

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

**MUNICIPIO DE JUANA DÍAZ
AUDITORÍA 2014-2015**

30 DE JUNIO DE 2015



O.C.A.M.
ÁREA DE ASESORAMIENTO
GERENCIAL Y FISCAL
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***BASIC FINANCIAL STATEMENTS
WITH ADDITIONAL REPORTS AND
INFORMATION REQUIRED BY THE
SINGLE AUDIT ACT***

Fiscal Year Ended June 30, 2015

***Commonwealth of Puerto Rico
Municipality of Juana Díaz***

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Organismo Comunal
de Recursos Municipales

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Single Audit Report
Fiscal Year Ended June 30, 2015

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Original Document
 Office of the Auditor General
 500 Ponce de Leon Avenue
 San Juan, Puerto Rico 00906

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Viviana Vélez Carrasquillo

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Municipality of **Juana Díaz**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements. I was engaged to audit the financial statements of the governmental activities. These financial statements collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of Villas del Parque (FmHA Project No. 63-033-0690660049), a business-type activity (proprietary fund) of the Municipality, which Single Audit report, reflects total assets, liabilities, net position, revenues and expenses of \$981,644, \$1,162,616, (\$180,972), \$462,745 and \$537,576, respectively, as of and for the fiscal year ended June 30, 2015. Those statements were audited by other auditors whose report has been furnished to me, and my opinion, insofar as it relates to the amounts included for Villas del Parque, is based solely on the report of other auditors. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Basis for Disclaimer of Opinion on Governmental Activities

The Municipality did not have a complete, updated and accurate accounting records of the capital assets in order to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying statement of net position for \$63,543,675, net of accumulated depreciation of \$42,218,475. Also, during the fiscal year the Municipality did not recorded certain capital assets additions and infrastructure assets. Because of the inadequacy of the accounting records, I was unable to form an opinion regarding the capital assets reported in the accompanying statement of net position.

The Municipality did not comply with the requirements established by Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*, issued by the Governmental Accounting Standards Board and the regulations set forth by the U.S. Environment Protection Agency in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. At June 30, 2015, the accompanying statement of net position does not include the required liability for closure and post closure care costs of the Municipality's solid waste landfill using current costs allocated based on the actual landfill capacity used at June 30, 2015. Because, of the inadequacy of the accounting records, I was unable to form an opinion regarding the liability for closure and post closure costs of the landfill.

The deferred outflow/ inflows of resources and the net pension liability in the statement of position, and the pension expense for the current period change of the net pension liability in the statement of activities, of the government wide financial statements were derived from the application of the proportional share included in the unaudited financial statements, notes and the required supplementary information of the State Employees' Retirement System Administration, which is a cost-sharing multiple-employer pension plan. Such amounts represents the 100%, 48% and 4% of the deferred outflows/ inflows of resources, total liabilities as of June 30, 2015, and expenses for the fiscal year ended, respectively. I was unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/ inflows of resources, net pension liability, and pension expense of the governmental activities and the note disclosure of the pension plan. Accordingly, I was unable to determine whether any adjustments to these amounts and disclosure were necessary.

Disclaimer of Opinion

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Unmodified Opinion

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule and information about the pension plan of the Municipality's employees on pages 5 through 18, 83 through 84 and 86 to 87 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance. I was unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to the Municipality, in accordance with auditing standards generally accepted in the United States of America. I do not express an opinion or provide any assurance on the information.

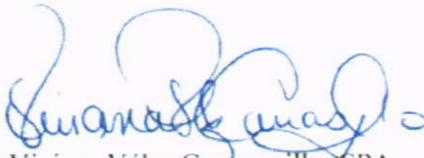
Other Information

My audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Financial Data Schedule* is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development and is also not a required part of the financial statements. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities", it is inappropriate to and I do not express an opinion on the supplementary information referred to above.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 31, 2016, on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.



Viviana Vélez Carrasquillo, CPA
License Number 5288

Carolina, Puerto Rico
March 31, 2016



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

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

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

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

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

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- Total Net Position of the Municipality Governmental Activities as of the end of the indicated fiscal year amounted to \$16,718,030 or twenty percent (20%) of the sum of total assets plus total deferred outflows of resources.
- The Municipality's Governmental Activities total Net Position decreased by \$1,483,980 or eight percent (8%) from the prior fiscal year-end balance, as restated.
- At the end of fiscal year 2015, total liabilities of the Municipality Governmental Activities amounted to \$65,575,625. Out of said amount, \$60,199,555 corresponded to long-term liabilities of which \$25,940,890 represented the outstanding balance of bonds and notes issued, and \$31,781,847 represented the net pension liability recorded as required by the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.

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Governmental Funds' Highlights:

- As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$5,347,397 or \$1,484,671 over the similar figure corresponding to the previous fiscal year 2013-2014.
- At the end of the current fiscal year, the total fund balance of the Municipality's General Fund amounted to \$764,851.
- The actual General Fund budgetary activities resulted in a favorable balance of \$825,859.

Proprietary Fund Highlights:

- The total net position (deficit) of the proprietary fund amounted to (\$180,972).
- The total fund net position (deficit) of the proprietary fund decreased by \$74,831 during the fiscal year ended June 30, 2015.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

**MUNICIPALITY OF JUANA DÍAZ,
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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

a) *Government-Wide Financial Statements*

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

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

1. Statement of Net Position

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

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

2. Statement of Activities

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

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

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

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

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

b) Fund Financial Statements

The Municipality's FFS consist of: (1) the balance sheet – governmental funds, (2) the statement of revenues, expenditures and changes in fund balances – governmental funds, (3) the statement of net position – proprietary fund, (4) the statement of revenues, expenses and changes in fund net position -proprietary fund, and (5) the statement of cash flows – proprietary fund. These financial statements report the financial position, the results of operations and cash flows of the Municipality's governmental and proprietary funds, with an emphasis on the Municipality's major governmental and proprietary 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. 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. All of the funds of the Municipality can be divided into two categories: governmental funds and proprietary funds.

1. Governmental funds

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

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

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

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

The Municipality has five major governmental funds. Each major fund is presented in a separate column in the balance sheet – governmental funds and the statement of revenues, expenditures and changes in fund balances – governmental funds. The four major governmental funds are: (1) general fund, (2) debt service fund, (3) head start fund, and (4) capital improvement bond fund.

2. Proprietary fund

The proprietary fund is a fund used to report the financial position, results of operation and cash flows of Villas del Parque (FmHA Project No. 63-033-0690660049), is a housing development consisting of eighty-four (84) dwelling units located in Juana Díaz. The project is owned by the Municipality, but its operations are carried out by a private management agent unrelated to the Municipality. The housing development project of Villas del Parque has been designed to assist various segments of the general public in obtaining adequate and reasonable priced rental housing. The project operates under financing through the Section 8 New Construction and Substantial Rehabilitation Program of the U.S. Department of Housing and Urban Development and the Section 515 Rural Rental Housing Loans Program of the U.S. Department of Agriculture. The purpose of Villas del Parque is to provide adequate housing to low-income residents of the Municipality.

The activities of Villas del Parque have been reported as a proprietary fund in the accompanying basic financial statements since GAAP permits the use of enterprise funds to report any activity for which a fee is charged to external users of goods or services, regardless of whether the government intends to fully recover the cost of the goods or services provided. Thus, it is common to use proprietary fund reporting to account for services where the government intends to recover only a portion of its costs through fees or user charges. Proprietary funds provide the same type of information as the GWFS, but in more detail.

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c) Notes to Basic Financial Statements

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

d) Required Supplementary Information

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes 1) General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end and, 2) pension plan and employer trend information related to the net pension liability and employer contributions.

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**MUNICIPALITY OF JUANA DÍAZ,
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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Juana Díaz, assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$16,718,030 at the end of 2015, as compared with \$18,202,010 at the end of the previous year, as restated. Business-type activities total assets are lesser than total liabilities by (\$180,972) at the end of 2015, as compared with total liabilities exceeding total assets by (\$106,141) at the end of the previous year. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis the most important components of the \$1,483,980 decrease reflected in the governmental activities Net Position figure, and the \$74,831 decrease reflected in the business-type activities Net Position figure:

	Governmental activities		Business-type activities		Total	
	June 30, 2015	June 30, 2014 (restated)	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014 (restated)
Assets:						
Current assets	\$ 17,378,440	\$ 16,742,288	\$ 286,159	\$ 243,179	\$ 17,664,599	\$ 16,985,467
Non-current assets:						
Capital assets, net	63,543,675	65,482,912	695,485	850,275	64,239,160	66,333,187
Total assets	<u>80,922,115</u>	<u>82,225,200</u>	<u>981,644</u>	<u>1,093,454</u>	<u>81,903,759</u>	<u>83,318,654</u>
Deferred outflows of resources:						
Deferred outflows for pensions	1,625,872	377,051	-	-	1,625,872	377,051
Total deferred outflows of resources:	<u>1,625,872</u>	<u>377,051</u>	<u>-</u>	<u>-</u>	<u>1,625,872</u>	<u>377,051</u>
Liabilities:						
Current liabilities, excluding long-term obligations	5,376,070	5,895,345	42,669	40,883	5,418,739	5,936,228
Long-term obligations:						
Due within one year	4,017,192	3,428,673	43,731	40,714	4,060,923	3,469,387
Due after one year	56,182,363	55,076,223	1,076,216	1,117,998	57,258,579	56,194,221
Total liabilities	<u>65,575,625</u>	<u>64,400,241</u>	<u>1,162,616</u>	<u>1,199,595</u>	<u>66,738,241</u>	<u>65,599,836</u>
Deferred inflows of resources:						
Deferred inflows for pensions	254,332	-	-	-	254,332	-
Total deferred inflows of resources:	<u>254,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,332</u>	<u>-</u>
Net position:						
Invested in capital assets, net of related debt	43,512,590	44,309,827	(424,462)	(308,437)	43,088,128	44,001,390
Restricted	4,582,546	4,279,503	243,490	202,296	4,826,036	4,481,799
Unrestricted	(31,377,106)	(30,387,320)	-	-	(31,377,106)	(30,387,320)
Total net position	<u>\$ 16,718,030</u>	<u>\$ 18,202,010</u>	<u>\$ (180,972)</u>	<u>\$ (106,141)</u>	<u>\$ 16,537,058</u>	<u>\$ 18,095,869</u>

The Statement of Activities reflects that for fiscal year 2015, the net effect of the revenues derived from several programs plus current operating revenues, amounted to (\$1,483,980) in governmental activities, and (\$74,831) in business-type activities. Approximately forty percent (40%) of the Municipality's governmental activities total revenue came from taxes, while fifty-six percent (56%) resulted from grants and contributions, including federal aid. In the case of the business-type, approximately ninety-six percent (96%) of total revenues resulted from federal grant. The Municipality's governmental and business-type activities expenses included items such as general government, urban and economic development, health and sanitation, public safety, public housing and welfare, culture, recreation and education, and interest on long term obligations.

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

Approximately twenty three percent (23%) of total expenses resulted from general government, twenty two percent (22%) of total expenses resulted from urban and economic development, six percent (6%) of total expenses resulted from health and sanitation, six percent (6%) of total expenses resulted from public safety, seven percent (7%) of total expenses resulted from public housing and welfare, thirty two percent (32%) of total expenses resulted from culture, recreation and education, while four percent (4%) of total expenses resulted from interest on long term obligations. The following is a condensed presentation of the Municipality's results of operations as reported in the statement of activities for the fiscal years ended June 30, 2015 and 2014:

	Governmental activities		Business-type activities		Total	
	June 30, 2015	June 30, 2014 (restated)	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014 (restated)
Program revenues:						
Program-specific operating grants and contributions	\$ 7,892,833	\$ 7,936,558	\$ 443,413	\$ 425,519	\$ 8,336,246	\$ 8,362,077
Program-specific capital grants and contributions	3,070,065	3,070,065	-	-	3,070,065	3,070,065
Charges for services	510,182	359,231	15,992	31,537	526,174	390,768
Total program revenues	11,473,080	11,365,854	459,405	457,056	11,932,485	11,822,910
General revenues:						
Property taxes	5,702,595	7,407,482	-	-	5,702,595	7,407,482
Municipal license taxes	2,379,210	2,127,960	-	-	2,379,210	2,127,960
Sales and use taxes	2,455,511	2,777,205	-	-	2,455,511	2,777,205
Construction excise taxes	1,151,719	410,256	-	-	1,151,719	410,256
Unrestricted grants and contributions	5,216,193	5,326,532	-	-	5,216,193	5,326,532
Other general revenues (various sources)	769,452	600,316	3,340	2,452	772,792	602,768
Total general revenues	17,674,680	18,649,751	3,340	2,452	17,678,020	18,652,203
Total revenues	29,147,760	30,015,605	462,745	459,508	29,610,505	30,475,113
Program expenses:						
General government	6,907,907	6,706,706	-	-	6,907,907	6,706,706
Urban and economic development	6,749,570	6,422,469	-	-	6,749,570	6,422,469
Health and sanitation	1,920,945	2,150,713	-	-	1,920,945	2,150,713
Public safety	2,168,571	1,711,156	-	-	2,168,571	1,711,156
Public housing and welfare	1,926,327	2,480,088	537,576	522,620	2,463,903	3,002,708
Culture, recreation and education	9,657,445	9,757,823	-	-	9,657,445	9,757,823
Interest on long-term obligations	1,300,975	1,145,821	-	-	1,300,975	1,145,821
Total expenses	30,631,740	30,374,776	537,576	522,620	31,169,316	30,897,396
Net change in net position	(1,483,980)	(359,171)	(74,831)	(63,112)	(1,558,811)	(422,283)
Net position, at beginning of fiscal year, as restated	18,202,010	18,561,181	(106,141)	(43,029)	18,095,869	47,646,890
Net position, at end of fiscal year, as restated	\$ 16,718,030	\$ 18,202,010	\$(180,972)	\$(106,141)	\$ 16,537,058	\$ 47,224,607

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

FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES

Analysis of Financial Position of Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances amounting to \$5,347,397, which represents an increase of \$1,484,671 when compared with the prior year.

Fund balances at June 30, 2015 were restricted and committed for the following purposes: (1) for debt service payments (\$1,739,838); 2) to pay for capital projects (\$1,025,021); and 3) for other purposes (\$2,004,876). As of June 30, 2015, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund balance of \$577,662.

