

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY**

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES**

YEAR ENDED JUNE 30, 2017

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY**

**BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2017**

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Gil Alberto Ortiz Cabrera

Certified Public Accountant & Professional Consultants

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Accountants (AICPA)
Puerto Rico Board of Certified Public
Accountants*

INDEPENDENT AUDITOR'S REPORT

Hon. Edwin García Feliciano and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Camuy
Camuy, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Camuy (the Municipality), Commonwealth of Puerto Rico, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions

As discussed in Note K to the basic financial statements, the Municipality has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. Accordingly,

1. The Municipality has not been able to determine and account for its proportionate share of net pension obligation, deferred inflow of resources and deferred outflow of resources, related to pension costs and,
2. The Municipality has not recognized the effect of current period changes in net pension obligation, deferred outflow of resources and deferred inflow of resources as these relate to pension costs.

Accounting principles generally accepted in the United States of America require that pension related liability, deferred outflow of resources, deferred inflow of resources, as applicable, be recognize in accordance with parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase the deficit, and change the pension expenses of the governmental activities. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, deficit, and expenses of the governmental activities has not been determined.

The accompanying notes to the financial statements do not disclose the pension cost information required by Statement No. 68. In My 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 and Note Disclosure Regarding Pensions” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the Municipality, as of June 30, 2017, 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, as of June 30, 2017, 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 Omitted

The Municipality has omitted the Schedule of the Municipality’s Proportionate Share of the Net Pension Liability, and the Schedule of Municipality’s Contributions to the Employees’ Pension Plan, information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by the information omitted.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 4 - 10 and 43 - 44 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 my inquiries, the basic financial statements, and other knowledge I obtained during my 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.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **the Municipality's** financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2018, 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 of Camuy's internal control over financial reporting and compliance.



CPA GIL A. ORTIZ CABRERA

San Juan, Puerto Rico
July 22, 2018
License 1332 in force
The stamp number 02759060
was affixed to the original report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

Management of the Municipality of Camuy of the Commonwealth of Puerto Rico (the Municipality) provides this *Management's Discussion and Analysis* (MD&A) for the readers of the Municipality's basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2017. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

During fiscal year ended June 30, 2003, the Municipality implemented the new required financial reporting standards established by Statement No. 34, *Basic Financial Statements – and Management's Discussion – and Analysis – for State and Local Governments*, issued by the Governmental Accounting Standards Board (GASB No. 34).

FINANCIAL HIGHLIGHTS

a) Government-Wide Highlights

- **Assets** – The Municipality has reported assets amounting to \$50.4 millions in the accompanying statement of net assets, of which the most significant are capital assets and cash amounting to \$37.1 millions, \$10.2 millions, respectively.
- **Liabilities** – The Municipality has reported liabilities amounting to \$24.1 millions in the accompanying statement of net assets, of which the most significant are Intergovernmental payable, deferred inflows, and other noncurrent liabilities amounting to \$2.2 million, \$4.6 millions, and \$15.5 millions, respectively.
- **Net position** – The assets of the Municipality exceeded its liabilities by \$26.3 millions at June 30, 2017, which is presented as “total net position” in the accompanying statement of net position. Restricted net assets and unrestricted deficit amounted to \$5.0 millions, and (\$6.4) millions, respectively. Net assets invested in capital assets amounted to \$27.7 millions.
- **Net change in net position** – The Municipality's net assets decreased by \$1.5 millions during fiscal year ended June 30, 2017. Net position at June 30, 2017 amounted to \$26.2 millions. The decreased in net position was principally for the decrease in revenues from operating and capital grants and contributions.
- **Revenues** – The Municipality has reported total revenues amounting to \$16.4 millions in the accompanying statement of activities, of which the most significant are property tax, municipal license and sales tax revenues (\$5.6 millions) and operating and capital grants and contributions (\$10.5 millions).
- **Expenses** – The Municipality has reported total expenses amounting to \$17.9 millions in the accompanying statement of activities.

b) Governmental Funds Highlights

- **Assets** – The Municipality's governmental funds have reported combined assets amounting to \$17.9 millions in the accompanying balance sheet – governmental funds, of which the most significant are cash, cash with fiscal agent, due from governmental agencies and due from other funds, amounting to \$8.1 millions, \$2.1 millions, \$3.1 millions and \$4.6 millions, respectively.
- **Liabilities** – The Municipality's governmental funds have reported combined liabilities amounting to \$13.1 millions in the accompanying balance sheet – governmental funds, of which the most significant are intergovernmental payable, due to other funds, and deferred revenues amounting to \$2.2 millions, \$4.6 millions and \$4.6 millions, respectively.
- **Governmental fund balances** – The Municipality's governmental funds reported combined fund balance amounting to \$4.7 millions, of which \$5.0 millions and \$0.3 millions represent designated fund balance and unreserved fund deficit, respectively.
- **Net change in governmental fund balances** – The Municipality's governmental fund balances decreased by \$2,069,149 during the fiscal year ended June 30, 2017. Governmental fund balances at June 30, 2017 amounted to \$4.7 millions. The decrease in fund balances represents the excess of expenditures and other financing uses over (under) revenues and other financing sources.
- **Revenues** – The Municipality's governmental funds have reported combined revenues amounting to \$16.4 millions in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, of which the most significant are property taxes, intergovernmental grants and contributions, and federal grants amounting to \$3.5 millions, \$7.9 millions, and \$2.2 millions, respectively.
- **Expenditures** – The Municipality's governmental funds have reported combined expenditures amounting to \$18.5 millions in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, of which the most significant are categorized as general government; health and welfare, public works and sanitation, public housing, and capital outlays amounting to \$6.9 millions, \$2.2 millions, \$3.1 millions, \$1.1 millions, and \$1.4 millions, respectively.

USING THIS ANNUAL REPORT

This annual report consist of a series of financial statements similar to the previous financial statements. The focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements (collectively known as the basic financial statements). This report also contains additional required supplementary information (budgetary schedules) and other supplementary information (combining financial statements) in addition to the basic financial statements themselves. These components are described below:

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2017 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Position

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

Statement of Activities

The statement of activities presents information showing how the Municipality's net position changed during the fiscal year ended June 30, 2017. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality. Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

Fund Financial Statements

The Municipality's fund financial statements, which consist of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) joint resolutions fund, (4) loan guarantee fund, (5) permanent improvement fund, (6) FPCE special communities fund, and (7) other non-major funds, (collectively known as the "governmental funds").

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. For financial reporting purposes the Municipality has three major funds: (1) the general fund, (2) state legislature joint resolutions, and (3) Loan Guarantee Fund.

Notes to the Basic Financial Statements

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

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in governmental financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Financial Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2002, the Municipality commenced the prospective and retroactively reporting of infrastructure assets. Also the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, net deficit (excess of liabilities over assets) amounted to \$6.4 millions at June 30, 2017, compared to net deficit of \$6.0 millions at the end of the previous year. The largest portion of the Municipality's net position are invested in capital assets, net of their related debt (\$27.7 millions). The Municipality's net position is also composed of net assets amounting to \$5.0 millions that are restricted for (1) future debt service payments, (2) the future acquisition or construction of capital assets and (3) other purposes, mainly the financing of federal and state assisted programs. In addition, the Municipality's unrestricted deficit reported is \$6.4 millions.

The unrestricted deficit is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations.

The portion of the Municipality's net assets invested in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets., are used by the Municipality to provide services to its citizens; consequently these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the debt service fund, since the capital assets themselves cannot be used to liquidate these liabilities.

