

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

**MUNICIPIO DE JUNCOS
AUDITORÍA 2014-2015**

30 DE JUNIO DE 2015

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

**BASIC FINANCIAL STATEMENTS WITH
ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT**

Year Ended June 30, 2015



Municipality of Juncos, P.O. Box 1706, Juncos, Puerto Rico 00777
Hon. Alfredo Alejandro Carrión

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Juncos**, Puerto Rico (Municipality), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Special Revenue Fund- Other Federal Grants	Unmodified
Capital Project Fund- State and Local Grants	Unmodified
Debt Service Fund	Unmodified
Other Governmental Funds	Unmodified



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinion on Governmental Activities

The Municipality's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of the collective net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources reported by the pension plan trust. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.

In addition, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

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

Unmodified Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 and Budgetary Comparison information on pages 51 through 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Management has omitted historical pension information, as stated in GASB Statement No. 68, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2016 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 24, 2016

Stamp No. 2728484 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

This discussion and analysis of the Municipality of Juncos (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2015. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2014. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2015 constitute factual evidence of the Municipality's economic situation by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$100,001,562 which represents a decrease of .05% compared to prior fiscal year, as restated;
2. At the end of fiscal year 2015, total liabilities amounted to \$95,316,917. Out of said amount, \$74,568,786 corresponded to long-term liabilities of which \$37,027,213 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues;
3. Total net position of the Municipality amounted to \$4,684,645 which represents a decrease of 15% compared to prior fiscal year, as restated;
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$39,024,600, derived from the following sources: \$3,731,880 charges for services; \$5,070,416 from operating grants and contributions; \$1,051,372 from operating capital grants and contributions obtained from other sources, and \$29,170,932 from general revenues available;
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$39,845,142;
6. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund deficit of \$5,336,122;

FINANCIAL HIGHLIGHTS (CONTINUED)

7. As of the end of the current fiscal year the Municipality's General Fund deficit amounted to \$8,328,470;
8. The actual General Fund budgetary activities resulted in an unfavorable balance of \$(105,301).

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2015. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Position reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net position. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net position figure either thru additional borrowings or thru internally generated funds. This in turn will benefit the welfare of Juncos constituents.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net position at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

A brief review of The Statements of Activities of the Municipality at June 30, 2015, shows total expenses incurred to afford the cost of all functions and programs amounted to \$39,845,142. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$9,853,668 was derived from the following sources: \$3,731,880 charges for services; \$5,070,416 from operating grants and contributions; and \$1,051,372 from capital grants and contributions obtained from other sources.

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

General revenues for the year amounted to \$29,170,932. When such figure is added to the \$9,853,668 previously mentioned, total revenues available for the financing of activities amounted to \$39,024,600. There was an excess of expenses over revenues in the amount of \$820,542 which contributed to the figure of net position attained at the end of the fiscal year.

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. As explained in the Capital Assets and Debt Administration Section of this MD&A, on July 1, 2002, the Municipality commenced partially the prospective reporting of infrastructure assets. The Municipality expects to retroactively report historical costs of infrastructure assets during the fiscal year beginning on July 1, 2006.

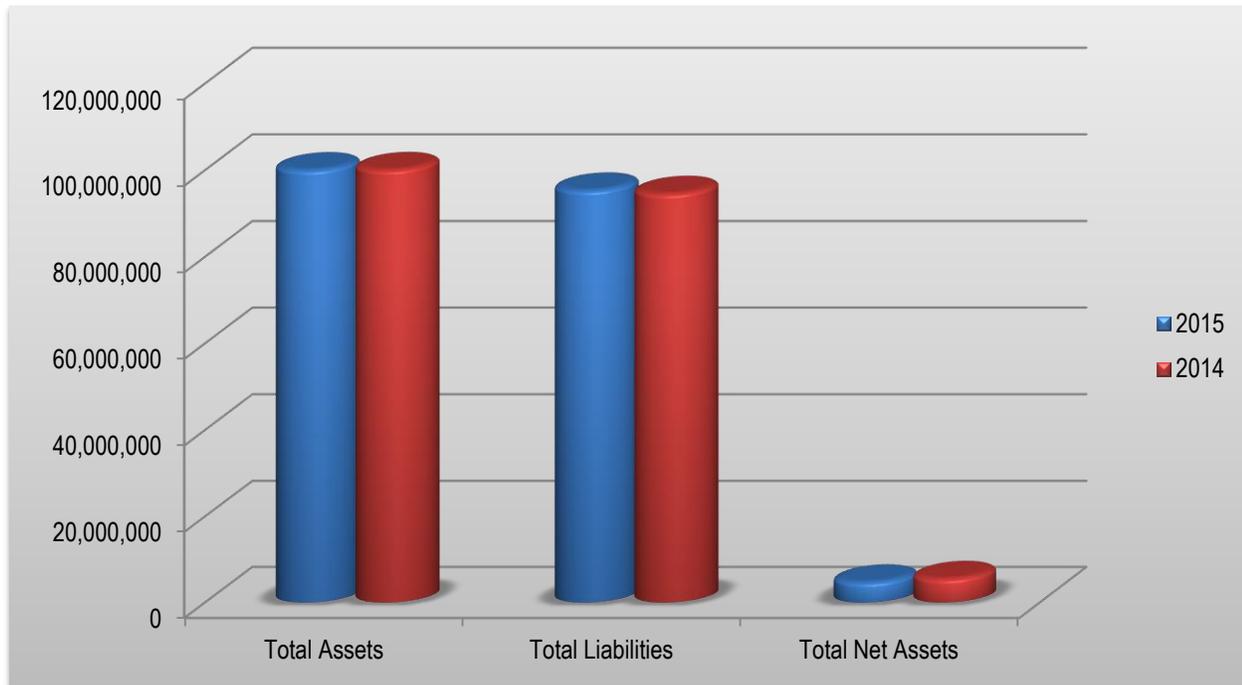
According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

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 Juncos, primary government assets exceeded total liabilities by \$4,684,645 at the end of 2015, compared to \$5,505,187 at the end of the previous year, as restated, as showed in the following condensed Statement of Net Position of the Primary Government.

Condensate Statement of Net Position	2015	2014, as restated	Change	%
Current and other assets	\$ 17,118,843	\$ 17,623,533	\$ (504,690)	-3%
Capital Assets	82,882,719	82,427,071	455,648	1%
Total Assets	100,001,562	100,050,604	(49,042)	-0.05%
Current and other liabilities	20,748,131	21,414,885	(666,754)	-3%
Long Term liabilities	74,568,786	73,130,532	1,438,254	2%
Total Liabilities	95,316,917	94,545,417	771,500	1%
Invested in capital assets, net of related debt	44,958,912	41,433,858	3,525,054	9%
Restricted	10,140,073	6,085,313	4,054,760	67%
Unrestricted (deficit)	(50,414,340)	(42,013,984)	(8,400,356)	20%
Total net position	\$ 4,684,645	\$ 5,505,187	\$ (820,542)	-15%