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

	<u>2015</u>	<u>2014</u>
Assets:		
Total assets - major governmental funds	\$ 13,791,009	\$ 13,611,075
Total assets - other governmental funds	4,045,293	4,026,161
Combined total assets	<u>17,836,302</u>	<u>17,637,236</u>
Liabilities:		
Total liabilities - major governmental funds	5,338,714	6,333,924
Total liabilities - other governmental funds	2,227,606	2,229,385
Combined total liabilities	<u>7,566,320</u>	<u>8,563,309</u>
Deferred inflows of resources:		
Total deferred inflows of resources - major governmental funds	4,922,585	5,211,201
Total deferred inflows of resources - other governmental funds	-	-
Combined total liabilities	<u>4,922,585</u>	<u>5,211,201</u>
Fund balances (deficits):		
Restricted, committed or assigned - major governmental funds	2,952,048	3,135,571
Restricted, committed or assigned - other governmental funds	1,817,687	1,796,776
Unassigned	577,662	(1,069,621)
Combined total fund balances	<u>5,347,397</u>	<u>3,862,726</u>
Total liabilities and fund balances	<u>\$ 17,836,302</u>	<u>\$ 17,637,236</u>

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
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FINANCIAL ANALYSIS OF BUSINESS-TYPE ACTIVITIES

Analysis of Financial Position of Proprietary Fund

At June 30, 2015, the total assets of proprietary fund amounted to \$981,644, which consisted principally of: (1) restricted cash in commercial banks of \$286,159, and; (2) capital assets, net of accumulated depreciation of \$695,485.

At June 30, 2015, the total liabilities of the proprietary fund amounted to \$1,162,616, which consisted principally of mortgage notes payable of \$1,119,947, including current portion of \$42,052.

The total restricted net position of proprietary fund amounted to (\$180,972) at June 30, 2015. The following table presents a summary of the financial position of the proprietary fund (PF) at June 30, 2015 and 2014:

	2015	2014
Assets:		
Total current assets	\$ 286,159	\$ 243,179
Total non-current assets	695,485	850,275
Total assets	981,644	1,093,454
 Liabilities:		
Total current liabilities	86,400	81,597
Total non-current liabilities	1,076,216	1,117,998
Total liabilities	1,162,616	1,199,595
 Net position:		
Invested in capital assets, net of related debt	(424,462)	(308,437)
Restricted for federal funded program	243,490	202,296
Total restricted net position	\$ (180,972)	\$ (106,141)

BUDGETARY HIGHLIGHTS

a) General Fund

The original budget of the general fund for the fiscal year ended June 30, 2015 amounted to \$16,660,711. The final budget of the general fund for the fiscal year ended June 30, 2015 amounted to \$15,663,554. Over the course of the fiscal year, the Municipality revised the GF's budget in order to include increases and decreases in expenditures. The laws and regulations of the Commonwealth mandate a balanced budget.

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The total actual revenues (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 were \$15,600,655, which is point four percent (.4%), or \$62,899 less than the budgeted revenues. In addition, the total actual expenditures and other financing sources (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 were \$ 14,774,796, which is six percent (6%), or \$888,758 less than the budgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$105,762,150 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$42,218,475 at June 30, 2015. The net capital assets of governmental activities decreased during the current fiscal year by \$1,939,237. The current fiscal year's capital additions were \$1,768,141, which were offset by the depreciation and amortization expense of \$3,707,378 for the same period.

The capital additions made to capital assets during the fiscal year ended June 30, 2015 were the following:

Construction in progress	\$ 143,000
Buildings, structures and improvements	1,203,432
Infrastructure	41,736
Machinery, equipment, furniture and fixtures	185,105
Licensed vehicles	194,868
Other capital additions for the fiscal year ended June 30, 2015	\$ 1,768,141

b) Debt Administration

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent, but for the fiscal year 2015-2016, the property tax and subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government were slightly increased. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2015-2016.

FINAL COMMENTS

The Municipality of Juana Díaz is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, sales taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

Since the Municipality is significantly dependent on the intergovernmental grants and contributions received from the government of the Commonwealth of Puerto Rico and from property tax advances received from CRIM, the municipality could suffer a significant financial burden for certain scheduled intergovernmental revenues that could not be collected during the fiscal year 2015-2016, and accordingly, management is continuously evaluating alternatives for the permanent financing of the operations of the general fund and the Municipality.

In order to achieve its budget control and cost reduction objectives, management is currently trying to manage the Municipality within its cash and budget constraints, including the periodic review and update of its cash flows projections, actual vs. budget comparisons for budget adjustments as needed, and the monitoring of the execution of the collections.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
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The success of the foregoing plans and strategies to reduce the general fund's accumulated deficit, to improve the cash flows and liquidity of the Municipality and to achieve excess revenues over expenditures in the general fund of the Municipality cannot be assured, as it is significantly dependent upon events and circumstances which outcome cannot presently be determined. However, management is committed to undertake whatever actions may be necessary to prevent operating deficiencies in the future, but without affecting its fiduciary duty with its citizens regarding services and city improvements.

REQUEST FOR INFORMATION

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 1409, Juana Díaz, PR 00795, or call (787) 837-2185.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ
Statement of Net Position
June 30, 2015

	<u>Governmental</u> <u>activities</u>	<u>Business-type</u> <u>activities</u>	<u>Total</u>
Assets			
Current assets:			
Cash in commercial banks	\$ 6,624,942	\$ 273,416	\$ 6,898,358
Cash in fiscal agent	4,337,260		4,337,260
Accounts receivable, net of allowance for doubtful accounts:			
Property taxes	28,618	-	28,618
Intergovernmental	5,291,548	-	5,291,548
Sales tax	214,208	-	214,208
Municipal license	5,016	-	5,016
Interest	4,131	-	4,131
Other	55,802	7,947	63,749
Real estate held for sale	816,915	-	816,915
Other current assets		4,796	4,796
Total current assets	<u>17,378,440</u>	<u>286,159</u>	<u>17,664,599</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation and amortization of \$42,218,475 and \$3,232,722 for governmental and business-type activities, respectively	<u>63,543,675</u>	<u>695,485</u>	<u>64,239,160</u>
Total noncurrent assets	<u>63,543,675</u>	<u>695,485</u>	<u>64,239,160</u>
Total assets	<u>\$ 80,922,115</u>	<u>\$ 981,644</u>	<u>\$ 81,903,759</u>
Deferred outflows of resources:			
Deferred outflows for pensions	<u>\$ 1,625,872</u>	<u>\$ -</u>	<u>\$ 1,625,872</u>
Total deferred outflows of resources:	<u>\$ 1,625,872</u>	<u>\$ -</u>	<u>\$ 1,625,872</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ
Statement of Net Position
June 30, 2015

	<u>Governmental</u> <u>activities</u>	<u>Business-type</u> <u>activities</u>	<u>Total</u>
Current Liabilities (due within one year):			
Accounts payable	\$ 1,757,912	\$ 42,669	\$ 1,800,581
Intergovernmental payables	520,236	-	520,236
Accrued interest payable on long-term debt	376,367	-	376,367
Accrued christmas bonuses of employees	191,527	-	191,527
Unearned revenues	2,530,028	-	2,530,028
Current portion of long-term obligations:			
Bonds payable	2,404,000	-	2,404,000
Notes payable	613,192	43,731	656,923
Compensated absences	1,000,000	-	1,000,000
Total current liabilities	<u>9,393,262</u>	<u>86,400</u>	<u>9,479,662</u>
Noncurrent liabilities (due in more than one year):			
Bonds payable	17,710,000	-	17,710,000
Notes payable	5,213,698	1,076,216	6,289,914
Compensated absences	1,476,818	-	1,476,818
Net pension liability	31,781,847	-	31,781,847
Total current liabilities	<u>56,182,363</u>	<u>1,076,216</u>	<u>57,258,579</u>
Total liabilities	<u>\$ 65,575,625</u>	<u>\$ 1,162,616</u>	<u>\$ 66,738,241</u>
Deferred inflows of resources:			
Deferred inflows for pensions	\$ 254,332	\$ -	\$ 254,332
Total deferred inflows of resources:	<u>\$ 254,332</u>	<u>\$ -</u>	<u>\$ 254,332</u>
Net position:			
Invested in capital assets, net of related debt	\$ 43,512,590	\$ (424,462)	\$ 43,088,128
Restricted for:			
Debt service	3,557,525	-	3,557,525
Other specified purposes	1,025,021	243,490	1,268,511
Unrestricted net liabilities	(31,377,106)	-	(31,377,106)
Total net position	<u>\$ 16,718,030</u>	<u>\$ (180,972)</u>	<u>\$ 16,537,058</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ
Statement of Activities
Fiscal Year Ended June 30, 2015

Functions/programs	Expenses	Charges for services	Program Revenues		Net (Expense) Revenue and Change in Net Position		
			Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities :							
General government	\$ 6,907,907	\$ 15,275	\$ 166,357	\$ -	\$ (6,726,275)	\$ -	\$ (6,726,275)
Urban and economic development	6,749,570	-	127,000	3,070,065	(3,552,505)	-	(3,552,505)
Health and sanitation	1,920,945	211,730	121,765	-	(1,587,450)	-	(1,587,450)
Public safety	2,168,571	85,897	12,753	-	(2,069,921)	-	(2,069,921)
Public housing and welfare	1,926,327	2,078	1,505,687	-	(418,562)	-	(418,562)
Culture, recreation and education	9,657,445	195,202	5,959,271	-	(3,502,972)	-	(3,502,972)
Interest on long-term obligation	1,300,975	-	-	-	(1,300,975)	-	(1,300,975)
Total governmental activities	<u>\$ 30,631,740</u>	<u>\$ 510,182</u>	<u>\$ 7,892,833</u>	<u>\$ 3,070,065</u>	<u>\$ (19,158,660)</u>	<u>\$ -</u>	<u>\$ (19,158,660)</u>
Business-type activities :							
Public housing and welfare, including interests on long term obligation of \$ 80,934	\$ 537,576	\$ 15,992	\$ 443,413	\$ -	\$ -	\$ (78,171)	\$ (78,171)
Total business-type activities	<u>\$ 537,576</u>	<u>\$ 15,992</u>	<u>\$ 443,413</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (78,171)</u>	<u>\$ (78,171)</u>
General Revenues:							
Taxes:							
Property taxes					5,702,595	-	5,702,595
Municipal license taxes					2,379,210	-	2,379,210
Sales taxes					2,455,511	-	2,455,511
Construction excise taxes					1,151,719	-	1,151,719
Total taxes					<u>11,689,035</u>	<u>-</u>	<u>11,689,035</u>
Grants and contributions, not restricted to specific programs					5,216,193	-	5,216,193
Interests on deposits					52,021	396	52,417
Miscellaneous					717,431	2,944	720,375
Total general revenues					<u>17,674,680</u>	<u>3,340</u>	<u>17,678,020</u>
Changes in net position					(1,483,980)	(74,831)	(1,558,811)
Net position at beginning of the year, as restated					18,202,010	(106,141)	18,095,869
Net position at the end of the year					<u>\$ 16,718,030</u>	<u>\$ (180,972)</u>	<u>\$ 16,537,058</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ
Balance Sheet – Governmental Funds
June 30, 2015

	MAJOR FUNDS					
	General Fund	Debt Service Fund	Head Start Fund	Capital Improvement Bond Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash in commercial banks	\$2,770,755	\$ -	\$478,923	\$ 578	\$3,374,686	\$ 6,624,942
Cash in fiscal agent	7,923	3,123,062	-	1,058,972	147,303	4,337,260
Account receivable, net of doubtful accounts:						
Property taxes	-	28,618	-	-	-	28,618
Municipal license	5,016	-	-	-	-	5,016
Sales tax	142,683	71,525	-	-	-	214,208
Interest	4,131	-	-	-	-	4,131
Other	55,684	-	-	-	118	55,802
Due from other funds	1,120,554	-	-	-	154,223	1,274,777
Due from governmental entities	4,922,585	-	-	-	368,963	5,291,548
Total assets	<u>\$9,029,331</u>	<u>\$ 3,223,205</u>	<u>\$478,923</u>	<u>\$ 1,059,550</u>	<u>\$4,045,293</u>	<u>\$ 17,836,302</u>
LIABILITIES						
Accounts payable	\$1,119,676	\$ -	\$146,323	\$ 20,155	\$ 471,758	\$ 1,757,912
Intergovernmental	520,236	-	-	-	-	520,236
Due to other funds	397	-	70,807	14,374	1,189,199	1,274,777
Unearned revenue	1,701,586	-	261,793	-	566,649	2,530,028
Matured bonds due and payable	-	1,107,000	-	-	-	1,107,000
Matured interests due and payable	-	376,367	-	-	-	376,367
Total liabilities	<u>3,341,895</u>	<u>1,483,367</u>	<u>478,923</u>	<u>34,529</u>	<u>2,227,606</u>	<u>7,566,320</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	4,922,585	-	-	-	-	4,922,585
Total deferred inflows of resources	<u>4,922,585</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,922,585</u>
FUND BALANCE						
Fund balance:						
Restricted	7,923	1,739,838	-	1,025,021	-	2,772,782
Committed	179,266	-	-	-	1,817,687	1,996,953
Unassigned	577,662	-	-	-	-	577,662
Total fund balances (deficit)	<u>764,851</u>	<u>1,739,838</u>	<u>-</u>	<u>1,025,021</u>	<u>1,817,687</u>	<u>5,347,397</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE (DEFICIT)	<u>\$9,029,331</u>	<u>\$ 3,223,205</u>	<u>\$478,923</u>	<u>\$ 1,059,550</u>	<u>\$4,045,293</u>	<u>\$ 17,836,302</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ**