The following is a condensed presentation of the Municipality's financial position, as reported in the government-wide financial statements:

Condensed Statement of Net Position:

	2017	2016	Change	%
Current assets	\$ 13,301,796	\$ 14,965,502	\$ (1,663,706)	(11%)
Noncurrent assets	37,081,032	37,558,996	(477,964)	(1%)
Total assets	<u>50,382,828</u>	<u>52,524,498</u>	<u>(2,141,670)</u>	(4%)
Current liabilities outstanding	8,562,716	8,157,273	405,443	5%
Noncurrent liabilities outstanding	15,533,767	16,542,089	(1,008,322)	(6%)
Total liabilities	<u>24,096,483</u>	<u>24,699,362</u>	<u>(602,879)</u>	(2%)
Net position/(liabilities):				
Net investment in capital assets	27,655,042	27,284,006	371,036	1%
Restricted	4,997,410	6,559,090	(1,561,680)	(24%)
Unrestricted	(6,366,107)	(6,017,960)	(348,147)	6%
Total net position	<u>\$ 26,286,345</u>	<u>\$ 27,825,136</u>	<u>\$ (1,538,791)</u>	(6%)

Changes in Net Position

The Municipality's net position decreased by \$1.5 millions. Approximately 34.73 percent of the Municipality's total revenues came from taxes and licenses, while 64.08 percent resulted from restricted and unrestricted capital and operating grants, contributions and reimbursements, including federal financial assistance. The Municipality's expenses cover a range of services. The largest expenses were for health and welfare (11.92 percent), public works and certain capital outlays (23.38 percent), general government (34.90 percent) and community development (7.25 percent). The following is a condensed presentation of the Municipality's results of operations, as reported in the government-wide financial statements:

Condensed Statement of Activities:	2017	2016	Change	%
Capital and operating and other contributions	\$ 3,035,287	\$ 3,793,568	\$ (758,281)	(20%)
Property taxes	3,490,550	3,766,403	(275,853)	(7%)
Municipal license taxes	892,042	912,506	(20,464)	(2%)
Sales Tax	1,220,540	1,378,048	(157,508)	(11%)
Licenses, permits and other local taxes	90,621	64,905	25,716	40%
Grants and contributions not restricted to specific programs	7,468,742	6,830,752	637,990	9%
Interests, rent, fines and penalties	98,250	165,840	(67,590)	(41%)
Other contributions and miscellaneous	96,311	283,292	(186,981)	(66%)
Total revenues	16,392,343	17,195,314	(802,971)	(5%)
Expenses:				
General government	6,641,922	5,992,509	649,413	11%
Public safety	1,307,052	1,055,680	251,372	24%
Culture and recreation	1,247,500	1,191,773	55,727	5%
Health and welfare	2,266,334	2,415,484	(149,150)	(6%)
Public Works and capital outlays	3,359,591	3,583,215	(223,624)	(6%)
Public Housing and related	1,101,343	1,083,843	17,500	2%
Community development	1,383,279	2,197,521	(814,242)	(37%)
Interest on bonds and notes	624,113	533,370	90,743	17%
Total expenses	17,931,134	18,053,395	(122,261)	(1%)
Net increase in net position	(1,538,791)	(858,081)	(680,710)	79%
Net position - at beginning of year	27,825,136	28,683,217	(858,081)	(3%)
Net position - at end of year	\$ 26,286,345	\$ 27,825,136	\$ (1,538,791)	(6%)

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS

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

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

Condensed Balance Sheet - Governmental Funds:

	2017	2016	Change	%
Cash and cash with Fiscal Agent	\$ 10,201,944	\$ 11,858,476	\$ (1,656,532)	(14%)
Due from Governmental Entities	3,095,234	3,102,408	(7,174)	-
Due from other funds and other receivables	4,590,918	4,738,505	(147,587)	(3%)
Total assets	<u>17,888,096</u>	<u>19,699,389</u>	<u>(1,811,293)</u>	<u>(9%)</u>
Accounts payable and accrued liabilities	849,034	779,787	69,247	9%
Due to Governmental Entities	2,160,338	1,677,875	482,463	29%
Deferred revenues	4,646,348	4,796,161	(149,813)	(3%)
Maturity bonds and interest payable	906,996	903,450	3,546	-
Due to other funds	4,586,300	4,733,887	(147,587)	(3%)
Total liabilities	<u>13,149,016</u>	<u>12,891,160</u>	<u>257,856</u>	<u>2%</u>
Fund Balances (Deficit):				
Reserved or designated	4,997,410	6,559,090	(1,561,680)	(24%)
Unrestricted or undesignated	(258,330)	249,139	(507,469)	(204%)
Total net position	<u>\$ 4,739,080</u>	<u>\$ 6,808,229</u>	<u>\$ (2,069,149)</u>	<u>(30%)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

The accompanying statement of net assets reported total gross capital assets, at cost, amounting to \$67.64 millions at June 30, 2017. The related accumulated depreciation and amortization of capital assets amounted to \$30.6 millions at June 30, 2017. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems and similar items. Actual costs incurred to purchase or construct capital assets were \$1.1 millions for the year ended June 30, 2017. Depreciation and amortization charges for the year totaled \$1.56 millions.

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

Debt Administration

The laws and regulations of the Commonwealth of Puerto Rico have 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 laws and regulations also require 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 the Government Development Bank for Puerto Rico, 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 laws and regulations 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 BUDGETS AND RATES

The Municipality relies primarily on property and municipal license taxes, as well as, federal and state grants to carry out the governmental activities. Historically, property and municipal license taxes have been very predictable with increases not generally exceeding ten percent. Federal grant revenues may vary if new grants are available but the revenue is also very predictable.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and demonstrate the Municipality's accountability. If you have any questions about the report or need additional financial information, contact the Municipality's Director of Finance, Ms. Yinelva Román Bonilla, at Department of Finance, PO Box 1544 Camuy, Puerto Rico, 00539, or call (787) 898-2160.

**Commonwealth of Puerto Rico
Municipality of Camuy
Statement of Net Position
June 30, 2017**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 8,121,275
Cash with Fiscal Agent	2,080,669
Other receivable	4,618
Due from Governmental Entities	3,095,234
Capital Assets	
Land, improvements, construction in progress and other capital assets, net of depreciation of \$30,557,659	37,081,032
Total assets	\$ 50,382,828
<u>Liabilities and Net Position</u>	
Liabilities	
Accounts payable and accrued liabilities	\$ 849,034
Due to Governmental Entities	2,160,338
Deferred inflows:	
Municipal license taxes	743,045
Grants and contributions	3,903,303
Mature bonds payable	745,000
Mature interests payable	161,996
Noncurrent liabilities:	
Due within one year	864,990
Due in more than one year	14,668,777
Total liabilities	24,096,483
<u>Net Position</u>	
Invested in capital assets, net of related debt	27,655,042
Restricted for:	
Other purposes	3,404,972
Debt service	1,592,438
Unrestricted (deficit)	(6,366,107)
Total net position	26,286,345
Total liabilities and net position	\$ 50,382,828