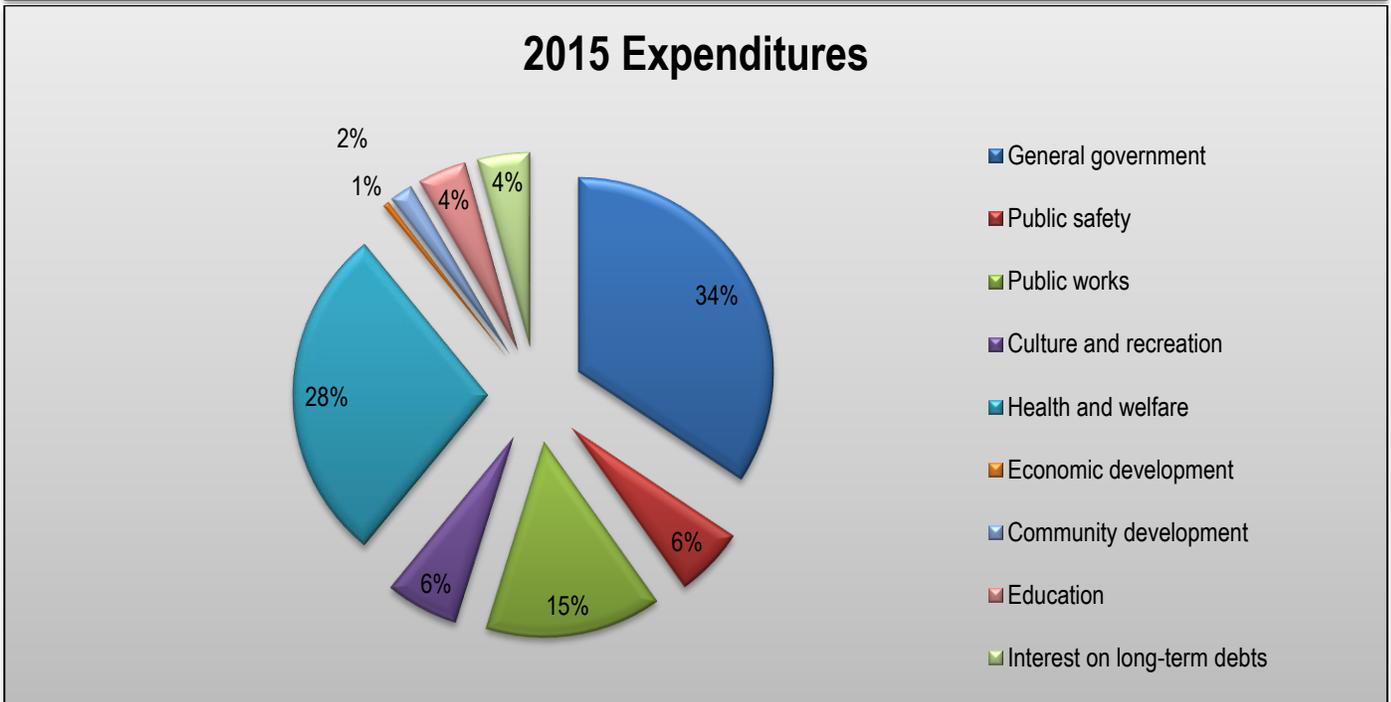
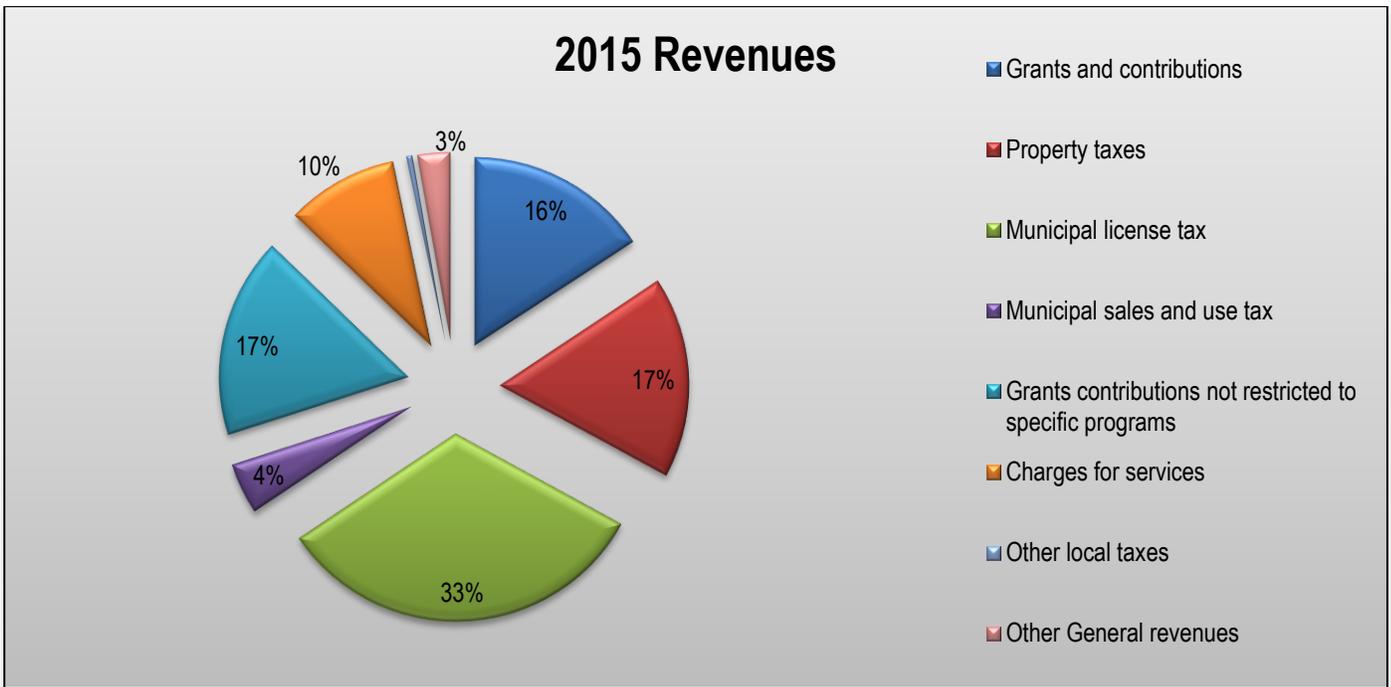
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Position

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 \$39,024,600. Approximately 61 percent of the Municipality's total revenue came from taxes, while 29 percent resulted from grants and contributions, including federal aid. Charges for Services provide 8 percent of the total revenues. Interest and investment earnings and miscellaneous provide approximately .05 percent of the Municipality's total revenues. The largest expenses were for general government, health and welfare services, public works, public safety and culture and recreation. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condensate Statement of Activities	2015	2014. as restated	Change	%
Program revenues:				
Charges for services	\$ 3,731,880	\$ 3,414,931	\$ 316,949	9%
Operating grants and contributions	5,070,416	4,793,698	276,718	6%
Capital grants and contributions	1,051,372	474,170	577,202	122%
General revenues:				
Property taxes	6,735,242	7,326,321	(591,079)	-8%
Municipal license tax	12,754,663	13,547,921	(793,258)	-6%
Municipal sales and use tax	1,715,952	1,394,816	321,136	23%
Other local taxes	202,804	1,815,701	1,612,897	-89%
Grants and contributions not restricted to specific programs	6,694,882	6,274,948	419,934	7%
Interest and investment earnings	170,455	211,712	(41,257)	-19%
Miscellaneous	896,934	9,617	887,317	9227%
Total revenues	39,024,600	39,263,835	(239,235)	-1%
Expenses:				
General government	13,670,635	11,492,681	2,177,954	19%
Public safety	2,320,638	2,021,754	298,884	15%
Public works	5,857,443	8,417,942	(2,560,499)	-30%
Culture and recreation	2,424,276	3,537,014	(1,112,738)	-31%
Health and welfare	11,234,235	9,508,995	1,725,240	18%
Economic development	219,262	199,657	19,605	10%
Community development	771,938	291,070	480,868	165%
Education	1,621,741	1,099,920	521,821	47%
Interest on long term debt	1,724,974	1,699,137	25,837	2%
Total expenses	39,845,142	38,268,170	1,576,972	4%
Change in net position	(820,542)	995,665	(1,816,207)	-182%
Net position, beginning of the year	5,505,187	4,509,522	995,665	22%
Net position, end of the year	\$ 4,684,645	\$ 5,505,187	\$ (820,542)	-15%

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)



FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund deficit of \$5,336,122, which represents a decrease of \$569,649 in comparison with the prior year, as restated. Out of the indicated balance, \$3,126,283 were classified as nonspendable; \$7,822,244 were classified as restricted for the following purposes: (1) \$3,415,881 for debt service payments; 2) \$3,130,712 to pay for capital projects; 3) \$1,274,828 for other purposes.

As of June 30, 2015, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of \$(11,455,576).

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2015, amounted to \$114,850,750, which upon deduction of accumulated depreciation of \$31,968,031, produced a net book value of \$82,882,719. Depreciation charges for the year totaled \$2,096,964.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2015, the Municipality has \$1,350,265 of unexpended proceeds from bond and notes issuances that are committed to future construction activities.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

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". Act No. 64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's 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 ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional 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 levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. 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. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2015-2016.

FINAL COMMENTS

The Municipality 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, 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.

The Municipality's management is committed to a continued improvement in the confection of a budget that will respond to the needs of the public and private sectors in accordance with its permissible revenues levels. It further contemplates to improve its current figure of net position, which has been identified as one of the main short and long-term objectives of the Municipality.

FINANCIAL CONTACT

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 PO Box 1706, Juncos, Puerto Rico 00777-1706, or call (787) 734-0335.

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 5,264,091
Cash with fiscal agent	8,052,807
Accounts receivable:	
Municipal license tax	23,029
Municipal sales and use tax	274,500
Intergovernmental	3,057,586
Users fees on landfill facilities	436,380
Others	10,450
Capital Assets	
Land, improvements, and construction in progress	114,850,750
Other capital assets, net of depreciation	(31,968,031)
Total capital assets	<u>82,882,719</u>
Total assets	<u>100,001,562</u>
Liabilities	
Accounts payable and accrued liabilities	4,872,620
Due to:	
Commonwealth Government	463,601
Unearned revenues:	
Municipal license tax	13,938,327
Federal Government	683,869
Interest payable	789,714
Noncurrent liabilities:	
Due within one year	3,078,762
Due in more than one year	<u>71,490,024</u>
Total liabilities	<u>95,316,917</u>
Net Position	
Invested in capital assets, net of related debt	44,958,912
Restricted for:	
Capital projects	3,728,052
Debt service	3,468,925
Other purposes	2,943,096
Unrestricted (deficit)	<u>(50,414,340)</u>
Total net position	<u>\$ 4,684,645</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 13,670,635	\$ -	\$ -	\$ -	\$ (13,670,635)
Public safety	2,320,638	-	213,285	-	(2,107,353)
Public works	5,857,443	1,959,193	1,833,584	-	(2,064,666)
Health and welfare	11,234,235	1,677,974	1,250,666	-	(8,305,595)
Culture and recreation	2,424,276	35,957	7,000	-	(2,381,319)
Economic development	219,262	-	215,002	-	(4,260)
Community development	771,938	-	-	1,051,372	279,434
Education	1,621,741	58,756	1,550,879	-	(12,106)
Interest on long-term debt	1,724,974	-	-	-	(1,724,974)
Total governmental activities	\$ 39,845,142	\$ 3,731,880	\$ 5,070,416	\$ 1,051,372	(29,991,474)
General revenues:					
					6,735,242
					12,754,663
					1,715,952
					202,804
					6,694,882
					170,455
					896,934
					<u>29,170,932</u>
					(820,542)
					5,505,187
					<u>\$ 4,684,645</u>