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

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Debt Service Fund	Head Start Fund	Capital Improvement Bond Fund	Other Nonmajor Funds	
REVENUES						
Taxes:						
Property taxes	\$ 3,958,685	\$ 1,743,910	\$ -	\$ -	\$ -	\$ 5,702,595
Municipal license	2,379,210	-	-	-	-	2,379,210
Construction excise taxes	1,151,719	-	-	-	-	1,151,719
Sales tax	1,746,194	709,317	-	-	-	2,455,511
Charges of service	284,914	-	-	-	113,084	397,998
Intergovernmental grants and contributions:						
Federal government	-	-	5,783,021	-	2,485,508	8,268,529
State government	5,688,770	-	-	-	2,510,408	8,199,178
Investment earnings	48,009	2,582	-	483	947	52,021
Miscellaneous	553,172	-	-	-	276,443	829,615
Total Revenues	15,810,673	2,455,809	5,783,021	483	5,386,390	29,436,376
EXPENDITURES						
Current:						
General government	7,587,342	-	-	-	115,417	7,702,759
Urban and economic development	4,107,898	-	-	-	1,418,510	5,526,408
Health and sanitation	1,752,468	-	-	-	19,883	1,772,351
Public safety	1,706,733	-	-	-	71,864	1,778,597
Public housing and welfare	264,890	-	-	-	1,661,437	1,926,327
Culture, recreation and education	919,565	-	5,783,021	-	261,410	6,963,996
Debt service:						
Principal	-	1,107,000	-	-	150,000	1,257,000
Interest	-	1,018,602	-	-	282,373	1,300,975
Capital outlays	86,249	-	-	107,307	1,574,585	1,768,141
Total Expenditures	16,425,145	2,125,602	5,783,021	107,307	5,555,479	29,996,554
Revenues over (under) expenditures	(614,472)	330,207	-	(106,824)	(169,089)	(560,178)
OTHER FINANCING SOURCES (USES)						
Transfer in from other funds	-	58,749	-	-	190,000	248,749
Transfer out to other funds	(248,749)	-	-	-	-	(248,749)
Proceeds from debt issuance	2,044,849	-	-	-	-	2,044,849
Total Other Financing Sources (uses)	1,796,100	58,749	-	-	190,000	2,044,849
NET CHANGE IN FUND BALANCES (DEFICITS)	1,181,628	388,956	-	(106,824)	20,911	1,484,671
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	(416,777)	1,350,882	-	1,131,845	1,796,776	3,862,726
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 764,851	\$ 1,739,838	\$ -	\$ 1,025,021	\$ 1,817,687	\$ 5,347,397

*O.K. copy
October 29*

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ
Reconciliation of the Balance Sheet – Governmental Funds
and the Statement of Net Position – Proprietary Fund
to the Statement of Net Position
June 30, 2015

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
The amounts of governmental and business-type activities reported in the statement of position are different to the amounts reported in the balance sheet - governmental funds and the statement of position - proprietary fund, respectively, for the following reasons:			
Total fund balance and fund net position reported in the balance sheet - governmental funds and the statement of position - proprietary fund, respectively.	\$ 5,347,397	(180,972)	\$ 5,166,425
Add (Deduct):			
Capital asset held for sale reported in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital asset held for sale at June 30, 2015.	816,915		816,915
Capital assets used in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital assets, net of accumulated depreciation and amortization of \$42,218,475 at June 30, 2015.	63,543,675		63,543,675
Certain deferred inflows of resources in the governmental funds are recognized as revenues in the statement of activities. This is the deferred inflows of resource (earned and unavailable revenues) for revenue streams that are measurable but not available at June 30, 2015 (intergovernmental grants and contributions).	4,922,585		4,922,585
Deferred outflows for pensions are reported in the statement of net position but are not reported in the governmental funds	1,625,872		1,625,872
Deferred inflows for pensions are reported in the statement of net position but are not reported in the governmental funds	(254,332)		(254,332)
The following liabilities are not due (mature) in the current fiscal year, therefore, are not reported in the governmental funds at June 30, 2015:			
Bonds payable	(19,007,000)		(19,007,000)
Notes payable	(5,826,890)		(5,826,890)
Compensated absences	(2,476,818)		(2,476,818)
Net pension liability	(31,781,847)		(31,781,847)
Accrued christmas bonuses	(191,527)		(191,527)
Net position - governmental and business-type activities, as reported in statement of position	<u>\$ 16,718,030</u>	<u>(180,972)</u>	<u>\$ 16,537,058</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

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

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
The amounts of governmental and business-type activities reported in the GWFS statement of activities and the statements of revenues, expenditures\expenses and changes in fund balances\net position - governmental funds and proprietary fund, are different for the following reasons:			
Total net change in fund balances\net position reported in the statement of revenues, expenditures\expenses and changes in fund balances\net position – governmental funds and proprietary fund	\$ 1,484,671	(74,831)	\$ 1,409,840
Add (Deduct):			
Certain revenue streams recorded in the statement of activities do not necessarily provide current financial resources, therefore, sometimes are deferred in the governmental funds. This is the net change in deferred inflows of resources items, that are measurable but not available at fiscal year end.	(288,616)		(288,616)
Governmental funds report sale of real estate held for sale as intergovernmental grant and contributions due to program income restrictions. However in the statement of activities, proceed of those assets sale reduce thee amount invested in real estate held for sale.			-
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense. This is the amount by which depreciation and amortization expense (\$3,707,378) exceeded capital outlays expenditures (\$1,768,141) for the fiscal year ended June 30, 2015.	(1,939,237)	-	(1,939,237)
Retirement contributions to defined benefit pension plans in the current fiscal year are not included on the statement of activities.	541,073		541,073
Pension expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds. This is the net change in net pension liability.	(1,822,642)		(1,822,642)
Repayment of principal of long-term obligations is reported as an expenditure in the governmental funds, however, the repayment reduces long-term liabilities in the statement of net position.	2,439,040	-	2,439,040
Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds. This is the net change in liabilities of the related expenses\expenditures accounts.	146,580	-	146,580
Issuance of long term debt provide current financial resources to governmental funds, but issuing such debt increases long-term liabilities in the statement of net assets.	(2,044,849)	-	(2,044,849)
Change in net position, as reported in statement of activities	<u>\$ (1,483,980)</u>	<u>(74,831)</u>	<u>\$ (1,558,811)</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ
Statement of Net Position
Proprietary Fund
June 30, 2015

**Business-Type Activities -
Enterprise Fund**

**Villas del Parque
FmHA Project
No. 63-033-0690660049**

Restricted Assets

Current assets:

Cash in commercial banks (including cash for operations of \$96,252)	\$ 273,416
Tenants accounts receivable	1,179
Account receivable from HUD	6,768
Prepaid insurance	2,471
Other assets	<u>2,325</u>
Total current assets	<u>286,159</u>

Non-current assets:

Depreciable capital assets, net of accumulated depreciation of \$3,232,722	600,065
Non-depreciable capital assets	<u>95,420</u>
Total non-current assets	<u>695,485</u>
Total assets	<u>\$ 981,644</u>

Liabilities and fund net assets

Current liabilities (due within one year):

Accounts payables and accrued liabilities	\$ 42,669
Current portion of mortgage notes payable	<u>43,731</u>
Total current liabilities	<u>86,400</u>

Non-current liabilities, excluding current portion

Mortgage notes payable – due in more than one year	<u>1,076,216</u>
Total liabilities	<u>1,162,616</u>

Fund net position:

Invested in capital assets, net of related debt	(424,462)
Restricted for other purposes	<u>243,490</u>
Total restricted net position	<u>\$ (180,972)</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
June 30, 2015

	Business-type Activities-Enterprise Fund
	Villa del Parque FmHA Project No. 63-033- 0690660049
Operating revenues:	
Intergovernmental grants and contributions - tenants assistance	
payments from U.S. Department of Housing and Urban Development	\$ 443,413
Charge for services – rental income from tenants	15,992
Miscellaneous	2,944
Total operating revenues	462,349
Operating expenses:	
General and administrative	151,432
Utilities	19,460
Maintenance	87,013
Taxes and insurance	37,738
Interest on mortgage notes payable	80,934
Depreciation of capital assets	160,999
Total operating expenses	537,576
Operating income (loss)	(75,227)
Nonoperating income (expense):	
Interest on deposits	396
Total nonoperating income (expense)	396
Change in restricted fund net position	(74,831)
Net position at beginning of fiscal year	(106,141)
Net position at end of fiscal year	\$ (180,972)

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ
Statement of Cash Flows
Proprietary Fund
June 30, 2015

	Business-type Activities-Enterprise Fund	
	Villa del Parque FmHA	
	Project No. 63-033-	
	0690660049	
Cash flows from operating activities:		
Receipts from rent	\$	462,874
Interest received		396
Payments to suppliers and employees		(293,433)
Payment of mortgage interests		(80,934)
Net cash provided (used) by operating activities		88,903
Cash flows from investing activities:		
Interest deposited on replacement reserve		(351)
Increase in other reserves		(15,580)
Deposit to replacement reserve		(19,620)
Acquisition of capital assets		(6,562)
Net cash provided (used) by investing activities		(42,113)
Cash flows from financing activities:		
Principal payments on mortgage		(38,765)
Net cash used by capital and related financing activities		(38,765)
Net change in cash and cash equivalents		8,025
Cash and Cash Equivalents - Beginning		88,227
Cash and Cash Equivalents - Ending	\$	96,252
Displayed on statement of net assets as:		
Cash in commercial banks	\$	96,252
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$	(74,831)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense		160,999
Bad debt expense		43
Loss on asset disposition		353
Increase (Decrease) in:		
Accounts receivable		1,450
Prepaid expenses		(1,117)
Accounts payable and accrued payroll taxes		2,006
Total adjustments		163,734
Net cash provided (used) by operating activities	\$	88,903

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

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

1. Summary of Significant Accounting Policies

The Municipality of Juana Díaz, Commonwealth of Puerto Rico (the Municipality), is a local municipal government constituted in 1798 in the Commonwealth of Puerto Rico. The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipal governments legally separated from the state government of the Commonwealth of Puerto Rico (the Commonwealth).

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

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

a) Financial Reporting Model

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

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

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality of Juana Díaz. In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39 and No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow:

- The organization is legally separate entity;
- The Municipality appoints a voting majority of the organization's board;
- There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

Organizations meeting the above criteria are included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are considered to be blended component units of the Municipality:

- The organization's governing body is substantively the same as the Municipality's governing body and (1) there is a financial benefit or burden relationship between the Municipality and the organization, or (2) management of the Municipality has operational responsibility for the organization;
- The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it;
- The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is bases on the nature and significance of the organization's relationship with the Municipality.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2015.

c) *Government-Wide Financial Statements*

The accompanying GWFS are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements report information of all governmental and business-type nonfiduciary activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

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

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

General government:

- Municipal legislature
- Mayor's office
- Department of finance
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Office of communications
- Office of administrative services
- Department of purchases

Urban and economic development:

- Department of public works
- Department of planning and development
- Federal programs office

Public safety:

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

Health and sanitation:

- Department of recycling services
- Municipal enterprises
- Department of health

Culture, recreation and education:

- Department of sports and recreation
- Department of art, culture and tourism
- Head Start program office

Public housing and welfare:

- Department of citizen affairs
- Section 8 program office

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

RSI consists of: (1) a Management's Discussion and Analysis (MD&A), (2) a general fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end and, (3) a pension plan and employer trend information related to the net pension liability and employer contributions. *RSI* is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements. *MD&A* is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2015, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

In addition to the required financial reporting requirements referred to above, the accompanying basic financial statements are accompanied by additional supplementary information consisting of a budgetary comparison schedule – general fund and the notes to the budgetary comparison schedule – general fund, which have been subjected to the auditing procedures applied in the audit of the accompanying basic financial statements as of and for the fiscal year ended June 30, 2015, and a pension plan and employer trend information related to the Municipality's proportionate share of the net pension liability and annual contributions.

b) *Financial Reporting Entity*

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance, as prescribed by Act No. 81.

The accompanying basic financial statements include the financial statements of Villas del Parque (FmHA Project No. 63-033-0690660049), an operational unit and a business-type activity (proprietary fund) of the Municipality which single audit report reflect total assets, liabilities, net position, revenues and expenses of \$981,644, \$1,162,616, (\$180,972), \$462,745 and \$537,576 (including depreciation expenses of \$160,999), respectively, as of and for the fiscal year ended June 30, 2015. The financial position, results of operations and cash flows of Villas del Parque as of and for the fiscal year ended June 30, 2015 are reported in the accompanying statement of net position – proprietary fund, the statement of revenues, expenses and changes in fund net position – proprietary fund, and the statement of cash flows – proprietary fund, respectively.

Villas del Parque is a housing development project consisting of eighty-four (84) dwelling units located in Juana Díaz. The project is owned by the Municipality, but its operations are carried out by a private management agent unrelated to the Municipality. The housing development project of Villas del Parque has been designed to assist various segments of the general public in obtaining adequate and reasonable priced rental housing. The project operates under financing through the Section 8 New Construction and Substantial Rehabilitation Program of the U.S. Department of Housing and Urban Development and the Section 515 Rural Rental Housing Loans Program of the U.S. Department of Agriculture. The purpose of Villas del Parque is to provide adequate housing to low-income residents of the Municipality. Separate audited financial statements of Villas del Parque can be obtained directly from the management agent's offices at Professional Center Building, Suite 302, San Juan, Puerto Rico 00927.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

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

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

- **Invested in capital assets, net of related debt** – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net position** – This net asset category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net position for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- **Unrestricted net position** – This category consists of the net resources that are neither externally nor legally restricted, neither invested in capital assets. However, assets reported within unrestricted net position often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

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

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

General government:

- Municipal legislature
- Mayor's office
- Department of finance
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Office of communications
- Office of administrative services
- Department of purchases

Urban and economic development:

- Department of public works
- Department of planning and development
- Federal programs office

Public safety:

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

Health and sanitation:

- Department of recycling services
- Municipal enterprises
- Department of health

Culture, recreation and education:

- Department of sports and recreation
- Department of art, culture and tourism
- Head Start program office

Public housing and welfare:

- Department of citizen affairs
- Section 8 program office

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and (3) special items.

- **Program revenues** – These revenues are generated directly from a program itself or may come from parties outside the Municipality’s taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality’s general revenues or (2) the net program revenue that contributes to the Municipality’s general revenues. The accompanying statement of activities separately reports the following categories of program revenues:
- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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

Special items consist of revenues arising from significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Extraordinary items consist of revenues arising from significant transactions or other events that are both unusual in nature and infrequent in occurrence.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

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

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

The Municipality classifies the most significant portion of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the FFS. On the other hand, the operations of Villas del Parque are reported as business-type activities in the accompanying GWFS. These activities are primarily financed from grants and contributions and charges for services. These business-type activities are also reported in the FFS.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements.

The Municipality has operations and activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; and where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

d) *Fund Financial Statements*

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

The accompanying FFS are composed of: (1) the balance sheet – governmental funds, (2) the statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds, (3) the statement of net position – proprietary fund, (4) the statement of revenues, expenses and changes in fund net position – proprietary fund, and (5) the statement of cash flows – proprietary fund.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

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

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

- **General fund** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities not accounted for and reported in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Debt service fund** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest; for (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2015, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

The outstanding balance of general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as notes payable) are only accounted for in the accompanying statement of net position. The debt service payments of such debts, as applicable, are generally accounted for as debt service – principal and debt service – interest expenditures in the general fund, except for certain notes payable to HUD, which are accounted for in the community development block grant fund.

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

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- **Capital projects funds** – Capital projects funds are major and non-major governmental funds, as defined below, used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds are accounted for also in the capital projects funds.