**Commonwealth of Puerto Rico
Municipality of Camuy
Statement of Net Assets
June 30, 2017**

Functions/Programs	Expenses including Depreciation	Program Revenues			Net (Expense) Revenue and Change in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 6,641,922	\$ 90,621	\$ 254,815	\$ -	\$ (6,296,486)
Culture and recreation	1,247,500	-	-	-	(1,247,500)
Public safety	1,307,052	-	50,216	-	(1,256,836)
Health and welfare	2,266,334	-	471,259	-	(1,795,075)
Public works and capital outlays	3,359,591	-	-	469,653	(2,889,938)
Public housing and related	1,101,343	-	1,089,149	-	(12,194)
Interest on long-term debt	624,113	-	179,256	-	(444,857)
Community development	1,383,279	-	520,939	-	(862,340)
Total governmental activities	\$ 17,931,134	\$ 90,621	\$ 2,565,634	\$ 469,653	(14,805,226)

General Revenues:

Property tax	3,490,550
Municipal license taxes	892,042
Sales Tax	1,220,540
Grants, contributions and intergovernmental revenues	7,468,742
Fines and forfeitures	10,068
Rent of Property	51,056
Interests and investments earnings	37,126
Other contributions and miscellaneous	96,311
Total general revenues	13,266,435
 Change in net position	 (1,538,791)
 Net position - beginning of year	 <u>27,825,136</u>
 Net position - ending	 <u>\$ 26,286,345</u>

Commonwealth of Puerto Rico
Municipality of Camuy
Balance Sheet – Governmental Funds and Reconciliation of the Governmental Funds
Balance Sheet to the Governmental-Wide Statement of Net Position
June 30, 2017

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Joint Resolutions	Loan Guarantee Fund	Debt Service Fund	Other Non-Major Funds	
<u>Assets</u>						
Cash and cash equivalents	\$ 324,457	\$ 28,658	\$3,569,208	\$1,505,995	\$2,692,957	\$ 8,121,275
Cash with Fiscal Agent	-	-		993,439	1,087,230	2,080,669
Other receivables	-	-	-	-	4,618	4,618
Due from Governmental Entities	1,874,043	-	-	-	1,221,191	3,095,234
Due from other funds	2,508,356	649,352	-	-	1,428,592	4,586,300
Total assets	<u>\$ 4,706,856</u>	<u>\$ 678,010</u>	<u>\$3,569,208</u>	<u>\$2,499,434</u>	<u>\$6,434,588</u>	<u>\$ 17,888,096</u>
<u>Liabilities and Fund Balances (Deficit)</u>						
<u>Liabilities</u>						
Accounts payable and accrued liabilities	\$ 764,298	\$ -	\$ -	\$ -	\$ 84,736	\$ 849,034
Due to Governmental Entities	2,160,338	-	-	-	-	2,160,338
Deferred revenues:						
Municipal license taxes	743,045	-	-	-	-	743,045
Grants and contributions	-	-	3,461,520	-	441,783	3,903,303
Mature bonds payable	-	-	-	745,000	-	745,000
Mature interests payable	-	-	-	161,996	-	161,996
Due to other funds	1,297,505	158,000	93,599	-	3,037,196	4,586,300
Total liabilities	<u>4,965,186</u>	<u>158,000</u>	<u>3,555,119</u>	<u>906,996</u>	<u>3,563,715</u>	<u>13,149,016</u>
<u>Fund Balances (Deficit):</u>						
Reserved for:						
Other purposes	-	520,010	14,089	-	2,870,873	3,404,972
Debt service	-	-	-	1,592,438	-	1,592,438
Unreserved:						
Undesignated	(258,330)	-	-	-	-	(258,330)
Total fund balances (deficit)	<u>(258,330)</u>	<u>520,010</u>	<u>14,089</u>	<u>1,592,438</u>	<u>2,870,873</u>	<u>4,739,080</u>
Total liabilities and fund balances	<u>\$ 4,706,856</u>	<u>\$ 678,010</u>	<u>\$3,569,208</u>	<u>\$2,499,434</u>	<u>\$6,434,588</u>	

Reconciliation of the Governmental Funds Balance Sheet to the Governmental-Wide Statement of Net Position:

Amounts reported for governmental activities in the statement of net assets are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

Other long-term liability are not available to pay current period expenditures and therefore are offset by

37,081,032

Long-Term liabilities are not due and payable in the current period, and therefore, are not reported in the funds (15,533,767)

Net position of governmental activities \$ 26,286,345

**Commonwealth of Puerto Rico
Municipality of Camuy
Statements of Revenues, Expenditures and Changes in Funds Balances – Governmental Funds
For the Year Ended June 30, 2017**

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Joint Resolutions	Loan Guarantee Fund	Debt Service Fund	Other Non-Major Funds	
Revenues:						
Property tax	\$2,480,347	\$ -	\$ -	\$ 1,010,203	\$ -	\$3,490,550
Municipal license taxes	892,042	-	-	-	-	892,042
Sales tax	1,220,540	-	-	-	-	1,220,540
Licenses, permits and other local taxes	86,148	-	-	-	-	86,148
State and intergovernmental contributions	7,388,786	69,000	-	-	485,250	7,943,036
Charges for services and other contributions	4,473	-	-	-	4,619	9,092
Rent of property	47,368	-	-	-	3,688	51,056
Fines and forfeitures	10,068	-	-	-	-	10,068
Interests	-	-	1,575	10,625	24,926	37,126
Federal grants and other contributions	-	-	-	-	2,215,125	2,215,125
Other revenues and miscellaneous	96,311	-	-	-	341,249	437,560
Total revenues	<u>12,226,083</u>	<u>69,000</u>	<u>1,575</u>	<u>1,020,828</u>	<u>3,074,857</u>	<u>16,392,343</u>
Expenditures:						
General government	6,429,453	-	-	-	254,815	6,684,268
Culture and recreation	784,724	-	-	-	13,940	798,664
Public safety	1,169,445	-	-	-	50,216	1,219,661
Health and welfare	1,713,469	-	-	-	471,259	2,184,728
Public works and sanitation	2,505,769	-	-	-	561,208	3,066,977
Public housing and related Community and economic development	-	-	-	-	1,089,149	1,089,149
Capital outlays	-	313,796	-	-	1,064,197	1,377,993
Debt service:						
Principal	110,000	-	195,000	590,000	-	895,000
Interests	42,646	-	179,256	402,211	-	624,113
Total expenditures	<u>12,755,506</u>	<u>313,796</u>	<u>374,256</u>	<u>992,211</u>	<u>4,025,723</u>	<u>18,461,492</u>
Excess (Deficiency) of revenues over expenditures	(529,423)	(244,796)	(372,681)	28,617	(950,866)	(2,069,149)

Other financing sources (uses):						
Operating transfer - In	28,455	-	159,081	-	313,032	500,568
Operating transfer - Out	(6,501)	-	-	(10,312)	(483,755)	(500,568)
Total other financing sources (uses)	21,954	-	159,081	(10,312)	(170,723)	-
Net change in fund balances	(507,469)	(244,796)	(213,600)	18,305	(1,121,589)	(2,069,149)
Fund balance, beginning	249,139	764,806	227,689	1,574,133	3,992,462	6,808,229
Fund balance, ending	\$(258,330)	\$ 520,010	\$ 14,089	\$ 1,592,438	\$ 2,870,873	\$4,739,080

**Commonwealth of Puerto Rico
Municipality of Camuy
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Funds to the Statement of Activities
For the year ended June 30, 2017**

Governmental Activities amounts reported in the statement of activities and the Net Change in fund balance reported in the statement of Revenue, Expenditures and changes in Fund Balance - Governmental Funds \$ (2,069,149)

Add (deduct):

Some expenditures reported in the statement of revenues and expenditures and changes in fund balance, however these costs are not reported in the statement of activities, such as principal payments of L/T Debts. 1,076,772

Some other expenditures not reported in the statement of revenues and expenditures and changes in fund balance, however these costs are reported in the statement of activities, such as net increase in compensated absences. (68,450)

Governmental Funds report capital outlays as expenditures, however in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expenses. This year the amount by which outlays exceed depreciation and amortization expense. (477,964)

Governmental Funds report proceeds from long-term debts as other financing sources, expenditures, however in the statement of activities, these proceeds are recorded as noncurrent liabilities. -

Net Change in net assets reported in statement of activities \$ (1,538,791)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Camuy was founded in 1807. The executive governs the Municipality and the legislative branch elected for a four-year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen (14) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitute GAAP for governmental units.