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Special Revenue Fund- Other Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	
Assets						
Cash and cash equivalents	\$ 2,591,585	\$ 744,689	\$ 413,890	\$ -	\$ 1,513,927	\$ 5,264,091
Cash with fiscal agent	823	1,571	2,614,591	5,426,140	9,682	8,052,807
Accounts receivable:						
Municipal license tax	23,029	-	-	-	-	23,029
Municipal sales and use tax	274,500	-	-	-	-	274,500
Users fees on landfill facilities	436,380	-	-	-	-	436,380
Others	10,450	-	-	-	-	10,450
Due from:						
Commonwealth Government	138,354	1,494,784	597,340	239,499	587,609	3,057,586
Other funds	2,137,286	-	387,176	-	-	2,524,462
Advances from other funds	3,126,283	-	-	-	-	3,126,283
Total assets	\$ 8,738,690	\$ 2,241,044	\$ 4,012,997	\$ 5,665,639	\$ 2,111,218	\$ 22,769,588
Liabilities						
Accounts payable and accrued liabilities	\$ 1,891,279	\$ 282,638	\$ 158,753	\$ -	\$ 134,355	\$ 2,467,025
Mature bonds, notes and interest payable	-	-	-	2,196,714	-	2,196,714
Due to:						
Commonwealth Government	463,601	-	-	-	-	463,601
Other funds	387,176	906,347	747,748	-	483,191	2,524,462
Advances to other funds	-	495,851	2,380,176	-	250,256	3,126,283
Unearned revenues:						
Municipal license tax	13,938,327	-	-	-	-	13,938,327
Federal Government	-	486,404	-	-	197,465	683,869
Total liabilities	16,680,383	2,171,240	3,286,677	2,196,714	1,065,267	25,400,281
Deferred Inflows of Resources						
Unavailable revenues-Commonwealth Government	305,527	-	597,340	53,044	524,317	1,480,228
Unavailable revenues-Federal Governments	-	1,143,951	-	-	-	1,143,951
Unavailable revenues-Landfill User Fees	75,750	-	-	-	-	75,750
Unavailable revenues-Others	5,500	-	-	-	-	5,500
Total deferred inflows of resources	386,777	1,143,951	597,340	53,044	524,317	2,705,429
Fund Balances (Deficits)						
Nonspendable	3,126,283	-	-	-	-	3,126,283
Restricted	823	4,862	3,130,712	3,415,881	1,269,966	7,822,244
Unassigned	(11,455,576)	(1,079,009)	(3,001,732)	-	(748,332)	(16,284,649)
Total fund balances (Deficits)	(8,328,470)	(1,074,147)	128,980	3,415,881	521,634	(5,336,122)
Total liabilities, deferred inflows of resources and fund balances	\$ 8,738,690	\$ 2,241,044	\$ 4,012,997	\$ 5,665,639	\$ 2,111,218	\$ 22,769,588

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	
Revenues						
Property taxes	\$ 4,497,249	\$ -	\$ -	\$ 2,237,993	\$ -	\$ 6,735,242
Municipal license taxes	12,754,663	-	-	-	-	12,754,663
Municipal sales and use tax	917,814	-	-	547,921	-	1,465,735
Licenses, permits and other local taxes	202,804	-	-	-	-	202,804
Charges for services	1,525,372	13,277	-	-	238,485	1,777,134
Intergovernmental	6,811,174	-	1,352,820	-	792,076	8,956,070
Fines and forfeitures	29,365	-	-	-	-	29,365
Rent of property	89,621	-	-	-	-	89,621
Interest	170,455	28	138	-	139	170,760
Users fees on landfill facilities	1,878,996	-	-	-	-	1,878,996
Federal grants	-	3,479,485	-	-	777,307	4,256,792
Miscellaneous	772,448	6,161	-	-	21,037	799,646
Total revenues	29,649,961	3,498,951	1,352,958	2,785,914	1,829,044	39,116,828
Expenditures						
Current:						
General government	13,500,509	-	-	-	3,216	13,503,725
Public safety	2,198,266	52,354	-	-	30,000	2,280,620
Public works	3,496,125	225,196	2,179,920	-	540,622	6,441,863
Health and welfare	7,163,926	797,346	1,855,713	-	1,316,796	11,133,781
Culture and recreation	2,186,063	-	7,000	-	40,115	2,233,178
Economic development	-	-	-	-	218,597	218,597
Community development	-	1,062,471	-	-	-	1,062,471
Education	689,477	922,573	-	-	-	1,612,050
Debt service:						
Principal	-	-	-	1,600,000	-	1,600,000
Interest	-	-	-	1,724,974	-	1,724,974
Total expenditures	29,234,366	3,059,940	4,042,633	3,324,974	2,149,346	41,811,259
Excess (deficiency) of revenues over (under) expenditures	415,595	439,011	(2,689,675)	(539,060)	(320,302)	(2,694,431)
Other financing sources (uses)						
Transfers in	51,516	-	-	301,401	48,341	401,258
Transfers out	(349,742)	(49,392)	-	-	(2,124)	(401,258)
Long-term debt issued	-	-	2,124,782	-	-	2,124,782
Total other financing sources (uses)	(298,226)	(49,392)	2,124,782	301,401	46,217	2,124,782
Net change in fund balances	117,369	389,619	(564,893)	(237,659)	(274,085)	(569,649)
Fund balance, beginning as restated	(8,445,839)	(1,463,766)	693,873	3,653,540	795,719	(4,766,473)
Fund balance, ending	\$ (8,328,470)	\$ (1,074,147)	\$ 128,980	\$ 3,415,881	\$ 521,634	\$ (5,336,122)

Total Fund Balances - Governmental Funds \$ (5,336,122)

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

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. In the current period, these amounts are:

Non-depreciable capital assets	\$ 44,270,510	
Depreciable capital assets	70,580,240	
Accumulated depreciation	<u>(31,968,031)</u>	
Total capital assets		82,882,719

Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:

Due from Commonwealth Government:		
Christmas bonus reimbursement	108,354	
Others	<u>2,597,075</u>	
Total deferred inflows of resources		2,705,429

Accounts payable related to Construction in Progress are not due and payable in the current period and, therefore, are not reported in the funds. (2,405,595)

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds:

General obligation bonds and notes	(35,620,212)	
Note payable to CRIM-Law No. 146	(712,282)	
Property tax advances debt	(186,965)	
Compensated absences	(4,159,525)	
A.A.A. Debt Agreement	(1,404,988)	
Landfill Obligation	(21,916,667)	
GDB-line of credit	(8,697,935)	
Christmas bonus	<u>(463,212)</u>	
Total long-term liabilities		<u>(73,161,786)</u>

Total Net Position of Governmental Activities \$ 4,684,645

Net Change in Fund Balances - Total Governmental Funds \$ (569,649)

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

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

Expenditures for capital assets	\$ 2,552,612	
Less: current-year depreciation	<u>(2,096,964)</u>	455,648

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

Christmas bonus reimbursement (current year)	108,354	
Others	<u>2,597,075</u>	2,705,429

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

Christmas bonus reimbursement (prior year)	(224,646)	
Others (prior year)	<u>(2,573,011)</u>	(2,797,657)

Bonds and notes proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Position.

(205,000)

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

Matured bonds and notes principal payments (net change)		1,600,000
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Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

Other long-term liabilities	<u>(2,789,163)</u>	(2,789,163)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:

Christmas bonus	759,399	
Accrued compensated absences	<u>20,451</u>	779,850

Change in Net Position of Governmental Activities

\$ (820,542)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Juncos** (the Municipality) was founded on the year 1782. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and sixteen members Municipal Legislature who are elected for a four-year terms.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, community development, education, waste disposal, and other miscellaneous services.

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

A. Financial reporting entity

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

1. The primary government appoints a voting majority of the entity's governing body, and either:
 - A financial benefit/ burden exist between the primary government and the entity or
 - The primary government can impose its will on the entity.
2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

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

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

1. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
 - A financial benefit/ burden exists between the primary government and the entity or
 - Management of the primary government has operational responsibility for the primary component unit.
2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
3. The component unit's debt is expected to be paid by the primary government.

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

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

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

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

Management's Discussion and Analysis

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

Basic financial statements

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Financial Statements (GWFS)

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the *economic resources* measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the *accrual basis of accounting*. Revenues are recognized in the period earned and expenses in the period in which the associated liability is incurred, regardless of the timing of related cash flows. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

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

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

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

Fund Financial Statements (FFS)

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criteria, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Municipality reports the following major governmental funds:

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

Special Revenue Fund - Other Federal Grants – This fund is used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by federal and state statutes.

Capital Projects Fund – State & Local Grants - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

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

The FFS are accounted for using the *current financial resources* measurement focus and the *modified-accrual basis of accounting*. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both *measurable* and *available*).