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

- **Proprietary fund** – Proprietary fund is a fund used to report the financial position, results of operation and cash flows of Villas del Parque (FmHA Project No. 63-033-0690660049), which are activities for which the intent of management is to recover, partially through user charges for services (rent) and mostly through federal grants, the cost of low-income housing services to the general public.

The activities of Villas del Parque have been reported as a proprietary fund since GAAP permits the use of enterprise funds to report any activity for which a fee is charged to external users of goods or services, regardless of whether the government intends to fully recover the cost of the goods or services provided. Thus, it is common to use proprietary fund reporting to account for services where the government intends to recover only a portion of its costs through fees or user charges.

As required by GASB No. 34, the proprietary fund of the Municipality applies all pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB) and the Committee on Accounting Procedure, issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict the standards of the Governmental Accounting Standards Board. However, the Municipality has elected to continue following more recent FASB guidance, provided it neither conflicts nor contradicts GASB pronouncements.

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

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By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the FFS if its total assets, deferred outflow of resources, liabilities, deferred inflow of resources, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets plus deferred outflow of resources, liabilities plus deferred inflow of resources, revenues or expenditures) for all governmental funds. In addition, the same element that meets the 10 percent criterion must be at least 5 percent of the corresponding element total for all governmental and enterprise (proprietary) funds combined. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures\expenses for these purposes mean all expenditures\expenses, including operating and non-operating expenditures\expenses, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying FFS are: (1) the general fund, (2) the debt service fund, (3) the head start fund, and (4) the capital improvement bond fund. In addition, Villas del Parque has been reported separately from governmental funds as the only proprietary fund of the Municipality.

The head start fund is a special revenue fund used to account for the receipts and disbursements of the head start program grant administered by the Administration for the Integral Care and Development of Children of the Commonwealth of Puerto Rico, as a pass-through entity of the U.S. Department of Health and Human Services.

The capital improvement bond fund is a major capital projects fund used to account for proceeds of general obligation, public improvement or special obligation bonds. These proceeds are used for the acquisition, construction or improvement of major capital facilities and other assets.

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

e) Measurement Focus and Basis of Accounting

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

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal.

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Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include certain charges for services and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

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

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses. The major operating revenue of the Municipality's enterprise fund is from rent charges collected principally from a Section 8 New Construction and Substantial Rehabilitation Program housing assistance grant agreement with U.S. Department of Housing and Urban Development.

In the case of derived tax revenue transactions, which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

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

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

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

Governmental fund financial statements – The accompanying governmental fund financial statements are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality considers most revenues to be available if collected generally within 120 days after June 30, 2015, except for property taxes for which the availability period is 60 days.

Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred (earned and unavailable) inflow of resources at June 30, 2015.

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

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

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

Interest on deposits is recorded when earned only if collected within 120 days after the fiscal year-end since these revenues would be considered both measurable and available.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and an expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated with current available financial resources. GASBI No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet – governmental funds generally reflects assets that will be converted into cash to satisfy current liabilities. Long-term assets (except for accounts receivables and inter-fund advances) and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

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

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2015, which have been recorded as governmental fund liabilities at June 30, 2015, which is the date when resources are available in the debt service fund (generally, June 30).
- Notes payable, obligations under capital leases, compensated absences, and amounts subject to accrued claims and judgments under litigation are recorded only when they mature (when payment is due).

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- Certain accrued liabilities not due and payable or not normally expected to be liquidated with current available and expendable financial resources are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature.
- Executory purchase orders and contracts are recorded as assignments of fund balance in the governmental funds FFS.

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

f) Stewardship, Compliance and Accountability

Budgetary Control

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

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

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

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

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

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

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

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

Budgetary Accounting

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

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

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

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The accompanying budgetary comparison schedule – general fund provide information about the general fund original budget, its amendments, and the actual results of operations of such major governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2015. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2015.

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

g) Deposits

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

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations. At June 30, 2015, the cash available in the pooled cash account amounted to \$3,750,630, which has been recorded within major and non-major governmental funds.

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

Cash in fiscal agent in the general fund, amounting to \$7,923 consists principally of unspent proceeds of bonds for payment of the statutory expenditures. Cash in fiscal agent in the debt service fund consists of cash related to property tax and sales and use tax collections amounting to \$3,123,062 which are restricted for the payment of the Municipality's debt service of bonds payable, as required by law. Cash in fiscal agent in the capital improvement bond fund and other governmental funds, amounting to \$1,058,972 and \$147,303, respectively, consists principally of unspent proceeds of bonds and federal public assistance grants funds, which are restricted for the acquisition, construction or improvement of major capital assets.

Cash in commercial banks of the head start fund, amounting to \$478,923, represents the balance of a non-interest bearing account restricted to finance the operations of this federal financially assisted program. Cash in commercial banks for other governmental funds, amounting to \$3,374,686, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain federal, state and local funded programs.

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Cash in commercial banks of Villas del Parque (proprietary fund), amounting to \$273,416, represents the balance of interest and non-interest bearing accounts restricted to finance the project operations. Villas del Parque is required to set amounts for the replacement of property and other project expenditures, as approved by the U.S. Department of Housing and Urban Development. Accordingly, the restricted cash balances of Villas del Parque include a replacement reserve of \$135,251, a cash balance for operations of \$96,252, tenants' security deposits of \$7,251 and a cash balance reserved for taxes and insurance of \$34,662.

h) Accounts Receivable

Accounts receivable consist of all revenues earned but not collected at June 30, 2015. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental 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) Real Estate Held for Sale

Real estate's held for sale in the accompanying statement of net position consist of purchased and redeveloped foreclosed and abandoned homes and residential properties with the resources granted by the Neighborhood Stabilization Program (NSP), a component of the Community Development Block Grant (CDBG). This real estate's held for sale is carried at the lower of the estimated fair value or historical cost. Subsequent declines in the value of real estate's available for sale are charged to expense.

j) Other Current Assets

Other current assets in the accompanying statement of net position – business-type activities and the statement of net position – proprietary fund consist principally of prepaid costs, which are capitalized rather than charged to operations.

k) Capital Assets

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

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

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

Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

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

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

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50
Motor vehicles	5
Furniture, fixtures, machinery and equipment, excluding those held under capital leases	5 to 20
Office equipment held under capital leases	3 to 5

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

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l) Unearned Revenues

In the governmental fund financial statements, unearned revenue arises when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying statement of net position).

m) Deferred Outflow/Inflow of Resources

In addition to assets, the statement of net position - governmental and business-type activities and, the governmental funds balance sheet and the statement of net position – proprietary fund will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Primary Government have one major item that qualify for reporting in this category and that one is the deferred outflows for pensions (i.e., difference between actual and expected experience, change in proportion, differences between employer’s contributions and proportionate share of contributions, and contributions subsequent to the measurement date), reported in the government-wide statement of net position. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the statement of net position - governmental and business-type activities and, the governmental funds balance sheet and the statement of net position – proprietary fund will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Primary Government has only one type of item arising under the modified accrual basis of accounting that qualify for reporting in this category, and that is unavailable revenue. Deferred inflows of resources at the governmental fund level arise when potential revenue does not meet the “available” criteria for revenue recognition in the current period under the modified accrual basis of accounting. In subsequent periods, when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet, and the revenue is recognized. The Primary Government also have one item that qualifies for reporting in this category in the government wide Statement of Net Position and that one is the deferred inflows for pensions (i.e., difference between actual and expected experience, net difference between projected and actual earnings on pension plan investments, change in proportion, and differences between employer’s contributions and proportionate share of contributions).

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n) Compensated Absences

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

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

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

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

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

o) Long-term Debt

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

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, 2015 have been recorded as governmental fund liabilities in the debt service fund at June 30, 2015, when resources were available. In the governmental fund financial statements, the face amount of debt issued (gross debt proceeds) is reported as other financing sources when issued.

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In the governmental activities of the GWFS, and in the GFFS, debt issuance costs, except for any portion related to prepaid insurance costs, are recorded as expenses\expenditures as incurred.

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables*, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net position, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses as incurred.

p) *Accounting for Pension Costs*

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

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

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

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

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q) Risk Management

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

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

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

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

r) Fund Balances

On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions No. 54* (GASB No. 54). GASB No. 54, which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied.

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Also, this statement establishes fund balance classifications that comprise a hierarchy upon use of the resources reported in governmental funds.

According GASB No. 54 provisions, the fund balances are reported in five categories:

- ***Nonspendable*** – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- ***Restricted*** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditor or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts 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 Municipality's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- ***Assigned*** – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- ***Unassigned*** – Represent the residual classification for the Municipality'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 purposes for which amounts had been restricted, committed, or assigned.

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely.

However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2015.

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

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

s) ***Inter-fund Activities***

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

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

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

t) ***Use of Estimates***

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

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u) New Implementation and/or Future Adoption of Accounting Pronouncements

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

- GASB Statement No. 72 Fair Value Measurement and Application (Issued 2/15). The objective of this Statement is to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.
- GASB Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15). The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.
- GASB Statement No. 74 Financial Reporting for Postemployment Benefit Plans other than Pension Plans (Issued 06/15). The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.
- GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Issued 06/15). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.
- GASB Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Issued 06/15). The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

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- GASB Statement No. 77 Tax Abatement Disclosures (Issued 08/15). The objective of this Statement is to require disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.
- GASB Statement No. 78 Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans (Issued 12/15). The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
- GASB Statement No. 79 Certain External Investment Pools and Pool Participants (Issued 12/15). This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
- GASB Statement No. 80 Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14 (Issued 01/16). The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

The impact of these statements on the Municipality's basic financial statements has not yet been determined.

2. Deposits

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

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

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- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.
- **Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investments portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments to periods of three months or less and (3) keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low.
- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, amounting to \$4,337,260 at June 30, 2015, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2015, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.
- **Foreign exchange risk** – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015.

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3. Municipal License Taxes

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

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed and due five (5) working days after April 15 of each year, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration before the due date ended five (5) working days after April 15 of each year. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (five (5) working days after April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded in the liabilities section as unearned revenues in the GWFS and the general fund. Unearned municipal license tax revenues recorded in the accompanying GWFS and the general fund amounted to \$1,701,586 at June 30, 2015. Those unearned municipal license revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2015-2016, therefore, generally cannot be used to pay obligations of the fiscal year 2014-2015.

4. Sales and Use Taxes

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

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

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

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

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

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

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

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

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

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

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

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

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long-term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

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

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

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

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

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

For the FDM and FRM transfers, the advance system became effective on July 1, 2014; for the 1% municipal sales and use tax, the effective date varied depending on the implementation date of COFIM's collection process in the corresponding municipality. For the Municipality of Juana Díaz, the implementation date was February 1, 2015. For the fiscal year ended on June 30, 2015, the Municipality's total 1% sales and use tax advances amounted \$722,345, respectively.

5. Property Taxes

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

The Municipal Revenue Collection Center (CRIM, by its Spanish acronym) is a governmental entity not related to the Municipality which is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality and all other municipalities in the Commonwealth of Puerto Rico. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds (estimated collections) to the Municipality based on the initial estimated (forecasted) collection amounts for the fiscal year. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year.

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

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2015 was 8.53 percent (of which taxpayers pay 8.33 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2015 was 9.53 percent (of which 9.33 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

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

According to Law No. 81, included within the total personal and real property tax rates of 8.53 percent and 9.53 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth of Puerto Rico but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the debt service fund of the Commonwealth of Puerto Rico, for the payment of the general long-term debt of the state government.

In addition, included within the total personal and real property tax rates of 8.53 percent and 9.53 percent, respectively, there is a portion of the tax rate in the amount of 2.00 percent that is restricted for the Municipality's debt service requirements of bonds. Such amounts are recorded in the Municipality's debt service fund.

The portion of the property taxes recorded in the general fund is used to finance the operating activities of the Municipality, including the payment of: (1) the insurance premiums acquired through negotiations with private insurances companies, (2) the Workers' compensation insurance premiums provided by the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth, (3) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM's operating expenses and, (4) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens. The 0.20 percent of unrestricted personal and real property taxes paid by the Puerto Rico Department of Treasury as a subsidy is recorded in the Municipality's general fund.

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

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

At June 30, 2015, property taxes receivable recorded in the debt service fund amounted to \$28,618.

6. Accounts Payable and Accrued Liabilities

The composition of accounts payable and accrued liabilities balances at June 30, 2015 and for the fiscal year then ended is as follows:

Descriptions:	Major governmental funds				Other nonmajor funds	Total governmental funds
	General fund	Debt service fund	Head start fund	Capital improvement bond fund		
Accounts payable	\$ 993,545	-	146,323	20,155	471,758	\$ 1,631,781
Accrued liabilities	126,131	-	-	-	-	126,131
Total	<u>\$ 1,119,676</u>	<u>-</u>	<u>146,323</u>	<u>20,155</u>	<u>471,758</u>	<u>\$ 1,757,912</u>

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7. Intergovernmental Receivables and Payables

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

	<u>Major governmental funds</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>	<u>Statement of net position</u>
<i>Intergovernmental receivables:</i>				
Grants and contributions:				
U.S. Department of Housing and Urban Development	\$ -	146,816	146,816	\$ 146,816
Puerto Rico Department of Labor	-	121,299	121,299	121,299
Puerto Rico Department of Education	-	96,170	96,170	96,170
Municipal Revenue Collection Center	4,833,627	-	4,833,627	4,833,627
Puerto Rico Treasury Department – general fund	88,958	-	88,958	88,958
Municipality of San Juan	-	4,678	4,678	4,678
Total intergovernmental receivables	<u>\$ 4,922,585</u>	<u>368,963</u>	<u>5,291,548</u>	<u>\$ 5,291,548</u>
<i>Intergovernmental payables:</i>				
Payroll withholdings (general fund):				
U.S. Department of Treasury - Internal Revenue Service	\$ 60,307	-	60,307	\$ 60,307
Puerto Rico Treasury Department	7,725	-	7,725	7,725
Puerto Rico Child Support Agency	4,378	-	4,378	4,378
Employees Association of the Government of the Commonwealth of Puerto Rico	20,873	-	20,873	20,873
Employees Retirement System of the Government of the Commonwealth of Puerto Rico	105,600	-	105,600	105,600
Utilities (general fund):				
Puerto Rico Electric Power Authority	10,435	-	10,435	10,435
Miscellaneous (general fund):				
Puerto Rico Department of Labor	6,269	-	6,269	6,269
General Services Administration	304,619	-	304,619	304,619
Total intergovernmental payables	<u>\$ 520,236</u>	<u>-</u>	<u>520,236</u>	<u>\$ 520,236</u>

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

At June 30, 2015, the earned and unavailable intergovernmental grant and contributions reported in the deferred inflow of resources section in the accompanying balance sheet-general fund, amounted to \$4,833,627.