In June 1999, the Governmental Accounting Standard Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments". This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition, to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

The following new accounting standards were applicable to the Municipality effective July 1, 2014. However, those pronouncements, although adopted by the Municipality, were not implemented, as required, please refer to Note K.

1. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to establish standards for measuring and recognizing liabilities, deferred outflows of resources, and expense/expenditures. Employers are required to recognize a liability (Net pension liability) as employees earn their pension benefits, as they provide services to the Municipality. The Municipality, as an employer participating in the multiemployer retirement plan of the Administration for the Retirement Systems of the Commonwealth of Puerto Rico, must recognize its proportional share of the collective pension amounts for all benefits provided through the plan. Pension amount to be recognized by the Municipality includes the net pension liability, deferred outflows/inflows of resources (as applicable) and pension expense in GWFS. To the extent that a long-term obligation to provide pension benefits (that is, total pension liability) is larger than the value of the assets available in the plan to pay pension benefits, there is a collective net pension liability for which each employer will need to report its proportional share in their financial statements. Changes in net pension liability will be recognized immediately as pension expense or reported as deferred outflows of resources or deferred inflows of resources depending of the nature of the change.
2. GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement No. 71 requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 71 requires that the government recognize its contribution as a deferred outflow of resources.

In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other type of events. At transition to Statement 71, if it is not practical for an employer or non-employer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that the beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

As further explained on Note K, the Employees Retirement System of the Commonwealth of Puerto Rico did not provide the Municipality the information needed to adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"). Accordingly, these financial statements do not contain any adjustment, disclosures or required supplementary information established by GASB 68.

Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Camuy (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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 in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- b. The primary government appoints a voting majority of the potential component unit's governing body and,
 - 1) The primary government can impose its will on the potential component unit and/or,
 - 2) A financial benefit/ burden exists between the primary government and the potential component unit.

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

- a. 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.
- b. 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.
- c. 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.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete. Based on the above criteria there are no potential component units which should be included as part of the financial statements.

Basis of presentation, measurement focus and basis of accounting

The financial report of the Municipality consists of a Management Discussion and Analysis (MD&A), basic financial statements, notes to the 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 Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Basic financial statements

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. 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 Assets incorporates all capital (long lived) assets and receivables as well as long term debt and obligations. 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 expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed non-exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them 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 deferred revenues is removed and the revenue is recognized.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Statements

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, liabilities, reserves, 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 criterion, that is, a percentage of the assets, liabilities, revenues or expenditures (for Community Development Block Grant Program Fund) or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users (for Child Care/Head Start Program Fund and Debt Service Fund).

The Municipality reports the following major governmental funds:

General Fund: is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Joint Resolutions: is the accounting entity in which revenues derived from state grants, in accounted for. State statutes specify the uses and limitations of each special revenue fund.

Loan Guarantee Fund: is the accounting entity in which revenues are derived from federal funds sources related to capital projects, is accounted for. The uses and limitations of this fund are specified by federal statute.

Debt Service Fund: This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing (Uses) in net current assets.

The fund statements are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized as soon as they are 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. Expenditures generally are recorded when the related liability is incurred.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Property taxes (imposed non-exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred, subject to the availability criteria. Revenues on intergovernmental grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider has been met and revenue becomes available. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred.

Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available.

The Municipality reports deferred revenues in the governmental funds statements, which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them 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 revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred. 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);
- 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 government-wide statements the expense and related accrual liability for long term portions of debt must be included).

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. 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 - Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

Budgetary Control

According to the Autonomous Municipalities Act of the Commonwealth of Puerto Rico, the Mayor and its Administrative cabinet prepare each fiscal year an annual budget for the Municipality's General Fund and Debt Service Fund. Such legally adopted budget on expected expenditures by program and estimated resources by source for both funds.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Budgetary Control – Continued

The annual budget is developed using elements of performance-based program budgeting and zero-based budgeting, and includes an estimate of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

The Mayor must submit an annual budgetary resolution project (the project) to the Commissioner of Municipal Affairs of Puerto Rico (The Commissioner) and the Municipal Legislature no later than each May 10 and May 15, respectively. The Commissioner preliminarily verifies that the project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before each June 13.

The Municipal Legislature has ten (10) business days up to no later than June 13 to discuss and approve the project with modifications. The Municipal Legislature may amend the budget submitted by the Mayor, but may not increase any item so far to cause a deficit without imposing taxes or identifying other sources of revenues to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the project, the modified project is sent back to the Mayor for his approval or rejection within six (6) days. The Mayor may decrease or eliminate any item, but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the project, the Municipal Legislature will have up to eight (8) days to adopt or reject the recommendations or objections of the Mayor. The approved project is sent again to the Mayor, which then would have three (3) days to sign and approve it.

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

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

For day-to-day management control, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure type level of each cost center (activity within a program with a fund). The Mayor may transfer unencumbered appropriations within programs within funds. Appropriation control is by program a fund. The Municipal Legislature may transfer amounts among programs within and between funds. Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budget is prepared under a budgetary basis of accounting, which is not in accordance with GAAP. Under the budgetary basis of accounting, revenue is generally recognized when cash is received. Short-Term and long-term borrowings may be used to finance budgetary excess of expenditure over revenues.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Budgetary Control – Continued

Under the budgetary basis of accounting, the Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of the fiscal year.

Budgetary Accounting

Amounts required settling claims and judgment against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

Assets, liabilities and net Assets

1. *Cash, cash equivalents and cash with fiscal agents.*

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. 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 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 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 general and other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB (Governmental Development Bank) or a federal government agency.

2. *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 federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property tax revenue of current fiscal year collected by the CRIM on the first month (July) of subsequent fiscal year.

3. Inter-fund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due from/to other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans).

All Other outstanding balances between funds are reported as “due from/to other funds”.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the Statement of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The costs 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.

All capital assets, other than land, are depreciated using the straight-line method of the ninety-percent of usage value over the following useful lives:

<u>Description</u>	<u>Years</u>
Land Improvements	20
Buildings, structures and building improvements	50
Infrastructure	20 to 50
Vehicles	8
Furniture and fixtures	5 to 20
Machinery and equipment, excluding those held under capital leases	5 to 20

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

5. 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 Assets, consists of general and special obligation bonds, liabilities for compensated absences, legal claims and judgments, long-term liabilities, and other governmental entities.

6. *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 liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employees (such as systems and others). The vacation policy of the Municipality provides for the accumulation of regular vacations and sick leave. Employees at a rate of 1.5 times the overtime worked accumulate compensatory time. All vacations and sick leave days accumulated by employees in excess of 60 days and 90 days, respectively, are paid to employees each year if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ day per month of sick pay and compensatory time up to a maximum of 60 days of vacations.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of sick leave, if the employee terminates his or her employment with the Municipality before reaching 10 years of service, such regular sick leave days is not paid to the employee. After 10 years of services any sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employees at any time 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.