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Notes to financial statements

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

Required Supplementary Information (RSI)

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

C. Financial reporting presentation

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

D. Deposits and investments

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

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

E. Restricted assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law. Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Receivables and due from governmental entities

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

G. Interfund receivables and payables

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

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

H. Inventories

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

I. Capital assets

Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

J. Deferred outflows/inflows of resources

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

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

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

K. Long-term obligations

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Long-term obligations

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

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

L. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave.

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

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

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

M. Claims and judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.

N. Net position

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net investment in capital assets:	Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
Restricted net position:	The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.
Unrestricted net position:	Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

O. Net position flow assumption

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

P. Fund balances

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Restricted:** Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
- Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.
- Assigned:** Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.
- Unassigned:** Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund balance flow assumptions

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

R. Accounting for Pension Costs

The Municipality has not adopted the provisions of GASBS No. 68, *Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASBS No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amended GASBS No.68.

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

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

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

S. Interfund and intra-entity transactions

The Municipality has the following types of transactions among funds:

- a. **Operating Transfers** – Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.'
- b. **Intra-Entity Transactions** – Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Risk financing

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2015 amounted to \$214,498. The current insurance policies have not been cancelled or terminated.

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

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2015 amounted to \$550,612.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico'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 work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

U. Use of Estimates

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

V. Future adoption of accounting pronouncements

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

1. **GASB Statement No. 72 "Fair Value Measurement and Application."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

W. Subsequent events

Subsequent events have been evaluated through February 24, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

2. CASH AND CASH EQUIVALENTS

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

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

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

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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

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

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. 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 are fully collateralized under the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB 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.

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 nonexistent.

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

Deposits - At year-end, the Municipality's bank balance of deposits in commercial banks amounting to \$5,264,091 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), amounts to \$8,052,807 as of June 30, 2015.

3. DUE FROM (TO) GOVERNMENTAL ENTITIES

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

	Commonwealth Government
<u>Major fund – General fund:</u>	
PR Department of Treasury-Christmas bonus reimbursement	\$ 108,354
Office of the Commissioner of Municipal Affairs- accounting system reimbursement	30,000
<u>Major fund – Special Revenue Fund-Other Federal Grants:</u>	
PR Department of Justice	261,272
Commonwealth of PR Administration of Children and Families	722,776
Commonwealth of PR Office of the Commissioner of Municipal Affairs	319,592
Commonwealth of PR Governor Authorized Representative Office	73,254
PR Department of Education	66,023
Other	51,867
<u>Major fund – Capital Projects Fund- State & Local Grants:</u>	
PR Department of Treasury- State Assignments reimbursements	597,340
<u>Major fund – Debt service fund:</u>	
Municipal Revenue Collection Center (CRIM) – property taxes	186,455
Municipal Financial Corporation (COFIM) – sales tax	53,044
<u>Other Governmental Funds:</u>	
PR Department of Labor and Human Resources	483,193
PR Housing Authority	43,800
Commonwealth of PR Governor Authorized Representative Office	3,771
PR Department of Treasury- OMEP	37,184
Others	19,661
	<u><u>\$ 3,057,586</u></u>

4. INTERFUND TRANSACTIONS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds” (i.e., current portion of interfund loans).

a. Due from/to other fund and Advances from/to other funds:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Special Revenue Fund-Other Federal Grants	Reimbursable Expenditures	\$ 1,402,198
General Fund	Capital Projects Fund-State & Local Grants	Reimbursable Expenditures	3,127,924
General Fund	Other Governmental Funds	Reimbursable Expenditures	733,447
Capital Projects Fund-State & Local Grants	General Fund	Reimbursable Expenditures	387,176
Total			<u><u>\$ 5,650,745</u></u>

4. INTERFUND TRANSACTIONS (CONTINUED)

b. Transfer in/out to other fund

Transfer out	Transfer in	Purpose	Amount
General Fund	Debt Service Fund	Debt Retirement	\$ 301,401
General Fund	Other Governmental Fund	Reimbursable expenditures	48,341
Special Revenue Fund Other Federal Grant Fund	General Fund	Reimbursable expenditures	49,392
Other Governmental Fund	General Fund	Reimbursable expenditures	<u>2,124</u>
Total			<u>\$ 401,258</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015 are summarized as follows:

Description	General Fund	Special Revenue Fund – Other Federal Grants	Capital Projects Fund – State & Local Grants	Other Governmental Fund	Total
Accounts payable	\$ 1,789,349	\$ 282,638	\$ 158,753	\$ 134,355	\$ 2,365,095
Accrued liabilities	<u>101,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,930</u>
Total	<u>\$ 1,891,279</u>	<u>\$ 282,638</u>	<u>\$ 158,753</u>	<u>\$ 134,355</u>	<u>\$ 2,467,025</u>

6. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the general fund include the following:

Governmental Entity	Amount
Puerto Rico Aqueduct and Sewer Authority	\$ 338,995
Internal Revenue Services	99,826
Department of Labor and Human Resources	8,730
Commonwealth of Puerto Rico – General Services Administration	6,825
Commonwealth of Puerto Rico – Treasury Department – Income Tax	<u>9,225</u>
Total	<u>\$ 463,601</u>

7. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

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

7. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS (CONTINUED)

	Commonwealth Government
<u>Major fund - General fund:</u>	
P.R. Department of Treasury – Christmas bonus reimbursement	\$ 108,354
Municipal Financial Corporation – Sales and use tax	197,173
Others	81,250
<u>Major fund – Special Revenue Fund-Other Federal Grants:</u>	
PR Transit Safety Commission-Incentive Grants	22,291
PR Department of Justice	261,272
Commonwealth of PR Administration of Children and Families	696,581
Commonwealth of PR Office of the Commissioner of Municipal Affairs	45,112
Commonwealth of PR Governor Authorized Representative Office	73,254
PR Department of Education	17,064
Other	28,377
<u>Major fund – Capital Projects Fund – State & Local Grants:</u>	
PR Department of Treasury	597,340
<u>Major fund – Debt Service Fund:</u>	
Municipal Financial Corporation (COFIM)	53,044
<u>Other governmental funds:</u>	
PR Department of Labor and Human Resources	483,363
PR Department of Treasury	37,184
Commonwealth of PR Governor Authorized Representative Office	3,770
	<u>\$ 2,705,429</u>

8. UNEARNED REVENUES

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

	Amount
<u>Major fund – General fund:</u>	
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	\$ 13,938,327
<u>Special Revenue Fund – Other Federal Grants:</u>	
Federal grants received for which qualifying expenditures have not been incurred:	
Child Care Development Block Grant	55,496
Public Assistance Grants	318,234
Rural Development	36,874
Special Programs for the Aging-Title III	7,926
Other	67,874
<u>Other Governmental Funds:</u>	
Federal grants received for which qualifying expenditures have not been incurred:	
Rural Development	197,465
	<u>\$ 14,622,196</u>

9. FUND BALANCE (DEFICIT)

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

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable						
Interfund loan receivable	\$ 3,126,283	\$ -	\$ -	\$ -	\$ -	\$ 3,126,283
Restricted						
General government	823	-	7,123	-	171,910	179,856
Public safety	-	-	-	-	112,770	112,770
Public works	-	1,512	3,085,691	-	432,572	3,519,775
Health and welfare	-	-	19,090	-	459,348	478,438
Culture and recreation	-	-	18,808	-	55,914	74,722
Education	-	3,350	-	-	37,452	40,802
Debt service	-	-	-	3,415,881	-	3,415,881
Unassigned	<u>(11,455,576)</u>	<u>(1,079,009)</u>	<u>(3,001,732)</u>	<u>-</u>	<u>(748,332)</u>	<u>(16,284,649)</u>
Total fund balances	<u>\$ (8,328,470)</u>	<u>\$ (1,074,147)</u>	<u>\$ 128,980</u>	<u>\$3,415,881</u>	<u>\$ 521,634</u>	<u>\$ (5,366,122)</u>

10. CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$100 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2015, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
Capital asset, not being depreciated:				
Land	\$ 29,412,278	\$ -	\$ -	\$ 29,412,278
Construction in progress	14,659,545	438,533	(239,846)	14,858,232
Total capital assets not being depreciated	44,071,823	438,533	(239,846)	44,270,510
Capital assets, being depreciated:				
Buildings	16,492,192	187,963	239,846	16,920,001
Buildings improvements	14,989,159	581,496	-	15,570,655
Infrastructure	13,159,116	-	-	13,159,116
Infrastructure improvements	10,537,235	971,822	-	11,509,057
Equipment	5,819,085	168,973	-	5,988,058
Furnishing	997,777	-	-	997,777
Works of art	23,271	-	-	23,271
Computers	1,051,970	36,510	-	1,088,480
Vehicles	5,156,510	167,315	-	5,323,825
Total capital assets being depreciated	68,226,315	2,114,079	239,846	70,580,240
Less accumulated depreciation for:				
Buildings	(5,751,300)	(414,152)	-	(6,165,452)
Buildings improvements	(2,485,300)	(380,751)	-	(2,866,051)
Infrastructure	(5,099,051)	(241,132)	-	(5,340,183)
Infrastructure improvements	(4,138,740)	(717,330)	-	(4,856,070)
Equipment	(5,413,615)	(169,141)	-	(5,582,756)
Furnishing	(968,572)	(21,655)	-	(990,227)
Works of art	(18,185)	(1,445)	-	(19,630)
Computers	(982,208)	(53,575)	-	(1,035,783)
Vehicles	(5,014,096)	(97,783)	-	(5,111,879)
Total accumulated depreciation	(29,871,067)	(2,096,964)	-	(31,968,031)
Total capital assets being depreciated, net	38,355,248	17,115	239,846	38,612,209
Governmental activities capital assets, net	\$ 82,427,071	\$ 455,648	\$ -	\$ 82,882,719

10. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	Amount
Community Development	\$ 368,013
Culture and Recreation	191,098
Education	9,691
General Government	551,427
Health and Welfare	100,454
Public Safety	40,018
Public Work	835,598
Economic Development	665
Total depreciation expense-governmental activities	<u>\$ 2,096,964</u>

11. LONG-TERM LIABILITIES

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

Description	Beginning Balance, as restated	Additions or Adjustments	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$ 37,644,213	\$ -	\$ (1,392,000)	\$ 36,252,213	\$ 1,438,000
Notes payable	1,045,000	205,000	(475,000)	775,000	170,000
Payable to CRIM- property tax advances 2013-2014	63,779	-	-	63,779	63,779
Payable to CRIM- property tax advances 2014-2015	-	123,186	-	123,186	-
Note payable to CRIM-Law No. 146	754,181	-	(41,899)	712,282	41,899
Landfill obligation	21,442,619	474,048	-	21,916,667	-
Line of credit- Landfill expansion	6,778,153	1,919,782	-	8,697,935	-
Compensated absences	4,918,924	-	(759,399)	4,159,525	375,000
Christmas bonus	483,663	463,212	(483,664)	463,211	463,212
PR Aqueduct and Sewer Authority- debt agreement	<u>1,090,942</u>	<u>489,669</u>	<u>(175,623)</u>	<u>1,404,988</u>	<u>526,872</u>
Total	<u>\$74,221,474</u>	<u>\$ 3,674,897</u>	<u>\$ (3,327,585)</u>	<u>\$ 74,568,786</u>	<u>\$ 3,078,762</u>

A. Legal debt margin – The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable, is paid with unrestricted funds.

B. Bonds payable – The Municipality issues general and special obligation bonds principally to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2015 are as follows:

11. LONG-TERM LIABILITIES (CONTINUED)

	<u>Balance at 30-Jun-15</u>
1993 General obligation bond for improvements of capital asset with an original amount of \$264,000 due in installments of \$7,000 to \$19,000 through January 1, 2017, with interest from 4.5%	\$ 37,000
1994 General obligation bond for improvements of capital asset with an original amount of \$650,000 due in installments of \$20,000 to \$48,000 through January 1, 2018, with interest from 5.25%	138,000
1996 General obligation bond for acquisition and construction of capital asset with an original amount of \$525,000 due in installments of \$14,000 to \$36,212 through January 1, 2021, with interest from 4.50%	196,213
1996 General obligation bond for improvements of capital asset with an original amount of \$551,000 due in installments of \$16,000 to \$41,000 through January 1, 2021, with interest from 4.5%	214,000
1998 General obligation bond for improvements of capital asset with an original amount of \$520,000 due in installments of \$18,000 to \$40,000 through January 1, 2022, with interest from 4.5%	244,000
2002 General obligation bond for improvements of capital asset with an original amount of \$305,000 due in installments of \$5,000 to \$70,000 through July 1, 2026, with interest from 2.7% to 5.60%	210,000
2002 General obligation bond for improvements of capital asset with an original amount of \$1,955,000 due in installments of \$30,000 to \$160,000 through July 1, 2026, with interest from 2.7% to 5.60%	1,325,000
2003 General obligation bond for improvements of capital asset with an original amount of \$1,060,000 due in installments of \$15,000 to \$80,000 through July 1, 2027, with interest from 4.17% to 5.31%	750,000
2004 General obligation bond for improvements of capital asset with an original amount of \$305,000 due in installments of \$5,000 to \$20,000 through July 1, 2028, with interest from 2.36% to 5.31%	205,000
2004 General obligation bond for improvements of capital asset with an original amount of \$405,000 due in installments of \$20,000 to \$35,000 through July 1, 2018, with interest from 2.36% to 4.80%	130,000
2004 General obligation bond for improvements of capital asset with an original amount of \$1,860,000 due in installments of \$30,000 to \$150,000 through July 1, 2028, with interest from 4.17% to 5.31%	1,375,000
2004 General obligation bond for improvements of capital asset with an original amount of \$3,115,000 due in installments of \$50,000 to \$240,000 through July 1, 2028, with interest from 1.53% to 6.50%	2,305,000
2004 General obligation bond for improvements of capital asset with an original amount of \$155,000 due in installments of \$4,000 to \$10,000 through January 1, 2031, with interest from 4.25%	116,000
2006 General obligation bond for improvements of capital asset with an original amount of \$833,000 due in installments of \$65,000 to \$102,000 through July 1, 2015, with interest from 1.53% to 6.62%	102,000
2006 General obligation bond for improvements of capital asset with an original amount of \$395,000 due in installments of \$5,000 to \$30,000 through July 1, 2031, with interest from 6.62% to 7.25%	330,000
2006 General obligation bond for improvements of capital asset with an original amount of \$508,000 due in installments of \$11,000 to \$34,000 through January 1, 2032, with interest from 4.25%	401,000
2007 General obligation bond for improvements of capital asset with an original amount of \$375,000 due in installments of \$13,000 to \$30,000 through January 1, 2024, with interest from 4.50%	226,000

11. LONG-TERM LIABILITIES (CONTINUED)

	Balance at 30-Jun-15
2007 General obligation bond for improvements of capital asset with an original amount of \$1,020,000 due in installments of \$10,000 to \$85,000 through July 1, 2032, with interest from 3.93% to 7.50%	895,000
2008 General obligation bond for construction, improvement and acquisition of capital assets with an original amount of \$8,215,000 due in installments of \$170,000 to \$555,000 through July 1, 2032, with an interest ranging from 3.93% to 7.0%	6,815,000
2009 General obligation bond for construction of capital assets with an original amount of \$700,000 due in installments of \$15,000 to \$65,000 through July 1, 2028, with interest ranging from 4.75% to 7.5%	585,000
2009 General obligation bond for acquisition of a capital asset with an original amount of \$505,000 due in installments of \$5,000 to \$45,000 through July 1, 2033, with interest ranging from 2.43% to 7.5%	450,000
2010 General obligation bond for acquisition of a capital asset with an original amount of \$75,000 due in installments of \$5,000 to \$5,000 through July 1, 2024, with interest ranging from 5.0% to 7.5%	50,000
2010 General obligation bond for acquisition and improvement of a capital asset with an original amount of \$155,000 due in installments of \$5,000 to \$15,000 through July 1, 2034, with interest ranging from 4.75% to 7.5%	130,000
2010 General obligation bond for acquisition of a capital asset with an original amount of \$2,535,000 due in installments of \$35,000 to \$210,000 through July 1, 2034, with interest ranging from 6.0% to 7.5%	2,320,000
2010 General obligation bond for improvement of a capital asset with an original amount of \$505,000 due in installments of \$5,000 to \$45,000 through July 1, 2034, with an interest ranging from 6.0% to 7.5%	460,000
2010 General obligation bond for construction of a capital assets with an original amount of \$7,800,000 due in installments of \$110,000 to \$650,000 through July 1, 2034, with an interest ranging from 6.0% to 7.5%	7,130,000
2010 General obligation bond for construction of a capital asset with an original amount of \$5,860,000 due in installments of \$80,000 to \$490,000 through July 1, 2034, with an interest ranging from 6.0% to 7.5%	5,365,000
2012 Special obligation bond for infrastructure improvements with an original amount of \$710,000 due in installments of \$10,000 to \$60,000 through July 1, 2035, with interest ranging from 6.0% to 7.5%	665,000
2012 Special Obligation bond for improvements of capital asset with an original amount of \$325,000 due in installments of \$5,000 to \$30,000 through July 1, 2030, with interest ranging from 6.0% to 7.5%	290,000
2005 General obligation bond for improvement of capital assets, with an original amount of \$235,000 due in installments of 4,000 to \$15,000 through January 1, 2036, with interest ranging from 4.50%	213,000
2012 Special obligation bond for acquisition of capital assets, with an original amount of \$755,000 due in installments of 5,000 to \$65,000 through July 1, 2036, with interest ranging from 6.0% to 7.50%	725,000
2013 Special obligation bond for improvement of capital assets, with an original amount of \$1,710,000 due in installments of 65,000 to \$185,000 through July 1, 2026, with interest ranging from 6.0% to 7.50%	1,500,000
2013 Special obligation bond for improvement of capital assets, with an original amount of \$415,000 due in installments of 30,000 to \$60,000 through July 1, 2023, with interest ranging from 6.0% to 7.50%	355,000
Total	<u>\$36,252,213</u>

11. LONG-TERM LIABILITIES (CONTINUED)

These bonds, except the 2004 Series \$3,115,000 bond, and the 2006 Series \$833,000 bond, are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2004 Series \$3,115,000, and the 2006 Series \$833,000 bonds are payable with the General Fund resources. In addition, the Series 2012, amounting \$710,000, and the Series 2012 amounting to \$325,000 are payable with the revenues generated from the collection of the .0002% of the municipal sales and use taxes Redemption Fund.