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8. Inter-fund Transactions

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

<u>Due to:</u>	<u>Due from:</u>		
	<u>General fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Major governmental funds:			
General fund	\$ -	397	\$ 397
Capital improvement bond fund	14,374	-	14,374
Head Start fund	70,807	-	70,807
Non-major governmental funds:	1,035,373	153,826	1,189,199
Total	<u>\$ 1,120,554</u>	<u>154,223</u>	<u>\$ 1,274,777</u>

<u>Transfer to:</u>	<u>General fund</u>	<u>Total governmental funds</u>
	Major governmental funds:	
Debt service fund	\$ 58,749	\$ 58,749
Non-major governmental funds:	190,000	190,000
Total	<u>\$ 248,749</u>	<u>\$ 248,749</u>

The principal purposes of inter-fund receivables and payables are:

- Recognize in the general fund the outstanding balance of the loans granted to head start fund (\$70,807), capital improvement bond fund (\$14,374), and non-major funds (\$1,035,373) to temporarily cover the payroll and other operating costs of several federally and state funded programs.
- Recognize in the non-major funds the amounts due from general fund (\$397), due from and due to non-major funds (\$153,826) mostly for errors in the disbursements and deposits process.

The principal purpose of inter-fund transfer is to:

- Make a non-routine transfer of unrestricted cash from the general fund, amounting to \$58,749, to the debt service fund to pay debt interest.
- Make a non-routine transfer of unrestricted cash surplus from the general fund, amounting to \$190,000, to the other nonmajor funds to cover capital improvements.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers, which are considered by management to be fully realizable at June 30, 2015.

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9. Capital Assets

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

a) *Governmental Activities*

	Cost basis at beginning of fiscal year	Additions	Reductions/ Reclassifications	Cost basis at end of fiscal year
<i>Cost basis:</i>				
Capital assets, not being depreciated:				
Land	\$ 2,453,035	-	-	\$ 2,453,035
Construction in progress	593,977	143,000	(593,977)	143,000
Total capital assets, not being depreciated	<u>3,047,012</u>	<u>143,000</u>	<u>(593,977)</u>	<u>2,596,035</u>
Capital assets, being depreciated:				
Buildings, structures, and improvements	78,685,007	1,203,432	593,977	80,482,416
Infrastructure	8,270,978	41,736	-	8,312,714
Machinery and equipment, and furniture and fixtures	7,024,920	194,868	-	7,219,788
Licensed vehicles	6,966,092	185,105	-	7,151,197
Total capital assets, being depreciated	<u>100,946,997</u>	<u>1,625,141</u>	<u>593,977</u>	<u>103,166,115</u>
Total cost basis of capital assets	<u>\$103,994,009</u>	<u>1,768,141</u>	<u>-</u>	<u>\$ 105,762,150</u>
	Accumulated Depreciation at end of fiscal year	Additions	Reductions/ Reclassifications	Accumulated Depreciation at end of fiscal year
<i>Accumulated depreciation:</i>				
Buildings, structures, and improvements	\$ 21,851,579	2,753,460	-	\$ 24,605,039
Infrastructure	3,771,621	406,697	-	4,178,318
Machinery and equipment, and furniture and fixtures	6,384,405	312,848	-	6,697,253
Licensed vehicles	6,503,492	234,373	-	6,737,865
Total accumulated depreciation	<u>38,511,097</u>	<u>3,707,378</u>	<u>-</u>	<u>42,218,475</u>
Net capital assets, governmental activities	<u>\$ 65,482,912</u>	<u>(1,939,237)</u>	<u>-</u>	<u>\$ 63,543,675</u>

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2015.

The infrastructure assets recorded in the accompanying statement of net position for \$4,134,396 (net of accumulated depreciation of \$4,178,318) do not include a substantial portion of the Municipality's general infrastructure assets that were constructed or acquired by the Municipality from 1980 through June 30, 2015.

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Several real property assets, including buildings, structures, land and land improvements have not been recorded in the accompanying statement of net position at June 30, 2015.

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

<u>Functions/programs</u>	<u>Amount</u>
General government	\$ 90,748
Public safety	24,725
Economic and urban development	995,661
Health and sanitation	13,040
Culture, recreation, and education	2,583,204
Total depreciation and amortization expense	\$ 3,707,378

b) Business-type Activities

	<u>Cost basis at beginning of fiscal year</u>	<u>Increase</u>	<u>Decrease</u>	<u>Cost basis at end of fiscal year</u>
Business-type activities:				
<i>Cost basis:</i>				
Capital assets, not being depreciated - land	\$ 95,420	-	-	\$ 95,420
Total capital assets, not being depreciated	95,420	-	-	95,420
Capital assets, being depreciated:				
Buildings, structures, and improvements	3,496,338	3,211	(1,177)	3,498,372
Machinery and equipment, and furniture and fixtures	334,555	3,351	(3,491)	334,415
Total capital assets, being depreciated	3,830,893	6,562	(4,668)	3,832,787
Total cost basis of capital assets	\$ 3,926,313	6,562	(4,668)	\$ 3,928,207
	<u>Accumulated depreciation at beginning of fiscal year</u>	<u>Increase</u>	<u>Decrease</u>	<u>Accumulated Depreciation at end of fiscal year</u>
Accumulated depreciation and amortization:				
Buildings, structures, and improvements	\$ 2,761,082	149,116	-	\$ 2,940,198
Machinery and equipment, and furniture and fixtures	284,956	11,883	(4,315)	292,524
Total accumulated depreciation	3,076,038	160,999	-	3,232,722
Net capital assets, business-type activities	\$ 850,275	(154,437)	(353)	\$ 695,485

Depreciation and amortization expense of business-type activities, amounting to \$160,999 for the fiscal year ended June 30, 2015, was charged to the public housing and welfare function in the accompanying statement of activities.

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Notes to Basic Financial Statements
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10. Unearned Revenues

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

	<u>General fund</u>	<u>Head start Fund</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>	<u>Statement of net position</u>
<i>Unearned revenues:</i>					
Municipal licenses	\$ 1,701,586	-	-	1,701,586	\$ 1,701,586
Intergovernmental grants and contributions	-	261,793	566,649	828,442	828,442
Total unearned revenues	<u>\$ 1,701,586</u>	<u>261,793</u>	<u>566,649</u>	<u>2,530,028</u>	<u>\$ 2,530,028</u>

11. Long-Term Obligations

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

	<u>(Restated) Balance at beginning of fiscal year</u>	<u>Borrowings or Additions</u>	<u>Payments and deductions</u>	<u>Balance at end of fiscal year</u>	<u>Balance due within one year</u>
<u>Governmental activities:</u>					
Bonds payable:					
General obligation serial bonds	\$ 19,564,000	1,105,000	1,107,000	\$ 19,562,000	\$ 2,167,000
Public improvement serial bonds	773,000	-	221,000	552,000	237,000
Notes payable:					
Section 108 loan guarantee notes – series 2015-A (former series 2004-A)	4,950,000	-	150,000	4,800,000	200,000
Puerto Rico Aqueduct and Sewer Authority: installment payment plan	-	839,849		839,849	408,940
Municipal Revenue Collection Center: Law No. 146 of October 11, 2001	190,925	-	3,884	187,041	4,252
Claims and judgements	1,097,156	-	1,097,156	-	-
Net pension liability	29,505,789	2,276,058	-	31,781,847	-
Compensated absences	2,424,026	1,068,503	1,015,711	2,476,818	1,000,000
Totals for governmental activities	<u>\$ 58,504,896</u>	<u>5,289,410</u>	<u>3,594,751</u>	<u>\$ 60,199,555</u>	<u>\$ 4,017,192</u>
<u>Business-type activities:</u>					
Mortgage notes payable:					
Section 515 loan no. 001	\$ 1,045,787	-	35,553	\$ 1,010,234	\$ 38,504
Section 515 loan no. 002	112,925	-	3,212	109,713	3,548
Totals for business-type activities	<u>\$ 1,158,712</u>	<u>-</u>	<u>38,765</u>	<u>\$ 1,119,947</u>	<u>\$ 42,052</u>

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

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a) Debt Limitation

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

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

b) Bonds Payable

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

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

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

As more fully described in Note 4, the Municipality impose a sales and uses taxes of one (1) percent, which are deposited in COFIM to guarantee the payment of long-term bonds. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of the Municipality.

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

	<u>Outstanding balance</u>
<u>General Obligation Bonds:</u>	
1996 serial bonds (face amount of \$1,180,000) due in annual principal installments ranging from \$25,000 to \$110,000; plus interests due in semiannual installments at variable rates (6.58% at June 30, 2015) through July, 1, 2016.	\$ 215,000
1999 serial bonds (face amount of \$2,270,000) due in annual principal installments ranging from \$45,000 to \$215,000; plus interests due in semiannual installments at variable rates (6.29% at June 30, 2015) through July, 1, 2019.	910,000
2003 serial bonds (face amount \$900,000) due in annual principal installments ranging from \$15,000 to \$75,000; plus interests due in semiannual installments at variable rates (4.80% at June 30, 2015) through July 1, 2026.	615,000
2003 serial bonds (face amount of \$215,000) due in annual principal installments ranging from \$5,000 to \$15,000; plus interests due in semiannual installments at variable rates (4.80% at June 30, 2015) through July 1, 2026.	145,000
2003 serial bonds (face amount of \$1,510,000) due in annual principal installments ranging from \$25,000 to \$120,000; plus interests due in semiannual installments at variable rates (4.53% at June 30, 2015) through July 1, 2027.	1,070,000
2004 serial bonds (face amount of \$785,000) due in annual principal installments ranging from \$15,000 to \$65,000; plus interests due in semiannual installments at variable rates (4.53% at June 30, 2015) through July 1, 2027.	555,000
2005 serial bonds (face amount of \$875,000) due in annual principal installments ranging from \$10,000 to \$65,000; plus interests due in semiannual installments at variable rates (4.53% at June 30, 2015) through July 1, 2028.	640,000
2007 serial bonds (face amount of \$2,180,000) due in annual principal installments ranging from \$30,000 to \$185,000; plus interests due in semiannual installments at variable rates (1.52% at June 30, 2015) through July 1, 2031.	1,845,000

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	Outstanding <u>balance</u>
2007 serial bonds (face amount of \$1,910,000) due in annual principal installments ranging from \$25,000 to \$160,000; plus interests due in semiannual installments at variable rates (1.52% at June 30, 2015) through July 1, 2031.	1,620,000
2008 serial bonds (face amount of \$255,000) due in annual principal installments ranging from \$5,000 to \$20,000; plus interests due in semiannual installments at variable rates (1.52% at June 30, 2015) through July 1, 2032.	220,000
2008 serial bonds (face amount of \$4,642,000) due in annual principal installments ranging from \$83,000 to \$390,000; plus interests due in semiannual installments at variable rates (1.52% at June 30, 2015) through July 1, 2032.	4,047,000
2010 serial bonds (face amount of \$2,970,000) due in annual principal installments ranging from \$50,000 to \$230,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2034.	2,685,000
2011 serial bonds (face amount of \$835,000) due in annual principal installments ranging from \$10,000 to \$75,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2035.	780,000
2011 serial bonds (face amount of \$1,060,000) due in annual principal installments ranging from \$120,000 to \$185,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2017.	520,000
2011 serial bonds (face amount of \$640,000) due in annual principal installments ranging from \$75,000 to \$110,000; plus interests due in semiannual installments at variable rates (6.00% at June 30, 2015) through July 1, 2035.	310,000
2011 serial bonds (face amount of \$755,000) due in annual principal installments ranging from \$5,000 to \$65,000; plus interests due in semiannual installments at variable rates (6.00% at June 30, 2015) through July 1, 2017.	710,000
2011 serial bonds (face amount of \$875,000) due in annual principal installments ranging from \$10,000 to \$75,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2035.	825,000

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	<u>Outstanding balance</u>
2012 serial bonds (face amount of \$135,000) due in annual principal installments ranging from \$5,000 to \$10,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2036.	120,000
2013 serial bonds (face amount of \$685,000) due in annual principal installments ranging from \$30,000 to \$80,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2025.	625,000
2014 serial bonds (face amount of \$1,105,000) due an annual principal lump sum of \$1,105,000; plus, interests due in semiannual installments at variable rates (6% at June 30, 2015) through August 11, 2015.	<u>1,105,000</u>
Total general obligation bonds	<u>19,562,000</u>
<u>Public Improvement Bonds:</u>	
1995 serial bonds (face amount of \$1,758,000) due in annual principal installments ranging from \$44,000 to \$142,000; plus interests due in annual installments at variable rates (5.62% at June 30, 2015) through January 1, 2016.	142,000
1995 serial bonds (face amount of \$615,000) due in annual principal installments ranging from \$10,000 to \$55,000; plus interests due in semiannual installments at variable rates (8.21% at June 30, 2015) through July 1, 2018.	195,000
1996 serial bonds (face amount of \$835,000) due in annual principal installments ranging from \$18,000 to \$58,000; plus interests due in annual installments at fixed rate of 4.50% through January 1, 2019.	215,000
Total public improvement bonds	<u>552,000</u>
Total bonds payable	<u>\$ 20,114,000</u>

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

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Interest expense on bonds payable amounted to \$1,018,602 for the fiscal year ended June 30, 2015. Annual debt service requirements of maturity for bonds payable are as follows:

Fiscal year ending June 30,	Principal	Interest
2015-2016	\$ 2,404,000	\$ 1,227,940
2016-2017	1,232,000	1,137,821
2017-2018	1,200,000	1,060,021
2018-2019	968,000	996,284
2019-2020	925,000	227,002
2021-2025	4,400,000	3,812,901
2026-2030	5,060,000	1,484,709
2031-2035	3,690,000	463,479
2036-2040	235,000	750
Totals	<u>\$ 20,114,000</u>	<u>\$ 10,410,907</u>

c) Section 108 Loan Guarantee Notes Payable – Series 2015-A (former Series 2004-A)

On June 30, 2004, the Municipality entered into a loan guarantee commitment of \$5,500,000 with the U.S. Department of Housing and Urban Development (HUD) pursuant to an application under Section 108 of the Housing and Community Development Act of 1974 (Section 108). Section 108 commitments are required to be supported by a credit subsidy appropriation pursuant to the Federal Credit Reform Act of 1990 (Credit Reform Act) and implementing guidance issued by the U.S. Office of Management and Budget (OMB). Therefore, in connection with its guarantee of these notes, HUD obligated appropriated funds to cover the credit subsidy cost of the loan guarantee, as required under the Credit Reform Act. Under the Credit Reform Act procedures, such funds are disbursed into a financing account as loan proceeds are disbursed by the lender (a commercial bank). The financing account is in some respects equivalent to an internal loss reserve for the federal government. Each disbursement into the financing account is equal to the loan advance times the credit subsidy rate, which is part of HUD's budget approved by OMB and the Congress.