7. Reservations of Fund balances and Net Position

a. Reservations of Fund balances:

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balance represent portions of the fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

Debt Service: Represents net assets available to finance future debt service payments.

Other purposes: Represent net assets available for specific use and/or legally segregated for other specific future use.

b. Net position

In the government-wide statements net assets are segregated into three categories:

Net investment in capital assets: Consists of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

Restricted net position: Represents net assets that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).

Unrestricted net position: Represent net assets that do not meet the definition of net assets Invested in capital assets, net of related debt or restricted. Unrestricted assets are 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. Designations are not reported on the face of the statement of net assets.

8. *Inter-fund transactions*

The Municipality reports certain transactions as operating transfers, which are legally required transfers that are reported when incurred as “Operating transfers-in” by the recipient fund and as “Operating transfers-out” by the disbursing fund.

9. *Risk financing*

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Costs of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2017 amounted to \$119,357 and additional amount directly paid by the Municipality amounted to \$53,107, for a total insurance cost of \$172,464. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$279,114 for workers’ compensation insurance covering all municipal employees.

10. *Use of estimates*

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

11. *Recent and Future adoption of accounting pronouncements*

Recent adoption of accounting pronouncements

The Municipality adopted the following statements during years ended June 30, 2017 and 2016:

- GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structure fund balance classifications, and by clarifying the definitions of existing governmental fund types. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. This new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial report.
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. GASB 63 also amends certain provisions of Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.
- GASB Statement No. 68 "*Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*". The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pension. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement will bring the effect of *GASB Statement No. 67 "Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25"* into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems.

Cost-sharing employers of the Retirement Systems would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement No. 67 based on their respective individual proportion to the collective net pension liability of all the governments participating. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.
- GASB Statement No. 69 "*Government Combinations and Disposals of Government Operations*". This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.
- GASB Statement No. 70 "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*". The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- GASB Statement No. 71 *“Pension Transition for Contributions Made Subsequent to the Measurement Date”*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. This Statement amends paragraph 137 of **GASB Statement No. 68** to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.
- GASB Statement No. 72 *Fair Value Measurement and Application (Issued 2/15)*. The objective of this Statement is to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The Government Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. However, **The Municipality** has not currently determined what, if any, impact implementation of these statements may have on the financial statements.

Future adoption of accounting pronouncements - The GASB has issued the following statements, which the Municipality has not yet adopted:

GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15)*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of this Statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans other than Pension Plans (Issued 06/15)*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Issued 06/15)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Issued 06/15)*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

GASB Statement No. 77 *Tax Abatement Disclosures (Issued 08/15)*. The objective of this Statement is to require disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pension Provided Through Certain Multiple-employer Defined Benefit Plans*. This statement addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pension provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pension. Prior to the issuance of this statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pension through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement. This Statement is not effective until fiscal year 2016. The impact of these statements on the Municipality's basic financial statements has not yet been determined.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualified for that reporting if it meets all of the applicable criteria established in this Statement. The specified criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification and liquidity; (3) calculation and requirements of a shadow price. This statement is not effective until fiscal year 2016, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net position-governmental activities are reported in the governmental-wide statement of net assets. The two elements of that reconciliation explain that “long-term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds, and that capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

The detail of this reconciliation is as follow:

		<u>Total Position Governmental Activities</u>
<u>Net Assets invested in capital assets, net of related debt</u>		
Capital Assets	\$ 37,081,032	
Deduct: Bonds Payable	<u>(9,425,990)</u>	\$26,655,042
<u>Assets restricted for Specific purpose</u>		
Fund Balance restricted for other purposes		3,404,972
<u>Net Assets restricted for Debt Service</u>		
Fund balance restricted for debt service		1,592,438
<u>Net Assets unrestricted (deficit)</u>		
General Fund – Total fund deficit	\$ (258,330)	
Deduct:		
Compensated absences	(2,067,078)	
Advances from CRIM	(757,599)	
Claims and Judgment	(110,000)	
CRIM delinquent accounts - Law	(64,100)	
Section 108	<u>(3,109,000)</u>	<u>(6,366,107)</u>
Total net position – governmental activities		<u>\$ 26,286,345</u>

NOTE B – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico.

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 **Municipalities are** insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by **the Municipality** are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in **the Municipality’s** name by the agents of the Commonwealth’s Secretary of Treasury.

NOTE B – CUSTODIAL CREDIT RISK - DEPOSITS- Continued

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. The Secretary of Treasury of Puerto Rico in the Municipality’s name holds all securities pledged as collateral by the Municipality. At year end the Municipality’s bank balance in commercial banks amounts to \$8,121,275.

Deposits in governmental banks are uninsured and uncollateralized. At year end the Municipality’s bank balance in governmental banks amounts to \$2,080,669.

Deposits with GDB are uninsured and unsecured. As of June 30, 2017, the GDB presented an insolvency situation that threatened the institution’s ability to meet its obligations. This financial position of the GDB means a considerable risk of loss for **the Municipality** that has not been calculated nor notified by the bank. The funds of **the Municipality** of Camuy that were deposited in the GDB, as of June 30, 2017, are recognized as cash with fiscal agent, in the Governmental Funds Balance Sheet, as follows: (1) \$993,439 in Debt Service Fund, and (3) \$1,087,230 in Other Non-Major Funds. If the future risk of loss were applied, the results at the end of the fiscal year 2016 - 2017 would reflect an ending fund balance of \$598,999 in the Debt Service Fund and \$1,783,643 in the Other Non-Major Funds. However, no losses related to defaults by GDB on deposit transactions have been incurred by **the Municipality** through June 30, 2017.

The considerable risk of loss for **the Municipality** at June 30, 2017 is as follows:

	Debt Service fund	Other Non-Major Funds
Fund Balances as per Financial Statements	\$ 1,592,438	\$ 2,870,873
Risk of Loss	(993,439)	(1,087,230)
Ending Fund Balance	<u>\$ 598,999</u>	<u>\$ 1,783,643</u>

Due to the situation, the Municipality’s management has concluded that at June 30, 2017, the custodial credit risk associated with the Municipality’s cash in commercial banks is considered low, while the cash deposited in the GDB may be exposed to custodial credit risk as they were uninsured and uncollateralized.