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

Year Ending June 30,	Principal	Interest
2016	\$ 1,468,000	\$ 2,339,051
2017	1,437,000	2,250,195
2018	1,521,000	2,158,773
2019	1,564,000	2,061,218
2020	1,641,000	1,960,362
2021-2025	9,289,213	8,210,062
2026-2030	10,319,000	4,961,359
2031-2035	8,813,000	1,602,648
2036-2040	200,000	12,488
Total	<u>\$ 36,252,213</u>	<u>\$ 25,556,156</u>

C. Notes payable – The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of special events. Notes payable outstanding at June 30, 2015 are as follows:

Type of notes	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2015
2012 Series	7/1/2018	300,000	6.00% to 7.50%	\$ 190,000
2012 Series	7/1/2018	355,000	6.00% to 7.50%	225,000
2013 Series	7/1/2019	205,000	6.00% to 7.50%	155,000
2015 Series	7/1/2021	205,000	6.00% to 7.00%	205,000
Total notes payable				<u>\$ 775,000</u>

The notes are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

11. LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending June 30,	Principal	Interest
2016	\$ 140,000	\$ 49,988
2017	155,000	40,975
2018	165,000	29,050
2019	180,000	16,300
2020	65,000	7,263
2021-2025	70,000	4,900
Total	<u>\$ 775,000</u>	<u>\$ 148,476</u>

- D. Property Taxes Debts (Law No. 146, and Property tax advances)-** These amounts represents the balance owed to the Municipal Revenue Collection Center (“CRIM”) at June 30, 2015 as described in Note 13.
- E. Landfill obligation** – State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Municipality has recognized \$12,600,000 as the Municipality’s estimated current cost for landfill closure, and \$9,316,667 for landfill post-closure as of June 30, 2015. Such estimate was determined in the current fiscal year. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. No sinking fund has been established for the payment of these costs.
- F. Line of credit – Landfill expansion** – These amounts represent the balance related to GDB line of credit to acquire land for the expansion of Municipal Landfill.
- G. Compensated absences** – The government-wide Statement of Net Position includes \$1,799,550 of accrued sick leave benefits, and \$2,359,975 of accrued vacation benefits, representing the Municipality’s commitment to fund such costs from future operations.
- H. Christmas bonus** - represents the accrued portion corresponding to the fiscal year 2015 of the Christmas bonus to be paid in December 2015. The outstanding amount is \$463,212.
- I. PR Aqueduct and Sewer Authority** - This amount represent the balance of a debt repayment agreement with the Authority at June 30, 2015.

12. PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property, the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2015 are 8.33% for personal property and 10.33% for real property. The distribution of these rates follows:

12. PROPERTY TAXES (CONTINUED)

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	3.50%	3.20%
Total tax rate:	<u>8.53%</u>	<u>10.53%</u>
 Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	 <u>(.20%)</u>	 <u>(.20%)</u>
 Total percent to be paid by taxpayers:	 <u>8.33%</u>	 <u>10.33%</u>

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

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

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. This amount is recorded as long-term debt. The Municipality has a net payable of \$63,779 resulting from the final settlement of fiscal year 2014 and \$123,186 from final settlement of fiscal year 2015, recorded as other long-term debt in the Statement of Net Position.

On December 9, 2013, Law No. 145 "Getting Caught Up with Past Due CRIM Taxes – Incentive Plan for the Payment of Due Taxes" was approved granting an amnesty from the payment of interest, surcharges and penalties on real and personal property taxes owed from the fiscal years prior to 2013-2014. This amnesty/incentive plan was available from December 18, 2013 to March 27, 2014. This plan also awarded CRIM the faculty to grant payment plans to taxpayers up to a maximum of four years.

13. 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.

13. SALES AND USE TAXES (CONTINUED)

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

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

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

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

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

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 Juncos** signed the agreement to be covered.

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

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,

.2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities have the option to maintain funds in the Municipal Redemption Fund or to transfer

13. SALES AND USE TAXES (CONTINUED)

- 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.

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

13. SALES AND USE TAXES (CONTINUED)

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 Juncos**, the implementation date was September 1, 2014. For the fiscal year ended on June 30, 2015, the Municipality's total FDM, FRM and 1% sales and use tax advances amounted to \$ 327,491, \$ 174,940 and \$ 917,814 respectively. The GDB has not yet issued a final settlement for the advances made in the 2014-15 fiscal year.

14. PENSION PLAN

General Information about the Pension Plan

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

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

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

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

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to \$ 447,022.

14. PENSION PLAN (CONTINUED)

As required by Act 32 of June 25, 2015, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Municipality's AUC for the fiscal year 2014-15, amounted to \$117,410.

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

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

However, as indicated in the Basis for Qualified Opinion section of the independent auditors' report, the ESR has not provided to the Municipality the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria

set forth in the GASB Statement No. 68. The ESR has informed its participating employers that the audited actuarial and financial data will be available in a future date during the calendar year 2016. The effects of this departure from U.S. generally accepted accounting principles in the assets, liabilities, deferred outflows/inflows of resources and net position of the Municipality's governmental activities cannot be determined at this time.

15. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in note 15, 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 \$ 248,652. These benefits are recorded as expenditures in the general fund.

16. RISK MANAGEMENT

The Property Division is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to its private insurance broker so they can request quotes for the various insurance policies. The insurance companies that meet the Municipality's criteria are selected for each fiscal year. Settled claims have not exceeded commercial coverage in any of the past three (3) fiscal years.

17. COMMITMENTS AND CONTINGENCIES

a. Federal grants:

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

b. Claims and lawsuits:

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

18. RESTATEMENT OF FUND BALANCE AND NET POSITION

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

	Fund Financial Statements					Government-wide Financial Statement
	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Net Position
Total fund balances/ net position, at beginning of year, as previously reported	\$(8,752,858)	\$ (2,145,075)	\$ 693,873	\$3,653,540	\$ 795,719	\$ 5,607,801
Correction of errors:						
Correction of Due to/from PR Aqueduct and Sewer Authority debt reclassification	(627,155)	681,309	-	-	-	54,154
Understatement of accounts payable	(156,768)	-	-	-	-	(156,768)
Fund balance/ net position, beginning as restated	<u>\$(8,445,839)</u>	<u>\$ (1,463,766)</u>	<u>\$ 693,873</u>	<u>\$3,653,540</u>	<u>\$ 795,719</u>	<u>\$ 5,505,187</u>

19. SUBSEQUENT EVENTS

Puerto Rico Fiscal and Economic Growth Plan

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

New Guidelines for the Calculation of the Contribution In Lieu of Taxes ("CELI")

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

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

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

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

A law project has been submitted to the Congress of the United States of America requesting the application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its instrumentalities.

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

Subsequent events have been evaluated through February 24, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 4,497,249	\$ 4,497,249	\$ 4,497,249	\$ -
Municipal license tax	12,620,000	12,620,000	12,754,663	134,663
Municipal sales and use tax	1,500,000	1,500,000	917,814	(582,186)
Licenses, permits and other local taxes	2,311,000	2,311,000	202,804	(2,108,196)
Charge of Service	2,131,209	2,131,209	1,525,372	(605,837)
Intergovernmental	5,967,289	5,967,289	6,781,174	813,885
Fines and forfeitures	20,000	20,000	29,365	9,365
Rent of property	49,800	49,800	89,621	39,821
Users fees	1,900,000	1,900,000	1,878,996	(21,004)
Interest	180,000	180,000	170,455	(9,545)
Miscellaneous	500,000	500,000	670,078	(170,078)
Total revenues	31,676,547	31,676,547	29,517,591	(2,158,956)
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	13,884,802	14,141,986	13,215,119	926,867
Public safety	2,332,000	2,307,754	2,192,903	114,851
Public works	4,190,124	3,877,631	3,584,515	293,116
Health and welfare	7,664,774	7,610,279	7,211,149	399,130
Culture and recreation	2,384,483	2,526,021	2,366,214	159,807
Education	858,439	850,951	751,591	99,360
Operating transfer to other funds	361,925	361,925	301,401	60,524
Total expenditures, encumbrances and other financing uses	31,676,547	31,676,547	29,622,892	2,053,655
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	\$ -	\$ -	\$ (105,301)	\$ (105,301)
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 29,517,591
Differences-budget to GAAP:				
Non-budgeted revenues				132,370
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				\$ 29,649,961
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 29,622,892
Differences-budget to GAAP:				
Encumbrances for supplies ordered but not received				(54,202)
Transfer to other funds are outflows of budgetary resources				(301,401)
Non-budgeted expenditures				(32,923)
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				\$ 29,234,366

See notes to the Budgetary Comparison Schedule- General Fund.

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with USGAAP, 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 USGAAP 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.