The proceeds of \$5,500,000 of the loan guarantee commitment are used by the Municipality to finance the construction of the Fine Arts Center and to provide low-income communities with another source of financing for the economic development, housing rehabilitation, public facilities and large-scale physical development projects. The notes on the loan guarantee commitment bear interest at various rates ranging from 3.50 percent to 6.70 percent. The proceeds and uses of the loan guarantee commitment are accounted for in the Section 108 loan guarantee, a non-major capital projects fund. The loan guarantee commitment is repaid with grant awards received from the Community Development Block Grants – Entitlement Grants Program (CDBG), administered by HUD. Principal and interest on these notes are accounted for in the Section 108 loan guarantee fund, a non-major capital projects fund. At June 30, 2015, the outstanding principal balance of the loan guarantee commitment amounted to \$4,800,000.

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Interest expense on the Section 108 loan guarantee notes payable amounted to \$282,373 for the fiscal year ended June 30, 2015. The principal and interest maturities on the Section 108 loan guarantee commitment are as follows:

Fiscal year Ending June 30,	Principal	Interest
2016	\$ 200,000	\$ 64,282
2017	300,000	93,990
2018	400,000	90,885
2019	450,000	86,032
2020	450,000	78,810
2021-2025	3,000,000	199,690
Totals	<u>\$ 4,800,000</u>	<u>\$ 613,689</u>

d) Notes Payable to Municipal Revenue Collection Center

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

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

The original face amount of the note allocated by CRIM to the Municipality was \$736,727, for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years. During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest, except for property tax receivables collections related to the transaction explained in the above paragraph, which will be applied as principal payment to reduce the debt balance.

At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. Interest payments on this financing agreement are accounted for in the general fund. The outstanding principal of the note payable to CRIM amounted to \$187,041, at June 30, 2015. Interest expense on these notes amounted to \$10,447 for the fiscal year ended June 30, 2015.

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Notes to Basic Financial Statements
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e) Compensated Absences

At June 30, 2015, the government-wide statement of net position – governmental activities includes a liability amounting \$2,476,818, of which \$1,538,172 represents accrued sick leave benefits, and \$938,646 represents accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

f) Mortgage Notes Payable - Section 515 (business-type activities)

The long-term debt of Villas del Parque (FmHA Project No. 63-033-0690660049) consist of two mortgages notes, collateralized with land and buildings, payable to the U.S. Department of Agriculture Rural Development in monthly installments of \$8,880 and \$1,094, respectively, including interest at an annual rate of 8.00% and 10.00%, respectively, (reduced to 7.00% and 9.00%, respectively) through December 2031.

At June 30, 2015, the outstanding principal balance of the two mortgage notes amounted to \$1,010,234 and \$109,713, respectively. The mortgages notes are subject to various positive, negative and restrictive covenants that the Municipality has complied with at June 30, 2015.

Accrued interest payable on these notes amounted to \$6,684 at June 30, 2015 which is recorded as part of business-type activities in the accompanying statement of net position and the statement of net position – proprietary fund. Interest expense on these notes amounted to \$80,934 for the fiscal year ended June 30, 2015, which is recorded in the accompanying statement of activities and the statement of revenues, expenses and changes in fund net position – proprietary fund.

12. Employees' Retirement Systems

a) General Information about the Retirement Plan

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

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

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

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

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to \$381,843.

As required by Act 32 of June 25, 2013, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Municipality's AUC for the fiscal year 2014-15, amounted to \$111,817, of which \$111,817 (100%) was subsidized by the OMB.

b) Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

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

However, the ESR has not provided to the Municipality the audited actuarial and financial information; instead provided unaudited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015, and therefore, the Municipality complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts, as required by the criteria set forth in the GASB Statement No. 68.

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The Retirement Systems issue financial reports, which are publicly available and include the basic financial statements, the required trend information, and any other required supplementary information. These reports may be obtained by written request to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

13. Postemployment Benefits

In addition to the pension benefits described in note 5, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonuses and death benefits. However, beginning July 1, 2013, Act No. 3 of 2013 eliminated all Special Law benefits to future retirees.

For the fiscal year ended June 30, 2015, the costs related to these post-employment benefits amounted to \$156,763, of which \$108,541 was subsidized by OMB. These benefits are recorded as expenditures in the general fund.

14. Landfill Closure and Postclosure Care Costs Obligations

The Municipality owns a municipal solid waste landfill. However, the Municipality has not adopted the required provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environment Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. According to these standard and regulations, the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Municipality has not performed an independent study of the activities that need to be implemented at the Municipality's solid waste landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations and, accordingly, the accompanying statement of net position does not include the required liability for closure and postclosure care costs of the solid waste landfill using current costs allocated based on the actual landfill capacity used at June 30, 2015.

15. Commitments, Contingencies and Uncertainties

Claims and Judgments

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

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With respects to another pending or threatened litigation, the Municipality has reported no liabilities as of June 30, 2015. Management believes, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

Construction Commitments

The Municipality had commitments at June 30, 2015 by approximately \$1,550,000 for the construction, improvements, or renovation of several buildings and infrastructure capital assets.

Encumbrances

The Municipality has recorded, outstanding encumbrances amounting to \$179,266 in the general fund at June 30, 2015. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

Federal Financially Assisted Programs

The Municipality receives financial assistance from the federal government in the form of grants and entitlements. Receipts of grants are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal law and regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133). Disallowance as a result of these audits may become liabilities of the Municipality

Management Agreement of Villas del Parque (FmHA Project No. 63-033-0690660049)

The Municipality maintains entered into a management agreement with GR Management Corp., for the administration of Villas del Parque (FmHA Project No. 63-033-0690660049). Management fees amounted to \$46,368 for the fiscal year ended June 30, 2015 and consist of a monthly fixed payment established in the Administrative Notice PR AN No. 125 (Inst. 1930-C).

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

16. Fund Balance (Deficit)

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

Fund balances (deficit)	General Fund	Debt Service Fund	Capital Improvement Bond Fund	Other nonmajor funds	Total
<i>Restricted for:</i>					
General government	\$ 7,923	-	-	6,704	14,627
Urban and economic development	-	-	-	466,881	466,881
Public housing and welfare	-	-	-	118,807	118,807
Culture and recreation and education	-	-	-	516,205	516,205
Capital outlays	-	-	1,025,021	3,794	1,028,815
Debt service	-	1,739,838	-	-	1,739,838
<i>Committed to:</i>					
General government	72,164	-	-	85,438	157,602
Urban and economic development	32,382	-	-	187,424	219,806
Health and sanitation	16,670	-	-	51,859	68,529
Public safety	6,688	-	-	-	6,688
Public housing and welfare	2,426	-	-	-	2,426
Culture and recreation and education	7,907	-	-	287,454	295,361
Capital outlays	41,029	-	-	93,121	134,150
<i>Unassigned</i>	577,662	-	-	-	577,662
Total fund balances (deficit)	\$ 764,851	1,739,838	1,025,021	1,817,687	\$ 5,347,397

17. Accounting Changes and Restatements

During fiscal year ended June 30, 2015, the Municipality implemented the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, assets, deferred outflows of resources and deferred inflows of resources, and expense/expenditures for pensions provided to employees of the primary government. It requires the Municipality to record the Municipality's proportionate share of the net pension liability in the government-wide financial statements.

GASB Statement No. 68 was implemented simultaneously with the provisions of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date; and amendment of GASB Statement No. 68*. This standard allowed governments to record all beginning deferred inflows and deferred outflows associated with the pension. If all beginning balances could not have identified practically, governments should only report deferred outflows for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. The Municipality implemented the Standard by recognizing only the employer contributions made between the measurement date and before the start of the government's fiscal year.

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Fiscal Year Ended June 30, 2015

As a result of the implementing these new standards, numerous changes were made to beginning balances. The following schedule reconciles the total net position balance at June 30, 2014, as previously reported by the Municipality, to the beginning net position, as restated in the accompanying GWFS:

	<u>Net position - governmental activities</u>
Assets:	
As previously reported in the audited financial statements at June 30, 2014	\$ 82,225,200
Add/(deduct): prior-period adjustments	<u>-</u>
Total net assets at June 30, 2014, as restated	<u>\$ 82,225,200</u>
Deferred outflows of resources:	
As previously reported in the audited financial statements at June 30, 2014	\$ -
Add/(deduct): prior-period adjustments	<u>377,051</u>
Total deferred outflows of resources at June 30, 2014, as restated	<u>\$ 377,051</u>
Liabilities:	
As previously reported in the audited financial statements at June 30, 2014	\$ 34,894,452
Add/(deduct): prior-period adjustments	<u>29,505,789</u>
Total liabilities at June 30, 2014, as restated	<u>\$ 64,400,241</u>
Deferred inflows of resources:	
As previously reported in the audited financial statements at June 30, 2014	\$ -
Add/(deduct): prior-period adjustments	<u>-</u>
Total deferred inflows of resources at June 30, 2014, as restated	<u>\$ -</u>
Net position:	
As previously reported in the audited financial statements at June 30, 2014	\$ 47,330,748
Add/(deduct): prior-period adjustments	<u>29,128,738</u>
Total net position at June 30, 2014, as restated	<u>\$ 18,202,010</u>

18. Subsequent Events

a) Transition to Value Added Tax

On May 29, 2015, the Commonwealth of Puerto Rico enacted Act 72-2015 ("Act 72"), which, among other things, increased the sales and use tax ("SUT") by 4.5%, in addition to the then-applicable 7% SUT, and provided for a transition to a value added tax ("VAT"), subject to certain conditions.

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Since July 1, 2015, transactions subject to the 7% SUT are now subject to an aggregate 11.5% SUT (10.5%, of which 0.5% goes to a special fund for the benefit of the municipalities, and 1% separately collected by the municipalities). The transition from the SUT to the VAT is scheduled for March 31, 2016; Act 72 permits the Secretary of Treasury to extend the implementation date for up to 60 days.

In addition, since October 1, 2015 and until March 31, 2016, taxable business to business transactions are subject to an aggregate 11.5% SUT and certain business to business services and designated professional services that were previously exempt from SUT are subject to a Commonwealth SUT of 4% (with no municipal SUT applying to these services).

After March 31, 2016 (or the extended implementation date for the VAT at the discretion of the Secretary of Treasury), all transactions subject to the SUT will be subject to a new aggregate VAT of 10.5% plus a 1% municipal SUT. The new VAT will also apply to the introduction into Puerto Rico of taxable articles and on taxable transactions which relate to the sale in Puerto Rico of goods and services by a merchant, the rendering of a service by a nonresident to a person in Puerto Rico, and combined transactions.

Act No. 72 exempted the following services, among other exemptions, from the business to business SUT: (i) services offered by the Commonwealth government and instrumentalities, (ii) education, (iii) interest and other financing charges, (iv) insurance, (v) health and hospital services, and (vi) services offered by merchants with a volume of business not exceeding \$50,000.

On September 30, 2015, the Governor of Puerto Rico signed into law Act 159-2015, which expanded the services exempt from the 4% SUT to include certain legal services, advertising services, services rendered to a person engaged exclusively in the storage or handling of fuel in a foreign trade zone, services rendered to bona fide farmers, designated professional services rendered to labor unions, and ocean, air and ground transportation of goods, among other services.

b) Puerto Rico Fiscal and Economic Growth Plan

On June 29, 2015, the Governor of Puerto Rico created the Puerto Rico Fiscal and Economic Recovery Working Group (the "Working Group") to evaluate the measures necessary to address the fiscal crisis of the Commonwealth, including the measures recommended in the Krueger Report. The Working Group was responsible for developing and recommending to the Governor of Puerto Rico the Puerto Rico Fiscal and Economic Growth Plan (the "FEGP"). The FEGP was released on September 8, 2015 and updated on January 18, 2016, and propose the implementation of the following measures, within others: 1) Labor Reform, 2) Energy Rates Stabilization, 3) Corporate Taxes Fostering Growth, 4) Reduction of the Cost of Doing Business in Puerto Rico, 5) Investment in Infrastructure, 6) Transition to the Value Added Tax System, 7) Improving Supervision and Monitoring of Taxpayers, 8) Reduction in Governmental Operational Costs, 9) Reduction of Government Subsidies, 10) Downsizing of the Public Education System, 11) Cost Control of the Commonwealth's Health Program, 12) Promotion of Public-Private Partnerships, 13) Installation of New Accounting Systems, 14) Centralization of the Department of the Treasury's Functions, 15) Betterment of the Fiscal and Economic Decision Making Systems, and 16) Enactment of New Budgetary Rules and Creation of a Fiscal Oversight Board.

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

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

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

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

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

d) Obama Administration’s Proposal to Help Puerto Rico Solve its Economic and Fiscal Crisis

On October 21, 2015, the Obama Administration released a proposal to address Puerto Rico’s urgent fiscal crisis. The proposal makes the following recommendations: (i) Congress should extend Chapter 9 of the U.S. Bankruptcy Code to Puerto Rico, and also provide a broader legal framework to allow for a comprehensive restructuring of Puerto Rico’s liabilities, (ii) Congress should provide independent fiscal oversight to ensure Puerto Rico adheres to its recovery plan and fully implements proposed reforms, (iii) Congress should provide a long-term solution to Puerto Rico’s historically inadequate Medicaid treatment, and (iv) Congress should extend to Puerto Rico certain proven measures to reward work and stimulate growth, such as the Earned Income Tax Credit. Both houses of U.S. Congress have conducted hearings on Puerto Rico’s fiscal crisis and are evaluating various alternatives that include establishing a fiscal oversight board and providing a Commonwealth-wide restructuring regime.

e) Voluntary Pre-Retirement Program

On December 8, 2015, the Commonwealth of Puerto Rico enacted the Act No. 211-2015 to create a Voluntary Pre-retirement Program. This Act, among other provisions, establishes that employees who started contributing to the ERS before April 1, 1990 with at least 20 years of service may be eligible to participate in the program. Those who participate in the program would be paid 50% of their average salary (except police officers, which would be paid 60%). These payments will be made until the employee becomes eligible to receive payments from the ERS. Other benefits would include the payment of the participant’s health care plan during the first two years of the program.