NOTE C - DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2017, follows

PR Power Electric Authority (PREPA)	\$1,704,895
Office of Commissioner of Municipal Affairs (OCAM)	508,900
Municipal Revenue Collection Center	169,149
U.S. Department of Agriculture	52,563
Other governmental entities and agencies	<u>659,727</u>
	<u><u>\$3,095,234</u></u>

NOTE C - DUE FROM (TO) GOVERNMENTAL ENTITIES - Continued

2. Amounts due to governmental entities as of June 30, 2017, follows:

Puerto Rico Power Electric Authority (PRPEA)	\$1,704,895
Puerto Rico Aqueduct and Sewer Authority (PRASA)	287,161
Administration of Retirement System	<u>168,282</u>
	<u>\$2,160,338</u>

NOTE D - INTERFUND TRANSACTIONS

1. **Due from/to other funds:**

Amounts due from/to other funds represent temporary advances or loans to other funds, as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Non-Major fund	Other Governmental Funds	\$ 1,428,592
General Fund	Other Governmental Funds	2,508,356
Joint Resolutions	Other Governmental Funds	<u>649,352</u>
Total		<u>\$ 4,586,300</u>

2. **Operating transfers:**

Transfers between individual funds were made for operational purposes. Transfers includes, among others, interest earned on restricted cash with fiscal agents in the debt service fund, which is transferred to the general fund; principal and interest payments of general long-term debts transferred from the general fund to the debt service fund.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Other Non-Major Funds	Debt Service and General Fund	\$ 313,032
General Fund	Other-Non-Major Funds	28,455
Loan Guarantee	Non-Major Fund	<u>159,081</u>
		<u>\$ 500,568</u>

NOTE E - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 5,996,561	\$ -	\$ -	\$ 5,996,561
Construction in progress	117,903	853,467	(134,663)	836,707
Total capital assets not being depreciated:	6,114,464	853,467	(134,663)	6,833,268
Capital assets, being depreciated:				
Land Improvements	3,519,047	27,124	-	3,546,171
Buildings, structures and building improvements	25,268,004	43,240	-	25,311,244
Infrastructure	26,097,182	64,299	-	26,161,481
Furniture and Fixtures	2,040,567	32,674	-	2,073,241
Vehicles and Equipment	3,514,048	199,238	-	3,713,286
Total capital assets being depreciated	60,438,848	366,575	-	60,805,423
Less accumulated depreciation for:				
Land Improvements	(2,360,635)	(63,420)	-	(2,424,055)
Buildings, structures and building improvements	(7,204,506)	(660,235)	-	(7,864,741)
Infrastructure	(15,155,178)	(567,791)	-	(15,722,969)
Furniture & Fixtures	(1,637,805)	(104,163)	-	(1,741,968)
Vehicles and Equipment	(2,636,192)	(167,734)	-	(2,803,926)
Total accumulated depreciation	(28,994,316)	(1,563,343)	-	(30,557,659)
Total capital assets being depreciated, net	31,444,532	(1,196,768)	-	30,247,764
Governmental activities capital assets, net	\$ 37,558,996	\$ (343,301)	\$ (134,663)	\$ 37,081,032

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

Governmental activities:

General government	\$ 70,976
Culture and Recreation	448,836
Public safety	87,391
Health	81,606
Public Housing & Welfare	12,194
Community development	862,340
Total depreciation expense, governmental activities	\$ 1,563,343

NOTE F - LONG TERM DEBT

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

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2017:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017	Due within one year
General, Special Obligations Bonds and Notes	\$ 10,274,990	-	\$849,000	\$ 9,425,990	\$864,990
Notes Payable:					
Advances from CRIM	786,097	-	28,498	757,599	-
Section 108 Loan	3,304,000	-	195,000	3,109,000	
CRIM Delinquent Accounts – Law Compensated Absences	68,374	-	4,274	64,100	-
Claims and Judgments	1,998,628	68,450	-	2,067,078	-
	110,000	-	-	110,000	-
	<u>\$16,542,089</u>	<u>\$68,450</u>	<u>\$1,076,772</u>	<u>\$15,533,767</u>	<u>\$864,990</u>

2. **General and special obligation bonds.**

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2017 amount to \$9,425,990. The Governmental Development Bank of Puerto Rico (GDB) maturing at various dates services all these bonds. As required by law, the Commonwealth Government is obligated to levy and collect property taxes for payment of principal and interest on bonds and notes. A debt service fund has been established for the bonds and notes at GDB with the proceeds of those property taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of long term debt issued for operational purposes are made through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).

A detail of the general and special obligation bonds and notes as of June 30, 2017, follows:

General Obligations	<u>Outstanding Amount</u>
2001 serial bonds, original amount of \$1,675,000, due in annual installments ranging from \$25,000 to \$145,000 plus interests, due in semiannual installments at variable rates not to exceed 6.50% through July 1, 2026.	\$ 1,055,000
2012 serial bonds, original amount of \$925,000, due in annual installments ranging from \$25,000 to \$90,000 plus interests, due in semiannual installments at variable rates not to exceed 7.50% through July 1, 2031.	820,000

2010 serial bonds, original amount of \$424,990 due in annual installments ranging from \$64,000 to \$78,990 plus interests, due in annual installments at rates of 4.25 through January 1, 2018.	78,990
2008 serial bonds, original amount of \$1,825,000 due in annual installments ranging from \$130,000 to \$245,000 plus interests, due in semiannual installments at variable rates not to exceed 7.50% through July 1, 2018.	475,000
2011 serial bonds, original amount of \$560,000 due in annual installments ranging from \$5,000 to \$55,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2029.	455,000
2010 serial bonds, original amount of \$180,000 due in annual installments ranging from \$20,000 to \$35,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2017.	35,000
2011 serial bonds, original amount of \$290,000 due in annual installments ranging from \$5,000 to \$25,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2035.	260,000
2013 serial bonds, original amount of \$340,000 due in annual installments ranging from \$5,000 to \$30,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2038.	325,000
Special Obligations	
2005 serial notes, original amount of \$2,950,000 due in annual installments ranging from \$60,000 to \$205,000 plus interests, due in semiannual installments at variable rates not to exceed 6.50% through July 1, 2029.	1,970,000
2008 serial notes, original amount of \$3,645,000 due in annual installments ranging from \$85,000 to \$335,000 plus interests, due in semiannual installments at variable rates not to exceed 7.50% through July 1, 2028.	2,770,000
2010 serial notes, original amount of \$305,000 due in annual installments ranging from \$5,000 to \$30,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2035.	275,000

2011 serial notes, original amount of \$735,000 due in annual installments ranging from \$10,000 to \$65,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2035. 660,000

2011 serial notes, original amount of \$405,000 due in annual installments ranging from \$45,000 to \$75,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2018. 140,000

Public Improvement Bonds

1998 serial bonds, original amount of \$280,000 due in annual installments ranging from \$7,000 to \$21,000 plus interests, due in annual installments at variable rates not to exceed 5.25% through July 1, 2019. 41,000

1998 serial bonds, original amount of \$ 310,000, due in annual installments ranging from \$7,000 to \$23,000 plus interests, due in annual installments at rates of 5.12% through July 1, 2020. 66,000

Total Bonds Payable \$ 9,425,990

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2017, follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 864,990	\$ 327,845
2019	813,000	368,409
2020	503,000	340,254
2021	520,000	318,350
2022	555,000	296,013
2023-2027	3,400,000	1,565,675
2027-2032	2,195,000	503,113
2033-2037	520,000	107,625
2037-Thereafter	55,000	4,313
Totals	<u>\$9,425,990</u>	<u>\$3,831,597</u>

3. **Advances from CRIM** – This amount represents the balance owed to CRIM at June 30, 2004 and will be repaid through a financing obtained by the CRIM with GDB.

4. **Compensated absences** – The government-wide statement of net assets includes approximately \$2,067,078 of accrued vacation and sick leave benefits, representing the Municipality's commitment to fund such costs from future operations.
5. **Note Payable to CRIM** – Act. No. 42 of January 26, 2000 was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement allows for the financing for a debt that the municipalities of Puerto Rico have with CRIM, arising from the final settlement of property tax advances versus actual collections through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238 of August 15, 1999.

In addition, on December 16, 2002, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining \$1,040,424 of excess of property tax advances from fiscal year 2000 and 2001. CRIM retains the principal and interests from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The repayment agreement bears interests at variable rates determined by GDB but not exceeding 8.00%. The outstanding principal and accrued interest balances of the note payable to CRIM amounted to \$757,599 at June 30, 2017.