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico-Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 179,656
Summer Food Service Program	10.559	Not Available	<u>21,626</u>
Total U.S. Department of Agriculture			<u>201,282</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		256,583
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State’s Program	14.228	Not Available	1,062,471
Pass-through the Municipality of San Juan:			
Housing Opportunities for Persons with AIDS	14.241	Not Available	<u>170,089</u>
Total U.S. Department of Housing and Urban Development			<u>1,489,143</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico – Department of Justice:			
Public Safety Partnership and Community Policy Grants	16.710	Not Available	16,073
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	16.736	Not Available	<u>19,981</u>
Total U.S. Department of Justice			<u>36,054</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Direct Program:			
State and Community Highway Safety	20.600		104,290
Pass-through the Commonwealth of Puerto Rico – Department of Transportation:			
Federal Transit Investment Grant	20.500	Not Available	<u>2,188</u>
Total U.S. Department of Transportation			<u>106,478</u>
U.S. DEPARTMENT OF EDUCATION			
Pass-through the Commonwealth of Puerto Rico- Department of Education:			
Adult Education-Basic Grants to States	84.002	Not Available	<u>41,681</u>
Total U.S. Department of Education			<u>41,681</u>

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico- Governor's Office (Elderly Office):			
Special Programs for the Aging- Title III, Part B- Grants for Supportive Services and Seniors Centers	93.044	Not Available	157,758
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Child Care and Development Block Grant	93.575	Not Available	<u>613,951</u>
Total U.S. Department of Health and Human Services			<u>771,709</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR):			
Disaster Grants – Public Assistance	97.036	Not Available	115,544
Hazard Mitigation Grant Program	97.039	Not Available	338,457
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Homeland Security Grant Program	97.067		<u>16,300</u>
Total U.S. Department of Homeland Security			<u>470,301</u>
U.S. Environmental Protection Agency Office of Solid Waste and Emergency Response			
Direct Program:			
Brownfields Assessment and Cleanup Cooperative Recovery Act Fund	66.818		<u>3,174</u>
Total U.S. Environmental Protection Agency			<u>3,174</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 3,119,822</u></u>

The accompanying notes are an integral part of this schedule.

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Juncos and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. 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*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund Other Federal Grants and in the Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue Fund Other Federal Grants</u>	<u>Other Governmental Funds</u>
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 2,354,693	\$ 765,129
Additional amount recorded as expenditures under modified-accrual basis for Section 8 HCV Program	-	39,172
Non-federal awards expenditures	705,247	-
	-	1,345,045
Total expenditures, fund statements	<u><u>\$ 3,059,940</u></u>	<u><u>\$ 2,149,346</u></u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Juncos**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the **Municipality of Juncos's** basic financial statements and have issued our report thereon dated February 24, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items **2015-001** and **2015-003** to be material weaknesses

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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2015-002 and 2015-004 to be significant deficiencies.

Compliance and Other Matters

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

Municipality of Juncos's Response to Findings

Municipality of Juncos's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Municipality of Juncos's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 24, 2016

Stamp No. 2728485 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

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

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

Report on Compliance for Each Major Federal Program

We have audited **Municipality of Juncos's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Juncos's** major federal programs for the year ended June 30, 2015. The **Municipality of Juncos's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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



López-Vega, CPA, PSC

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

Other Matters

The results of our auditing procedures disclosed 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 **2015-005** through **2015-007**. Our opinion on each major federal program is not modified with respect to these matters.

The **Municipality of Juncos's** response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Municipality of Juncos's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as items **2015-005** through **2015-007**, which we consider to be significant deficiencies.



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

The **Municipality of Juncos's** response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Municipality of Juncos's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 24, 2016

Stamp No. 2728486 of the Puerto Rico
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was affixed to the record copy of this report.



López-Vega, CPA, PSC

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Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Qualified for GWFS; Unmodified for FFS	
Internal control over financial reporting:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes X	No

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
<u>Type of auditor’s report issued on compliance for major programs:</u>	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	No X

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants – State’s Program
93.575	Child Care and Development Block Grant
10.558	Child and Adult Care Food Program
14.871	Section 8 Housing Choice Vouchers Program

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?	Yes	No X
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Section II – Financial Statements Findings

This significant deficiency in internal controls is considered an instance of noncompliance (NC).

Finding Reference	2015-001
Requirement	Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans (NC)
Statement of Condition	<p>Management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68, <i>Accounting and Financial Reporting for Pensions</i>. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality’s governmental activities has not been determined.</p> <p>In addition, the Municipality’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.</p>
Criteria	<p>GASB Statement No. 68 states the accounting and financial reporting requirements for pension plans provided to employees of state and local governments that are administered through cost-sharing pension plan trusts that comply with the criteria set forth in the Statement. This requires that the Municipality report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.</p>
Cause of Condition	<p>The Municipality’s pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015.</p>
Effect of Condition	<p>The Municipality’s Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Municipality.</p>
Recommendation	<p>We recommend the Municipality maintains a constant communication with the pension plan’s administrator, the Commonwealth’s Employees Retirement System Administration, in order to obtain the necessary audited actuarial and financial information necessary to comply with the requirements of the GASB Statement No. 68.</p>
Questioned Cost	None

Section II – Financial Statements Findings

Finding Reference **2015-001 (Continued)**

**Management Response
and Corrective Action**

We concur with the auditors' recommendations. The Municipality is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard.

Implementation Date: During the 2015-2016 fiscal year

Responsible Persons: Mrs. Iris Judith Ramos
Finance Department Director

Section II – Financial Statements Findings

Finding Reference	2015-002
Requirement	Financial Reporting – Accounting Records
Statement of Condition	<p>During our examination of the Municipality’s accounting system, we noted that the Municipality’s accounting records for Local, State and Federal funds does not provide modified basis financial statements. Also, the accounting system does not offer subsidiaries to produce government wide financial statements. The computerized system provided by the Office of Commissioner of Municipal Affairs (OCAM) and manual system maintained by the finance department personnel do not provide adequate and effective financial information to generate the basic financial statements since the accounts balances were affected by accounting errors in the first years of the system operations.</p> <p>Therefore, the Municipality’s hires the professional services of local accounting firms to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and compile the necessary information as required by GAAP and Law 81.</p>
Criteria	Chapter VIII, Article 8.010 of the State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality accounting data is not summarized in the form of a double-entry General Ledger record.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend to the Municipality management to implement internal control and procedures in order to maintain a double entry accounting system that contains accurate information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None

Section II – Financial Statements Findings

Finding Reference **2015-002 (Continued)**

**Management Response
and Corrective Action**

The Municipality maintains two set of accounting records; a manual system and a computerized system provided in the past by the Office of the Commissioner of Municipal Affairs (OCAM). Actually, all of the transactions were recorded in both systems, but the manual system is the primary financial records for financial statements preparation purposes at the end of each fiscal year due to the fact that the computerized system real accounts balances carried forward from prior years were affected by accounting errors in the first years of the system operation.

Nevertheless, as part of the corrective action plan, the Commissioner of Municipal Affairs (“OCAM”) consider alternatives to improve the accounting system, including the acquisition of new accounting software, and therefore, we will hope to solve our accounting system condition in a near future.

Implementation Date: During the 2015-2016 fiscal year

Responsible Person: Mrs. Iris Judith Ramos
Finance Department Director

Section II – Financial Statements Findings

Finding Reference	2015-003
Requirement	Operating deficit of general fund
Statement of Condition	As of June 30, 2015, the Municipality closed with an accumulated unassigned (deficit) fund balance of \$8,328,470 in the general fund as presented in the balance sheet-governmental funds.
Criteria	<p>Article 7.011, Section (a) of Autonomous Municipal Act (Law 81) establishes that if the Municipal close its operations on deficit it must provide for sufficient resources to cover it during the next fiscal year. Section (b) establishes among other things, that provides that accrued deficit in the Municipality, by public debt, will be amortized in a period of 40 years. The equivalent amortization amount will be established in an expense account in the annual budget known as accrued deficit which will be indicated in the chart of accounts.</p> <p>Article 8.004 (b) establishes no amount shall be expended or obligated in a given fiscal year of if exceeds its budgeted or authorized amounts by the Municipal Legislation.</p> <p>Section 3 of the revised regulation over Basic Standards for Municipalities of Puerto Rico (The regulation) states that the Municipality should prepare the annual budget using the next revenues in order to avoid operational deficits.</p>
Cause of Condition	The overstatement of estimated revenues and/or the incurrence of obligations without available credit caused the Municipality to operate with a deficit.
Effect of Condition	The Municipality did not comply with the Article 7.011, Section (a), Article 8.004 (b) and Section 3 of the revised regulation over basic Standard for Municipalities of Puerto Rico.
Recommendation	We recommend management to evaluate the adequacy of the provision for deficit reserve accounts in the next budget for the amortization of public debt as recommend by Law. Also, the Municipality's officers must evaluate the negative variances between budgeted revenues and actual revenues trend to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year.
Questioned Costs	None
Management Response and Corrective Action	Management is aware of the continued trend of accumulated deficits been reflected in the Municipality's financial statements during the last four fiscal years ending of June 30, 2012, 2013, 2014 and 2015. Such deficits are mainly attributable to various factors related to the serious economic recession being faced by the Island for more than seven years. Such event is beyond management control. The real estate sector has been one of the most adversely affected by the economic contraction. Contractors and investors have assumed a more conservative position in project development, especially in the area of housing since the prevailing market environment has moved sales to the real estate owned (REO's).