**Required Supplementary Information
Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2015**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ
 Budgetary Comparison Schedule – General Fund
 (See Notes to Budgetary Comparison Schedule)
 Fiscal Year Ended June 30, 2015

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(budgetary basis)</u>	<u>final budget – over (under)</u>
Revenues:				
Property taxes	\$ 4,728,059	\$ 4,728,059	\$ 3,958,685	\$ (769,374)
Municipal license taxes	2,067,280	2,067,280	2,277,733	210,453
Sales taxes	1,909,276	1,909,276	1,746,194	(163,082)
Construction excise taxes	565,750	565,750	1,151,719	585,969
Intergovernmental grants and contributions	5,455,689	5,455,689	5,580,229	124,540
Interest on deposits	86,500	86,500	48,009	(38,491)
Charges for services	480,000	480,000	284,914	(195,086)
Miscellaneous	371,000	371,000	553,172	182,172
Total revenues	<u>15,663,554</u>	<u>15,663,554</u>	<u>15,600,655</u>	<u>(62,899)</u>
Expenditures:				
General government	7,355,534	6,334,723	5,773,964	560,759
Urban and economic development	4,419,176	4,312,917	4,137,458	175,459
Health and sanitation	1,836,062	1,819,489	1,769,138	50,351
Public safety	1,797,973	1,743,563	1,713,421	30,142
Public housing and welfare	303,348	276,970	267,316	9,654
Culture, recreation and education	905,618	940,475	927,472	13,003
Capital outlays	43,000	135,417	127,278	8,139
Total expenditures	<u>16,660,711</u>	<u>15,563,554</u>	<u>14,716,047</u>	<u>847,507</u>
Excess (deficiency) of revenues over expenditures and encumbrances	<u>(997,157)</u>	<u>100,000</u>	<u>884,608</u>	<u>784,608</u>
Other financing sources (uses):				
Proceed from debt issuance	1,097,157	-	-	-
Transfer out to other governmental funds	(100,000)	(100,000)	(58,749)	41,251
Total other financing sources (uses)	<u>997,157</u>	<u>(100,000)</u>	<u>(58,749)</u>	<u>41,251</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 825,859</u>	<u>\$ 825,859</u>
Reconciliation of differences:				
Sources/inflows of financial resources:				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule				\$ 15,600,655
Differences - budgetary basis to GAAP:				
Differences in bases of accounting:				
GAAP adjustment to revenues				210,018
Non-budgeted proceed from debt issuance				2,044,849
Total revenues and transfer in from other funds as reported on the revenues, expenditures and changes in fund balances				<u>\$ 17,855,522</u>
Uses/outflows of financial resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule (including transfer out to other funds)				\$ 14,774,796
Differences - budgetary basis to GAAP:				
Timing differences:				
Current year encumbrances recorded as expenditures for budgetary purposes				(179,266)
Prior year encumbrances recorded as expenditures for GAAP purposes				645,581
Entity differences:				
Non-budgeted transfers to other funds				190,000
Non-budgeted expenditures				1,242,783
Total expenditures and transfer out to other funds as reported on the statement of revenues, expenditures and changes in fund balances				<u>\$ 16,673,894</u>

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

A. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund.

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2015 representing the original budget, and supplemental appropriations for the year ended June 30, 2015.

**Required Supplementary Information
Retirement Plan
Fiscal Year Ended June 30, 2015**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ
 Schedule of the Municipality's Proportionate Share of the Net Pension Liability
 Puerto Rico Government Employees Retirement System – Municipality's Employees Only
 Last 10 Fiscal Years

	2015
Municipality's proportion of the net pension liability	0.10562%
Municipality's proportionate share of the net pension liability	\$ 582,762
Municipality's covered-employee payroll	\$ 3,790,354
Municipality's proportionate share of the net pension liability as a percentage of the covered-employee payroll	15.37%
Plan fiduciary net position as a percentage of the total pension liability	0.42%

Notes to Schedule:

- 1) The Puerto Rico Government Employees Retirement System includes the Municipality in its definition of municipal employees.
- 2) Per GASB Statement No. 68, governments should present information for those years for which information is available. If information is not available, the government may implement them prospectively.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ
Schedule of the Municipality's Contributions
Cost-Sharing Multiple Employer Defined Benefit Pension Plans – Employer Contributions
Puerto Rico Government Employees Retirement System – Municipality's Employees Only
Last 10 Fiscal Years

	2015
Contractually required contribution	\$ 541,073
Contributions in relation to the contractually required contribution	(541,073)
Contribution deficiency (excess)	\$ -
Municipality's covered-employee payroll	\$ 3,790,354
Municipality's contributions as a percentage of the covered-employee payroll	14.275%

Notes to Schedule:

- 1) The Puerto Rico Government Employees Retirement System includes the Municipality in its definition of municipal employees.
- 2) Per GASB Statement No. 68, governments should present information for those years for which information is available. If information is not available, the government may implement them prospectively.

**Section 8 Housing Choice Voucher Program
Financial Data Schedule
Fiscal Year Ended June 30, 2015**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ
Financial Data Schedule
Year Ended June 30, 2015

Line Item No.	Description	Housing Choice Vouchers (CFDA NO 14.871)
<u>Income Statement</u>		
<u>70600-010</u>	Housing assistance payments	\$ 562,999
<u>70600-020</u>	Ongoing administrative fees earned	83,474
<u>70600-031</u>	FSS Coordinator	21,622
70600	HUD PHA operating grants	668,095
<u>71400-010</u>	Housing Assistance Payment	1,191
<u>71400-020</u>	Administrative Fee	1,191
71400	Fraud recovery	2,382
71500	Other revenue	166,433
<u>72000-010</u>	Housing Assistance Payment	53
<u>72000-020</u>	Administrative Fee	
72000	Investment income - restricted	53
70000	Total Revenue	836,963
91100	Administrative salaries	72,432
91500	Employee benefit contributions - administrative	17,328
91600	Office Expenses	17,107
91000	Total Operating-Administrative	106,867
92100	Tenant services - salaries	19,978
92300	Employee benefit contributions - tenant services	1,644
92500	Total Operating-Tenants	21,622
96210	Compensated absences	223
96900	Total Operating Expenses	128,712
97000	Excess Revenue Over Operating Expenses	708,251
<u>97300-050</u>	All Other	619,944
97300	Housing assistance payments	619,944
97350	HAP Portability-in	155,315
97400	Depreciation expense	999
90000	Total Expenses	904,970
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ (68,007)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ
Financial Data Schedule
Year Ended June 30, 2015

Line Item No.	Description	Housing Choice Vouchers (CFDA NO 14.871)
<u>Balance Sheet</u>		
111	Cash-unrestricted	\$ 8,732
113	Cash-other restricted	84,740
100	Total Cash	93,472
124	Account receivable - other government	5,136
128	Fraud recovery	118
128.1	Allowance for doubtful accounts - fraud	-
120	Total receivables, net of allowance for doubtful accounts	5,254
150	Total Current Assets	98,726
164	Furniture, equipment and machinery - administration	70,218
166	Accumulated depreciation	(58,353)
160	Total capital assets, net of accumulated depreciation	11,865
180	Total Non-current Assets	11,865
190	Total Assets	\$ 110,591
322	Accrued compensated absences - current portion	\$ 13,317
333	Accounts payable - other government	8,462
310	Total Current Liabilities	21,779
353	Non-current liabilities - other	66,393
354	Accrued compensated absences- Non-current	18,856
350	Total Non-current liabilities	85,249
300	Total Liabilities	107,028
508.1	Invested in capital assets, net of related debt	11,865
511.1	Restricted Net Assets	18,407
512.1	Unrestricted Net Assets	(26,709)
513	Total Equity/Net Assets	3,563
600	Total Liabilities and Equity/Net assets	\$ 110,591

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ
Financial Data Schedule
Year Ended June 30, 2015

Line Item No.	Description	Housing Choice Vouchers (CFDA NO 14.871)
<u>Income Statement</u>		
<u>70600-010</u>	Housing assistance payments	\$ 562,999
<u>70600-020</u>	Ongoing administrative fees earned	83,474
<u>70600-031</u>	FSS Coordinator	21,622
70600	HUD PHA operating grants	668,095
<u>71400-010</u>	Housing Assistance Payment	1,191
<u>71400-020</u>	Administrative Fee	1,191
71400	Fraud recovery	2,382
71500	Other revenue	166,433
<u>72000-010</u>	Housing Assistance Payment	53
<u>72000-020</u>	Administrative Fee	
72000	Investment income - restricted	53
70000	Total Revenue	836,963
91100	Administrative salaries	72,432
91500	Employee benefit contributions - administrative	17,328
91600	Office Expenses	17,107
91000	Total Operating-Administrative	106,867
92100	Tenant services - salaries	19,978
92300	Employee benefit contributions - tenant services	1,644
92500	Total Operating-Tenants	21,622
96210	Compensated absences	223
96900	Total Operating Expenses	128,712
97000	Excess Revenue Over Operating Expenses	708,251
<u>97300-050</u>	All Other	619,944
97300	Housing assistance payments	619,944
97350	HAP Portability-in	155,315
97400	Depreciation expense	999
90000	Total Expenses	904,970
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ (68,007)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ
Financial Data Schedule
Year Ended June 30, 2015

Line Item No.	Description	Housing Choice Vouchers (CFDA NO 14.871)
11030	Beginning equity	\$ 71,570
<u>11170-001</u>	Administrative Fee Equity- Beginning Balance	(2,058)
<u>11170-010</u>	Administrative Fee Revenue	83,474
<u>11170-021</u>	FSS Coordinator Grant	21,622
<u>11170-045</u>	Fraud Recovery Revenue	1,191
<u>11170-050</u>	Other Revenue	165,953
<u>11170-051</u>	Comment for Other Revenue	Portability Move In Collections
<u>11170-060</u>	Total Admin Fee Revenues	<u>272,240</u>
<u>11170-080</u>	Total Operating Expenses	128,712
<u>11170-090</u>	Depreciation	999
<u>11170-095</u>	Housing Assistance Portability In	<u>155,315</u>
<u>11170-110</u>	Total Expenses	<u>285,026</u>
<u>11170-002</u>	Net Administrative Fee	<u>(12,786)</u>
<u>11170-003</u>	Administrative Fee Equity- Ending Balance	<u>(14,844)</u>
11170	Administrative Fee Equity	<u>\$ (14,844)</u>
<u>11180-001</u>	Housing Assistance Payments Equity - Beginning Balance	\$ 73,628
11180-010	Housing Assistance Payment Revenues	562,999
11180-015	Fraud Recovery Revenue	1,191
11180-020	Other Revenue	480
11180-021	Comment for Other Revenue	Expired Checks (outstanding more than 1 year)
<u>11180-025</u>	Investment Income	<u>53</u>
<u>11180-030</u>	Total HAP Revenues	<u>564,723</u>
<u>11180-080</u>	Housing Assistance Payments	619,944
11180-100	Total Housing Assistance Payments Expenses	619,944
11180-002	Net Housing Assistance Payments	(55,221)
<u>11180-003</u>	Housing Assistance Payments Equity-Ending Balance	<u>18,407</u>
11180	Housing Assistance Payments Equity	<u>\$ 18,407</u>
11190-210	Total ACC HCV Units	<u>1,380</u>
11190	Unit Months Available	<u>1,380</u>
11210	Unit Months Leased	<u>1,361</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ
Notes to Financial Data Schedule
Year Ended June 30, 2015

NOTE A – BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national manager center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2015**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Department of Education of the Commonwealth of Puerto Rico:			
Child and Adult Care Food Program	10.558	CCC-250	490,197
Total U.S. Department of Agriculture			490,197
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Community Development Block Grants/ Entitlement Grants	14.218		962,391
Emergency Solutions Grant Program	14.231		15,975
Section 8 Housing Choice Vouchers	14.871		668,095
Pass-through the Office of the Commissioner of Municipal Affairs of the Commonwealth of Puerto Rico:			
Community Development Block Grants/ State's Program	14.228	NSP	1,230
Pass-through the Municipality of San Juan, PR:			
Housing Opportunities for Persons with AIDS	14.241	N/AV	78,534
Total U.S. Department of Housing and Urban Development			1,726,225
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Transit Safety Commission of the Commonwealth of Puerto Rico:			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/AV	71,864
Total U.S. Department of Transportation			71,864

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE:			
Pass-Through the Department of the Family of the Commonwealth of Puerto Rico			
Community Services Block Grant	93.569	N/AV	39,938
Pass-Through the Administration for Integral Care and Development of Children of the Commonwealth of Puerto Rico:			
Child Care and Development Block Grant	93.575	241-2015-000065	123,914
Head Start	93.600	241-2014-000132 241-2015-000149	5,783,021
Pass-Through the Municipality of Ponce, P.R.			
HIV Emergency Relief Project Grant	93.914	N/AV	<u>2,074</u>
Total U.S. Department of Health and Human Service			<u>5,948,947</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-Through Governor's Office – Governor's Authorized Representative (GAR)			
Disaster Grants – Public Assistance	97.036	N/AV	<u>1,852</u>
Total Department of Homeland Security			<u>1,852</u>
TOTAL EXPENDITURE OF FEDERAL AWARDS			<u>\$ 8,239,085</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 – GENERAL

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.

The Municipality in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.

Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 – FEDERAL CFDA NUMBER

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

NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 – MAJOR PROGRAMS

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

Viviana Vélez Carrasquillo

Certified Public Accountant

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund, and the aggregate remaining fund information of Municipality of **Juana Díaz**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements. I was engaged to audit the financial statements of the governmental activities. These financial statements collectively comprise the Municipality's basic financial statements and have issued my report thereon dated March 30, 2015. The report on the governmental fund financial statements was unmodified. In addition, I did not express an opinion on the governmental activities of the Municipality because I was unable to obtain competent evidential matter related to the capital assets including the infrastructure, the liability related to the solid waste landfill, and information related to the net pension liability, deferred outflows/ inflows of resources and pension expense. My report includes a reference to other auditors who audited the financial statements of Villas del Parque, as described in my report on the Municipality's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Findings 2015-003, 2015-004 and 2015-005.

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

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 2015-001 and 2015-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001.

Municipality's Response to Findings

Municipality's response to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly I express no opinion on it.

