	$ 6,007,952	$ 6,007,952	$ 6,009,249	$ 1,297
Municipal tax	7,940,000	7,940,000	4,274,163	(3,665,837)
Construction excise taxes	2,389,949	2,389,949	1,003,612	(1,386,337)
Grants and entitlements	4,213,591	4,213,591	4,213,591	
Rental income	50,000	50,000	17,307	(32,693)
Interest	301,000	301,000	280,315	(20,685)
Other	824,752	824,752	1,893,703	1,068,951
Total revenues	21,727,244	21,727,244	17,691,940	(4,035,304)
Expenditures:				
General administration	15,602,549	16,453,145	13,917,263	2,535,882
Public safety	1,589,816	1,295,292	952,435	342,857
Education, culture and recreational	539,473	536,473	427,616	108,857
Public works and sanitation	3,091,623	2,577,036	2,495,044	81,992
Health and welfare	551,871	551,886	470,066	81,820
Tourism	351,912	313,412	265,260	48,152
Total expenditures	$21,727,244	$21,727,244	$18,527,684	3,199,560
Excess of revenue over expenditure			$ (835,744)	$ (835,744)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2015

1. BUDGETS AND BUDGETARY ACCOUNTING

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

1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.

2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.

3. Prior to June 13, the budget is legally enacted through passage of an ordinance.

4. The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.

5. Unused appropriations for the annual budgeted funds lapse at the end of the year.

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

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

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

	Revenues	Expenses
Revenue and expenses for generally accepted accounting principles (GAAP) basis	$21,667,641	$17,035,725
Transfer in included as revenues in budgetary basis	454,334	
Transfer out included as expenses in budgetary basis		1,024,860
Write of accounts payable not included in budgetary basis	(3,734,045)	
Proceed from sales of land included as income in budgetary basis	1,600,000	
Other adjustment to adjust revenues and expenses from budgetary basic to modified accrual basis	(2,295,990)	467,095
Revenue and expenses per budgetary basis	$17,691,940	$18,527,684

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

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

	CFDA NUMBER	EXPENDITURES
US Department of Housing and Urban Development		
Direct programs:		
Section 8- Housing Choice Vouchers	14.871	$1,029,086
Passed through programs:		
Municipal Service Administration:		
Community Development Block Grant	14.228	764,385
PR Department of Family:		
Emergency Shelter Grant Program	14.231	26,919
Total Department of Housing and Urban Development		1,820,390
US Department of Transportation		
Passed through program:		
PR Traffic Safety Commissions:		
Federal Transit – Formula Grants (Urbanized Area Formula Program)	20.507	255,240
US Department of Agriculture		
Passed through program:		
PR Department of Education:		
Child and Adult Food Program	10.558	24,689
US Department of Health and Human Services		
Passed through programs:		
Oficina de la Procuradora de las Personas de Edad Avanzada:		
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	29,627
PR Department of Family:		
Child Care and Development Block Grant	93.575	491,388
Total Department of Health and Human Services		521,015
US Home Land Security		
Passed through program:		
Commonwealth of Puerto Rico Governor's Authorized Representative:		
Disaster Grants – Public Assistance	97.036	4,426
		$2,625,760

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

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Gurabo and is presented on the modify basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audit of States, Local Governments and Non profit organizations.

REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Gurabo, Puerto Rico**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Municipality of Gurabo, Puerto Rico's** basic financial statements, and have issued our report thereon dated March 15, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Gurabo, Puerto Rico's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Gurabo, Puerto Rico's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned cost as item 2015-1.

Purpose of this Report

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

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

March 15, 2016
Aguas Buenas, Puerto Rico

The stamp No. **E199136** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Gurabo, Puerto Rico**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Municipality of Gurabo, Puerto Rico's** basic financial statements, and have issued our report thereon dated March 15, 2016.

Internal Control over Financial Reporting

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

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

March 15, 2016
Aguas Buenas, Puerto Rico

The stamp No. **E199137** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

MUNICIPALITY OF GURABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

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

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued		
Governmental activities		Qualified
Governmental funds		Unqualified
Internal control over financial reporting:		
Material weakness (es) identified?	____yes	__X_no
Significant deficiency (ies) identified that are not considered to be material weaknesses?	____yes	__X_no
Noncompliance material to financial statement noted?	__X_yes	____no
Federal Awards		
Internal control over major programs:		
Material weakness (es) identified?	____yes	__X_no
Significant deficiency (ies) identified that are not considered to be material weakness(es)	____yes	__X_no
Type of auditor's report issued on compliance for major programs	**Unqualified**	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	__X_ yes	____no

Identification of major programs:

CFA Number(s)	**Name of Federal Program**
14.228	Community Development Block Grant/ State's Program
14.871	Section 8 – Housing Choice Vouchers
20.507	Federal Transit – Formula Grants (Urbanized Area Formula Progam)

Dollar threshold used to distinguish between type A and type B programs:	$300,000	
Audit qualified as low-risk audited?	___yes	__X_no

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2015-01

Accounting system

Condition

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

Criteria

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

Effect

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

Recommendation

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

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

NONE

Municipality of Gurabo **Single Audit Correction Plan**

Prepared March 2016

FINDING NO. 2015-01 ACCOUNTING SYSTEM – GENERAL FUND

Program Deficiency	Objectives	Key Task / Action Items	Resources	Lead Staff	Completion date	Actual Completion Date	Implementation Progress / Comments
• The Municipality's financial statements do not include such adjustments and disclosures required by GASB-68.	Adjust future financial statements to include such adjustments and disclosures to comply with GASB 68.	Obtain the information necessary from "Administración de los Sistemas de Retiro de los Empleados del Gobierno y la Judicatura"	GASB 68	Finance Director		In progress	At present waiting for"Administración de los Sistemas de Retiro de los Empleados del Gobierno y la Judicatura" to have the information aviable.

Héctor R. Caraballo Díaz
Finance Director