Section II – Financial Statements Findings

Finding Reference **2015-003 (Continued)**

**Management Response
and Corrective Action** (Continued)

This in turn has remarkably limited the collection of a special taxes levied by the Municipality over construction costs. Sources of financing from financial institutions have been highly controlled by federal regulators.

In view of the aforementioned situation, managed has adopted a more conservative approach towards revenues estimates and implemented a cost control program to attain additional savings in current expenses. Such control include among others, wages and salaries, fringe benefits, maintenance expenses, and other related items.

Implementation Date: During the 2015-2016 fiscal year

Responsible Person: Mrs. Iris Judith Ramos
Finance Department Director

Section II – Financial Statements Findings

Finding Reference	2015-004
Requirement	Expenditures for Goods and Services and Accounts Payable – Purchasing and Receiving and Cash Receipts
Statement of Condition	<p>We performed a disbursement test and a cash receipt test, the following summarize the exceptions:</p> <ul style="list-style-type: none"> a. For disbursement test, we examined a sample of fifty-nine (59) disbursements. <ul style="list-style-type: none"> 1. In two (2) cases, the disbursement evidence was not available for our examination. 2. In twelve (12) cases, there was no evidence of the quotations. 3. In four (4) cases, there was no evidence of bids adjudication for the supplier. b. For cash receipt, test we examined a sample of twenty-five (25) collections and we noted: <ul style="list-style-type: none"> 1. In three (3) cases, the receipts were not available for our examination. 2. In one (1) case, taxpayer file's was not available for our examination.
Criteria	<p>The Section Fourteen (14), Chapter Four (4) of the Regulations for the Municipal Administration establishes that the receipts, cancelled checks, and any other document justifying a payment, must be filed by the Director of finance. Also, in Section one (1) Chapter Eight (8) establishes that all purchases of materials, food, services, medicines, equipment and any contract for any construction, work or public improvement shall be made through competition.</p> <p>In Addition, Section Fourteen (14), Chapter ten (10) stablishes once payment has been made, the official or assistant shall issue to the person a receipt, model No. 1, in original and two (2) copies; the original will be delivered or sent to the person making the payment and the first copy shall be accompanied with the relationship of copies submitted to the Director of Finance. The remaining copy will be retained as a record of the transactions carried out.</p>
Cause of Condition	Internal control procedures failed to assure that disbursements and cash receipts evidence were properly filed and documented.
Effect of Condition	In these cases, the Municipality did not comply with regulations stated in Section Fourteen (14) of the Chapter Four (4), Section One (1) of Part Three (3) of Chapter Eight (8) and Section Fourteen (14) of the Chapter Ten (10) the Regulations for the Municipal Administration.

Section II – Financial Statements Findings

Finding Reference **2015-004 (Continued)**

Recommendation The Municipality should establish adequate monitoring procedures to assure that disbursements and collections will be in accordance to regulations. Also, an evaluation of document control should be made to safeguard important documentation about daily transactions and taxpayer's files.

Questioned Costs None

**Management Response
And Corrective Action** We are improving our internal controls in order to ensure that all required information is obtained before making a disbursement. Also, we are in process of improving controls to safeguard all documents.

Implementation Date: During the 2015-2016 fiscal year

Responsible Person: Mrs. Iris Judith Ramos
Finance Department Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-005
Program	Child Care and Development Block Grant (CFDA 93.575); U.S. Department of Health and Human Services; Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN)
Requirement	Reporting
Statement of Condition	During our audit procedures, we noted that the Program submit quarterly expenditures reports between four to ninety-five (4-95) days late. The Program also submitted the annual closing report for the program year forty-four (44) days later of the limit date and did not submit the obligations reports as required by the recipient agency.
Criteria	45 CFR Part 98.67 (c) Fiscal control and accounting procedures shall be sufficient to permit: (1) Preparation of reports required by the Secretary under this subpart and under subpart H; and (2) The tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the provisions of this part.
Cause of Condition	The Program does not have effective internal controls to ensure that the required documentation and reports are submitted to the pass-through agency in the requested time frame.
Effect of Condition	The Program is not in compliance with 45 CFR Part 98.67- Fiscal Requirements (c) (1) (2).
Recommendation	Management should take the necessary steps to ensure that the Program submits its financial reports within the time frame required by the state pass-through agency.
Questioned Costs	None
Management Response and Corrective Action	Municipality will take adequate measures to establish effective internal controls to submit reports within the set dates. Implementation Date: During the 2015-2016 fiscal year Responsible Person: Mrs. Janet López Child Care Program Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-006
Program	Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Cash Management (C)
Statement of Condition	<p>The Municipality’s internal control over compliance with the cash management requirements of federal program is not effective since it is not minimizing the time elapsed between the receipt and disbursement of funds. In our drawdown test over seventeen (17) fund requisitions, we noted the following exceptions:</p> <p style="padding-left: 40px;">a) In five (5) fund requisitions for \$39,587, we observed that the Municipality made the disbursements between ten (10) to sixty-nine (69) days after the deposits;</p>
Criteria	<p>24 CFR Subpart C, Section 85.20 (b) (7), <i>Cash management</i>. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on sub grantees’ cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency.</p> <p>24 CFR Subpart I, Section 570.489 (c), <i>Federal grant payments – (1) Payment</i>. The state shall be paid in advance in accordance with Treasury Circular 1075 (31 CFR part 205). The State shall use procedures to minimize the time elapsing between the transfer of grant funds and disbursement of funds by the State to units of general local government. Units of general local government shall also use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for CDBG activities.</p>
Cause of Condition	The Municipality’s disbursements procedures failed to assure that funds requested and received from grantor be disbursed in compliance with the Code of Federal Regulations Requirements. The above conditions are the result of inadequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.
Effect of Condition	This situation could cause reimbursement of funds to the federal agencies by maintains excess cash on hand.
Recommendation	The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by CDBG regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within five (5) days.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2015-006 (continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality will take adequate measures to streamline the process between the Finance Department and the Federal Department, to comply with the requirement to disburse the funds received in the established time.

Implementation Date: Immediately

Responsible Person: Mrs. Rosa Flores
Community Development Block Grants Program Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-007
Program	Child and Adult Care Food Program (CFDA. No. 10.558) U.S. Department of Agriculture
Requirement	Equipment and Real Property Management
Statement of Condition	We realized the Equipment and Real Property Management test and we found that inventory did not contain property tag number, title, cost, localization and percentage of federal participation in cost.
Criteria	Subpart C, 45 CFR 92.32 (d) (1) and (d) (2) states that property records must include a description of the property, serial number or other identification number, the source of the property, percentage of Federally participation in the property, the location, use and condition of the property, any ultimate disposition data including the date of the disposal and sale price of the property. Also, a physical inventory of the property must be taken at least once every two years and the result reconciled with the property records.
Cause of Condition	The Municipality does not maintain an inventory of the information required by the program.
Effect of Condition	The Municipality is not in compliance with Subpart C, 45 CFR, 92.32 (d) (1) and (d) (2).
Recommendation	We recommend that the Municipality should establish procedures in order to assure the proper valuation and timeliness of recognition of property and equipment in the Inventory in a manner that it provides updated and complete financial information.
Questioned Costs	None
Management Response and Corrective Action	<p>The municipality is in process of preparation an inventory that has all the required information. In addition, an inventory will be completed to ensure that the equipment is accountable.</p> <p>Implementation Date: Immediately</p> <p>Responsible Person: Mrs. Janet López Child and Adult Care Food Program Director</p>

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
2014-003	14.228	<p>We performed a housekeeper activities test of seven (7) participant's files and the following situations were noted:</p> <ul style="list-style-type: none"> a) Seven (7) participant's files did not have the application form (OCAM-AH-002) dated when it was completed. Also, in one (1) case the application was not signed by the participant. b) In six (6) participant's files, the approval or denial form was not completed in all of its parts, was not dated or signed by the Programs Director. c) Six (6) participant's files did not have the participation contract (OCAM-AH-005) completed in all of its parts and duly signed by the participant and the program director. d) In four (4) participant's files the health certificate of the housekeeper was not updated as established in the program's procedures. e) One (1) participant's file, the Service Coordinator did not perform the monitoring visits of May and June 2014; with the form OCAM-AH-006 completed. <p>Corrective action was taken. A similar situation was not identified during fiscal year ended June 30, 2015.</p>
2014-004	14.228	<p>We examined the Financial Quarterly Reports submitted during fiscal year 2013-2014 and identified differences between the amounts presented in the Financial Quarterly Reports and the amounts presented in the Program's General Ledger. Also, one (1) quarterly report was submitted after due date.</p> <p>Corrective action was taken. A similar situation was not identified during fiscal year ended June 30, 2015.</p>
2014-005	93.575	<p>During our audit procedures we noted that the Program did not maintained a staff in charge of the accounting records of the program during fiscal year 2013-2014. This situation caused that the required funds requisitions needed to cover the operations maintained during this period were not performed. The program expenditures were covered with the operational fund of the Municipality.</p> <p>Corrective action was taken. A similar situation was not identified during fiscal year ended June 30, 2015.</p>
2014-006	93.575	<p>During our audit procedures, we noted that the Program did not submitted quarterly expenditures and obligations reports as required by the recipient agency. The Program only submitted the annual closing report for the program year ended on September 30, 2014.</p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 2015-004.</p>