Purpose of this Report

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



Viviana Vitez Carrasquillo, CPA
License Number 5288

Carolina, Puerto Rico
March 31, 2016



Viviana Vélez Carrasquillo

Certified Public Accountant

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

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

Report on Compliance for Each Major Federal Program

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

The Municipality's basic financial statements include the financial statements of Villas del Parque (FmHA Project No. 63-033-0690660049) (Villas del Parque), a proprietary fund, which received federal awards, which are not included in the Schedule of Expenditures of Federal Awards. Other auditors audited the compliance of Villas del Parque, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to the major program of Villas del Parque for the fiscal year ended June 30, 2015. This report does not include the results of the other auditors' testing of compliance or internal control over compliance that are reported separately by those auditors.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on Head Start

As described in the accompanying Schedule of Findings and Questioned Costs, the Municipality, did not comply with requirement regarding CFDA 93.600 Head Start as described in finding number 2015-007 for Reporting. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

Unmodified Opinion on Each of the Other Major Federal Programs

In my opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The results of my auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-006. My opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

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

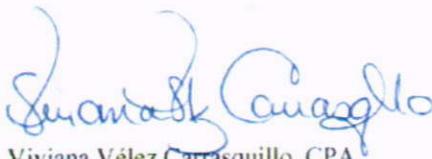
**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR
A-133 (CONTINUED)**

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

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-006 to be significant deficiency.

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

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



Viviana Vélez Carrasquillo, CPA
License Number 5288

Carolina, Puerto Rico
March 31, 2016



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Opinion Units

Type of Opinions

Governmental activities	Disclaimer
Business-type activities	Unmodified
General Fund	Unmodified
Debt Service Fund	Unmodified
Head Start Fund	Unmodified
Capital Improvement Fund	Unmodified
Aggregated remaining fund	Unmodified
Villas del Parque Fund- enterprise fund	Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes **X** No

Federal awards

Internal Control over major programs:

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

Type of auditor’s report issued on compliance for major programs: **Unmodified opinion, except qualified opinion for Head Start**

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

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grants - Entitlement Grants
14.871	Section 8 Housing Choice Voucher
93.600	Head Start

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? Yes No **X**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-001
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CONDITION	The Municipality did not maintain complete accounting records.
CONTEXT	During the examination of the accounting records, I noted that the Municipality does not summarize the transactions in a formal accounting system in order to properly record and account for the transactions of the general fund and special revenue funds.
CRITERIA	Article 8.010 (c) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, states that uniform accounting system used by the Municipality must produce reliable reports and financial statements, provide complete information about the results of operations of the Municipality and include the necessary internal controls to account for all funds, capital assets and other assets.
CAUSE	The Municipality has not established the accounting procedures and adequate internal controls to ensure the adequate recording of all the financial information of the general fund and the special revenue funds.
EFFECT	This condition inhibits the Municipality from having current and reliable financial reports and information necessary for management to take efficient financial actions.
RECOMMENDATION	<p>I recommend management to establish the necessary internal controls and procedures in order to establish a complete accounting system that generate accurate accounting information of all the funds maintain by the Municipality.</p> <p>Also, the Municipality should consider providing additional training to the finance office staff in order to continue improving the accounting records.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER

2015-001 (CONTINUED)

REQUIREMENT

ACCOUNTING RECORDS AND REPORTING SYSTEM

**Management Response
and Corrective Action**

As we comment in the past year Single Audit, we engaged Rock Solid Technologies, Inc., to proceed with the implementation of a new accounting software in our Municipality. The new accounting system, known as SIMA© or Integrated Solution for Advanced Municipalities, started on July 1, 2015 and actually, we are still in the final implementation steps. SIMA© is a financial system created for the Municipalities of Puerto Rico, in order to provide detailed, up-to-the-minute financial reports that allow municipalities to make informed management decisions, to comply with reporting requirements, and to ensure financial integrity and accountability.

Implementation Date:

June 2016

Responsible Person:

Lcda. Lilliam E. Santiago García
Finance Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-002
REQUIREMENT	ACCOUNTING RECORDS- BANK RECONCILIATIONS
CONDITION	The Municipality does not maintain effective internal control procedures to ensure that the bank reconciliations of the payroll and current bank accounts were prepared accurately, in a timely manner and reconciled with the accounting records.
CONTEXT	During the examination of the bank reconciliations, I noted that the Municipality did not prepared the payroll and current bank account reconciliations, for the fiscal year 2014-2015, in a timely manner.
CRITERIA	Chapter IV, Section 12 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner’s Office for Municipal Affair (OCAM), establishes that the accounting system of the municipalities shall provide for the timely and accurate preparation of bank reconciliations. In addition, the Municipality shall prepare a monthly report of revenues and disbursements, which has to be reconciled with the bank reconciliations.
CAUSE	The Municipality’s internal control procedures failed to assure that the bank reconciliations were prepared in a complete manner and reconciled with the accounting records.
EFFECT	The Municipality is not in compliance with Chapter IV, Section 12 of the Municipal Administration Regulatory Manual of the OCAM.
RECOMMENDATION	I recommend management to establish internal control procedures over the preparation of the bank reconciliations and assure that the accounting records are reconciled with the bank reconciliations within a reasonable amount of time in order to maintain proper control over cash.
Management Response and Corrective Action	We expect to improve our internal control and procedures related to issue of timely preparation of bank accounts reconciliations with the implementation of the accounting system recently acquired, known as SIMA© or Integrated Solution for Advanced Municipalities. Actually we are training our staff about the reconciliation process through the accounting system, in order to provide to the management to-the-minute financial information to take informed management decisions and maintain adequate internal controls.
Implementation Date:	June 2016
Responsible Person:	Lcda. Lilliam E. Santiago García Finance Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER 2015-003 (CONTINUED)

REQUIREMENT ACCOUNTING RECORDS – NET PENSION LIABILITY

**Management Response
and Corrective Action**

We are going to send a formal request to the State Employees Retirement System Administration, in order to obtain the audited actuarial and financial information and make the necessary adjustments in the Government Wide financial statements in order to comply with the requirements of the GASB Statement No. 68.

Implementation Date: June 2016
Responsible Person: Lcda. Lilliam E. Santiago García
Finance Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-004
REQUIREMENT	ACCOUNTING RECORDS- CAPITAL ASSETS
CONDITION	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
CONTEXT	During the examination of the property records, I noted that the Municipality does not have adequate internal controls and procedures to ensure that all capital expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality did not have adequate supporting documentation of the cost of the capital assets, including the infrastructure, reported in the statement of net position at June 30, 2015.
CRITERIA	GASB 34 requires that all capital assets, including infrastructure, must be presented in the statement of net position and that there must be depreciated during its useful life. Also, Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autónomos del Estado Libre Asociados de Puerto Rico de 1991</i> of August 30, 1991, stated that Municipality should maintain updated property accounting records.
CAUSE	The lack of an adequate capital assets register did not permit the proper accounting over the capital assets additions, the accumulated depreciation and the depreciation expense presented in the financial statements of the Municipality.
EFFECT	The Municipality's government wide financial statements do not present fairly, the financial position of the governmental activities, and the change in net position.
RECOMMENDATION	I recommend management and the Property Division of the Municipality to make an inventory of the capital assets, support it with adequate documentation and reconcile it with the capital assets subsidiary ledger. Also, the accounting staff should determine if the accumulated depreciation and depreciation expense are properly calculated.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER **2015-004**

REQUIREMENT **ACCOUNTING RECORDS- CAPITAL ASSETS**

**Management Response
and Corrective Action**

We expect to improve our internal control and procedures related to issue of capital assets with the implementation of the accounting system recently acquired, known as SIMA© or Integrated Solution for Advanced Municipalities. Actually we are training our staff about the new accounting system capital assets module, in order to provide to the management to-the-minute financial information to take informed management decisions and maintain adequate internal controls. Also, we are developing written standard operating procedures in order to solve the issue mentioned in the Condition.

Implementation Date: June 2016
Responsible Person: Lcda. Lilliam E. Santiago García
Finance Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-005
REQUIREMENT	ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS
CONDITION	The Municipality did not recorded in its government wide financial statements, the required liability for the landfill closure and post closure care costs.
CONTEXT	At June 30, 2015 the Municipality did not realized the required study of the available space in order to determine the estimated cost of the closing and post-closing of the Municipality’s waste landfill. In addition, the statement of net position did not present the required liability for closure and post-closure care costs of the Municipality’s landfill.
CRITERIA	Regulations set forth by the U.S. Environmental Protection Agency (EPA) in its “Solid Waste Disposal Facility Criteria”; the Municipality is required to place a final cover on the Municipality’s solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. GASB 18 requires the Municipality to perform a study of the activities that need to be implemented at the Municipality’s solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality must recognize a liability in its statement of net position at June 30, 2015.
CAUSE	The Municipality failed to realize a study of the operation of the waste landfill, in accordance with the requirements of the EPA, in order to determine the closure and post-closure costs.
EFFECT	The Municipality’s government wide financial statements do not present fairly, the financial position of the governmental activities, and the change in net position. Also, the Municipality is not in compliance with GASB 18 and the “Solid Waste Disposal Facility Criteria” issued by the U.S. Environmental Protection Agency.
RECOMMENDATION	I recommend management to perform the study of the activities that need to be implemented at the Municipality’s solid waste landfill facilities and determine the amount of the liability that should be reported in the governmental activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-005 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS

**Management Response
and Corrective Action**

As we comment in the past Single Audit, our Municipality submitted for approval a Closure Plan to the Commonwealth of Puerto Rico Environmental Quality Board (JCA, by its acronyms in Spanish), and is still waiting for a response from such Agency. After approval of the Closure Plan, the Municipality will request the professional services required to estimate the closure and post-closure care costs based on the terms and conditions contained in the approved Closure Plan. Also, it is important to comment that the Municipality of Juana Díaz engaged an independent Contractors for performing the day-to-day Solid Waste Landfill Management operations of the Municipality. Such contractor will provide technical assistance to the Municipality of Juana Diaz related to the existing active landfill cell closure.

Implementation Date: June 2016
Responsible Person: Lcda. Lilliam E. Santiago García
Finance Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-006
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST- ROLLING FORWARD EQUITY BALANCES
CONDITION	During the fiscal year 2014-2015, the Program did not maintained accurate accounting over the roll-forward HAP equity balance.
CONTEXT	During the examination of the accounting records, I noted that the amount of HAP equity, reported in the Voucher Management System (VMS) for the month of June 30, 2015, have differences of \$3,369 with the amount of Net Restricted Assets and \$26,706 with the amount of Unrestricted Net Assets reported in the audited financial information for the year ended June 30, 2015, submitted through the FASS-PH system.
CRITERIA	Code of Federal Regulations, 24 CFR, Section 982.158 (a) (b) states that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. Also, the PHA must furnish to HUD accounts and other records, reports, documents and information, as required by HUD.
CAUSE	The Program's internal control over the accounting records failed to assure that the HAP equity was properly calculated.
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Section 982.158 (a) (b).
RECOMMENDATION	I recommended management to prepare an analysis, supported by adequate accounting records and adjust or correct any errors on this account.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-006 (CONTINUED)
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST- ROLLING FORWARD EQUITY BALANCES
QUESTIONED COSTS	None
Management Response and Corrective Action	<p>The Program accounting staff was instructed to correct the HAP and Administrative reserves in the VMS, in order to adjust such reserves in accordance with the audited financial information to be submitted through the FASS-PH system for the fiscal year ended June 30, 2015.</p> <p>Implementation Date: May 2016 Responsible Person: Mrs. Magda Boglio Federal Programs Office Director</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-007
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	The Program did not maintained adequate accounting records.
CONTEXT	During the reporting test regarding program year ended February 28, 2015 (Grant 2014-2015), I noted that the Program did not maintain an adequate set of accounting records in order to fairly present the financial position of the Head Start program and the results of its operations. Also, during the matching test, I noted that the information related to the matching contributions are maintained in electronic worksheets that are not integrated to the accounting records of the Program. In addition, I noted that the Program did not maintain a current and complete general ledger which adequately separates the administrative and programmatic costs of the Head Start program.
CRITERIA	Code of Federal Regulation 45, 92.20 (b) (1) states that the grantees and subgrantees financial management system must assure accurate, current, and complete disclosure of the financial results of the financially assisted activities in accordance with the financial reporting requirements of the grant or subgrant. In addition, CFR 45, Section 92.20 (b) (2) states that the grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income.
CAUSE	The Program's internal controls failed to maintain proper accounting records that supports adequately, the financial reports submitted to the pass-through entity.
EFFECT	The program did not maintain its financial management system updated to assure compliance with the financial reporting requirements of the pass-through entity.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-007 (CONTINUED)
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
RECOMMENDATION	The Program should continue strengthening its procedures and controls to ensure that the accounting system information is updated and assure that the financial information submitted to the pass through entity, is supported with complete and accurate accounting records.
QUESTIONED COSTS	None
Management Response and Corrective Action	<p>The Administration for Integral Care and Development of Children of the Commonwealth of Puerto Rico (ACUDEN, by its acronyms in Spanish) promoted the implementation of a new accounting software, commercially known as Abila MIP Fund Accounting (formerly Sage MIP), in all delegated agencies administering Head Start program funds delegated by the Agency. But we were experiencing technical difficulties with new accounting software. Such condition is out of our control because we are not the administrators of the accounting system functions.</p> <p>Implementation Date: June 2016 Responsible Person: Mr. Nelson Rivera Rodríguez Head Start Program Director</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SUMMARY SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

The following schedule contains the original number and title of each of the findings of federal awards included in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133* and the Schedule of Prior Years' Audit Findings for the Fiscal Year ended June 30, 2014. The following legend indicates the current status of the prior years' audit findings:

ORIGINAL FINDING NUMBER	CFDA NUMBER	TITLE
2014-004	14.218	Matching, Level of Effort, Earmarking Full corrective action was taken.
2014-005	14.871	Special Tests-Rolling Forward Equity Balances No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 2015-006
2014-006	93.600	Allowable Cost Full corrective action was taken.
2014-007	93.600	Cash Management Corrective action measures were taken. Actually, the cash balances maintained are reasonable.
2014-008	93.600	Matching, Level of Effort, Earmarking Partial corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 2015-007
2014-009	93.600	Reporting No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 2015-007

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

**SUMMARY SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

ORIGINAL FINDING NUMBER	CFDA NUMBER	TITLE
2014-010	10.558	Allowable Costs/ Costs Principles Full corrective action was taken.
13-III-08	93.600	Cash Management Corrective action measures were taken. Actually, the cash balances maintained are reasonable.
13-III-09	93.600	Matching, Level of Effort, Earmarking Partial corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 2015-007
13-III-10	93.600	Reporting No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 2015-007
12-III-06	93.600 93.708	Cash Management Corrective action measures were taken. Actually, the cash balances maintained are reasonable.
11-III-08	93.600 93.708	Cash Management Corrective action measures were taken. Actually, the cash balances maintained are reasonable.
11-III-13	10.558	Cash Management Corrective action measures were taken. Actually, the cash balances maintained are reasonable.