6. **Loan Guarantee (HUD)** – On August 29, 2006 The Municipality entered into an agreement with the U.S. Department of Housing and Urban Development (HUD) for a loan guarantee assistance under the section 108 of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. §5308 for the original amount of \$4,264,000. Loan payments mature every February 1 and October 1 of every fiscal year, which interest is approximately 4.0% annually. These funds are pledged with Municipality's property or the HUD can use the CDBG to pay-off the related payments mentioned above. The outstanding principal balance of the loan payable amounted to \$3,109,000 at June 30, 2017.

NOTE G - 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. The tax rates in force as of June 30, 2017 are 8.83% for real property (of which 8.63% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department) and 6.83% for personal property (of which 6.63% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department). For both tax rates 1.03% belongs to the Commonwealth and 8.00% and 6.00%, respectively, belongs to the Municipality. Of the portion belonging to the Municipality, 6.00% on real property and 4.00% on personal property represents the Municipality's portion which is appropriated for general purposes and accounted in the general fund. The remaining portion of 2.00% on both tax rates belonging to the Municipality is restricted for debt service and accounted in the debt service fund.

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.

NOTE H – MUNICIPAL LICENSE TAXES

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

During the fiscal year ended June 30, 2017 the tax rates were as follows:

Financial business - 1.50% of gross revenues

Non-financial business – ranging from 0.30% to 0.40% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year, if the taxpayer does not pay the full amount due on April 15 of each year, applying the 5% discount. A discount of 5% is allowed when full payment is made on or before the next five (5) working days after April 15. Municipal license tax returns collected prior to June 30, 2017 but pertaining to the next year is recorded as deferred revenues. Municipal License tax collected in advance for the next fiscal year 2017 - 2018 amounted \$743,045, as of June 30, 2017.

NOTE I – SALES AND USE TAXES

The Municipality imposes a municipal sales and usage tax within the territorial limits of the Municipality. This is a derived tax applied to the sale price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. It is collected on a monthly basis through a tax return that is due ten calendar days after the end of each month.

On January 24, 2014, Act No.18, known as *Municipal Administration Fund Act* (Act No. 18), and Act No. 19, known as *Municipal Finance Corporation Act* (Act No. 19) were enacted to, among other things, amend Sections 4020.01, 4020.02 and 6080.14 of Act No. 1 of January 31, 2011, known as *Internal Revenue Code for a New Puerto Rico*.

Effective July 1, 2014, Act No. 18 reduced the statutory municipal sales and usage tax rate of all municipalities from one point five percent (1.5%) to one point zero percent (1.0%). Simultaneously, Act No.19 created the *Municipal Finance Corporation* (MFC), an affiliated public company of GOB, which is authorized to issue bonds and use other financing mechanisms to directly or indirectly pay or refinance all or part of the municipal long-term debt incurred by the Municipality in previous fiscal years, that are payable from or backed by the municipal sales and usage taxes.

In order to mitigate the effects of the reductions in the municipal sales and usage tax rate referred to above, Act No. 18 established the mechanisms to protect the financial stability of the Municipality by allowing it to continue receiving the economic benefits lost as a consequence of the reduction in the statutory municipal sales and usage tax rate referred to above. For these purposes, effective July 1, 2014, Act No. 18 requires that an amount equal to zero point five percent (0.5%) of the sales and usage taxes collected by the Commonwealth of Puerto Rico be deposited in a special fund to be known as *Municipal Administration Fund* (MAF) in the name and for the benefit of the Municipality.

Accordingly, since July 1, 2014, the Commonwealth of Puerto Rico has made advances from the collections arising from the zero point five percent (0.5%) of the sales and usage taxes to the MAF of the Municipality. The advances have been made and distributed to the Municipality on a monthly basis as follows in accordance with Section 4050 of Act No. 1, as amended:

1. Forty percent (40%) of the amounts transferred are available to cover general operating expenses of the *General Fund* of each municipality;
2. Forty percent (40%) of the amounts transferred are available and restricted in the MFC' s redemption fund to guarantee the repayment of any municipal loan, bond, note, or other evidence of debt whose repayment source is the monies deposited therein under the custody of GDB;
3. Twenty percent (20%) of the amounts transferred are available and restricted to finance the acquisition, construction and improvement of major capital assets.

NOTE J - INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the General Fund are comprised of the following:

	<u>Amount</u>
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	\$1,704,895
Compensation from the Department of Treasury for the concept of the Christmas Bonus Payment	75,298
Contributions from Emergency System 911	319,929
Compensation from the Municipal Revenue Collection Center from the State Subsidy and Lottery Fees	<u>5,288,664</u>
Total	<u><u>\$7,388,786</u></u>

NOTE K – EMPLOYEES RETIREMENT SYSTEM

Substantially, all full time employees of the Municipality participate in the Employee’s Retirement System of the Commonwealth of Puerto Rico and its instrumentalities (ERS). The Employee Retirement System is a statutory trust created by the Act No. 449 of May 15, 1951 as amended (Act 447) and a component unit of the Commonwealth.

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3, which represents a comprehensive reform of ERS Act No. 3. Such reform, became effective of July 1, 2013 and amended the provisions of the different structures under the ERS as further discussed below.

Members who had entered the Employees Retirement System before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 (Act 447 Participants) were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 (Act 1 Participants) were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 (Act 1 of 1990).

In 1999, Act 447 was amended to close the defined benefit program for new participants and prospectively established a new benefit structure similar to a cash balance plan (this new benefit is referred to as System 2000). Members who entered the ERS on or after January 1, 2000 (System 2000 Participants) participate solely in System 2000. Act 3-2013 amended the law to eliminate the lump sum distribution alternative and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants does not benefit for any employer contributions. Instead, employers’ contributions are made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate accounts for System 2000. Participants are pooled and invested by the ERS together with the assets corresponding to the defined benefit structure Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, will be paid from the same pool of assets of the ERS.

NOTE K – EMPLOYEES RETIREMENT SYSTEM (Continued)

Retirement and related benefits provided by the ERS, and required contributions to the ERS by employees and employers are determined by law rather than by actuarial requirements. As of July 1, 2011, after adoption of Act 116 of July 6, 2011 (Act 116), the statutory employer contribution for the ERS increased from the minimum 9.275% to a minimum amount of 10.275% of covered payroll and will continue to increase annually until fiscal year 2021. Effective on July 1, 2014, employee contribution required to the municipalities of Puerto Rico to the Retirement System of the Commonwealth of Puerto Rico (the System) will be increased from 9.275% to 13.275% for fiscal year ending June 30, 2017 and then increasing annually 1 percent until 20.275% for fiscal year ending June 30, 2021. Required employee contributions for the ERS vary according to how the individual employees' retirement benefits are coordinated with social security benefits. Act 3-2013 increased the employee contribution rate from 8.275% to 10% of covered payroll.

The ERS provides basic benefits under defined benefits program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits include among others, additional minimum pension, death and disability benefits, ad-hoc cost of living adjustments and summer Christmas bonuses. Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those existing after June 2013 and July 31, 2014).

The ERS actuarial valuation as of June 30, 2014, differs from the actuarial valuation as of June 30, 2013, due to the adoption of Statement No. 67 of the Governmental Accounting Standards Board, *Financial Reporting for Pension Plans* (GASB 67). GASB 67 specifies certain significant changes for financial reporting purposes of the ERS.

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2014 (most recently available) reflects net position of \$127 million, total pension liability of \$30.2 billion and a net pension liability of \$30.1 billion.

Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27* (GASB 68) became effective during fiscal year ended June 30, 2017. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions for State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the ERS.

As of the date of the issuance of the Municipality's financial statements, the ERS has not issued its required basic financial statements nor has it provided the Municipality with the required final information to implement the requirements of GASB 68. Therefore, the accompanying financial statements do not have any adjustments that will be necessary for the Municipality to account for its proportional share of the net pension liability, deferred inflows of resources, and deferred outflows of resources in the statement of net position as of July 1, 2016 and June 30, 2017, as well as the effects in the recorded pension expense in the statement of activities for the year ended June 30, 2017. Also, additional disclosures required, as well as required supplementary information have been omitted from these financial statements. The pension costs recognized in the accompanying financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions, which is not in accordance with accounting principles generally accepted in the United States of America.

NOTE L - COMMITMENTS

Operating leases

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

NOTE M – CONTINGENCIES

1. *Federal and State grants*

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

2. *Judgments and legal claims*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of one case settled and a legal claim in which an unfavorable outcome is probable and a reasonable estimate of the amount was determined, and not to be covered by insurance, the Municipality accrued \$110,000 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

NOTE N – SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through July 23, 2018, the date the financial statements were available to be issued. Based on such analysis, management decided that no additional significant disclosure is necessary.

On September 20, 2017, Hurricane María impacted Puerto Rico causing widespread infrastructure and other property damage, and the complete collapse of the electrical grid across the island. As of the date the financial statements were available to be issued, management was in the process of evaluating the damages caused by Hurricane María and what potential effects it may have, if any, on the operations of the Municipality.

Municipality of Camuy
Budgetary Comparison Schedule - General Fund
June 30, 2017

	<u>Budgeted Amounts</u>		Actual amounts (budgetary basis) (See Note 1)	Variance with final budget over (under)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property tax	\$ 2,273,463	\$ 2,273,463	\$ 2,480,347	\$ 206,884
Municipal license taxes	912,910	912,910	892,042	(20,868)
Sales tax	1,136,589	1,136,589	1,220,540	83,951
Licenses, permits and other local taxes	416,285	416,285	86,148	(330,137)
State and intergovernmental	7,690,985	7,690,985	7,406,751	(284,234)
Rent of property	50,000	50,000	47,368	(2,632)
Fines and forfeitures	9,000	9,000	10,068	1,068
Interests	75,000	75,000	10,490	(64,510)
Miscellaneous	320,763	320,763	96,311	(224,452)
Charge for services and other contributions	4,500	4,500	4,473	(27)
Total revenues	<u>12,889,495</u>	<u>12,889,495</u>	<u>12,254,538</u>	<u>(634,957)</u>
Expenditures:				
General government	6,517,025	6,636,404	6,588,600	47,804
Culture and recreation	831,819	807,053	784,724	22,329
Public safety	1,207,930	1,170,289	1,169,445	844
Health	1,816,340	1,750,587	1,713,469	37,118
Public works	2,516,381	2,525,162	2,505,769	19,393
				-
Total expenditures	<u>12,889,495</u>	<u>12,889,495</u>	<u>12,762,007</u>	<u>127,488</u>
Excess (Deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (507,469)</u>	<u>\$ (507,469)</u>

Explanation of Differences:

Sources/in-flow of financial resources:

Actual amounts (budgetary basis) "available for appropriations"	\$
from the budgetary comparison schedule	12,254,538
Adjustments to reconciled actual amounts per budgetary basis to amounts reported on the statement of revenues,	
expenditures and changes in fund balances - Transfer - in	<u>(28,455)</u>
	\$
Total Revenues as reported on the statement of revenues, expenditures and changes in fund balances	<u><u>12,226,083</u></u>

Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$
Adjustments to reconciled actual amounts per budgetary basis to amounts reported on the statement of revenues,	12,762,007
expenditures and changes in fund balances - Transfer - out	<u>(6,501)</u>
Total expenditures and other financial uses as reported on the statement of revenues, expenditures and	
changes in fund balances - governmental funds	<u><u>12,755,506</u></u>
	\$

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

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

Under the budgetary basis of accounting, revenues are generally recognized when is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

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

The accompanying budgetary comparison schedule – general fund, provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2017.

Except for the general fund and the debt service fund, **the Municipality** legally does not adopt budgets for its major special revenues and capital projects funds. Accordingly, neither accompanying basic financial statements, nor required supplementary information include statements or revenues and expenditures – budget and actual-budgetary basis, or budgetary comparison schedules, respectively, for its major programs.

Municipality of Camuy
Schedule of Expenditure of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor Pass/ Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Disbursements Expenditures
U.S. Department of Housing and Urban Development:			
Direct Programs			
Section 8 Housing Choice Vouchers	14.871	N/A	\$ 810,944
Emergency Solutions Grants Program	14.231	N/A	29,780
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	N/A	24,881
Community Development Block Grants_Section 108 Loan Guarantees	14.248	N/A	215,175
Housing Rehabilitation Program Contract RQ - 3038 To administer a Low Income Housing Program	14.850	N/A	218,433
Indirect Programs			
Pass-Through Puerto Rico Office of Municipal Affairs State Block Grant Programs (SBGP)	14.228	N/AV	<u>176,274</u>
Sub-Total HUD			1,475,487
U.S. Department of Education:			
Direct Programs			
Twenty First Century Community Learning Centers - Educa 2	84.287	N/A	388,081
U.S. Department of Health and Human Services (HHS)			
Passed through Administration of Families and Children-Child Care and Development Grant	93.575	N/AV	209,000
U.S. Department of Agriculture			
Passed through Education Department Child and Adult Care Food Programs	10.558	N/AV	207,171
U.S. Department of Justice			
Direct Programs			
USDA	10.253	N/A	90,218
U.S. Department of Justice			
Direct Programs			
Edward Byrne Memorial Justice Assistance Grant (JAC Program)	16.803	N/A	-
U.S. Department of Transportation			
Formula Grants for Rural Areas	20.509	N/A	<u>17,968</u>
TOTAL			<u><u>\$ 2,387,925</u></u>

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CAMUY

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

NOTE A - GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Camuy, Puerto Rico (Municipality) and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note A to the general purpose combined financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - FEDERAL CFDA NUMBER

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

NOTE D - PASS-THROUGH ENTITY IDENTIFYING NUMBER

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

NOTE E – MAJOR PROGRAMS

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

Gil Alberto Ortiz Cabrera

Certified Public Accountants & Professional Consultants

*Members of: The American Institute of Certified
Public
Accountants (AICPA)
Puerto Rico Board of Certified Public
Accountants*

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*

Honorable Major and Members
of the Municipal Assembly
Municipality of Camuy
Camuy, 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Camuy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Municipality of Camuy's basic financial statements, and have issued our report thereon dated July 22, 2018

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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.



CPA Gil Alberto Ortiz Cabrera
License 1332
Stamp # 02759058 was affixed
to the original report.
July 22, 2018
San Juan, Puerto Rico

Gil Alberto Ortiz Cabrera
Certified Public Accountants & Professional Consultants

*Members of: The American Institute of Certified
 Public
 Accountants (AICPA)
 Puerto Rico Board of Certified Public
 Accountants*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
 AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Major and Members
 of the Municipal Assembly
 Municipality of Camuy
 Camuy, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited The Municipality of Camuy's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Municipality of Camuy's major federal programs for the year ended June30,2017. The Municipality of Camuy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Municipality of Camuy's major federal program, 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) . Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non- compliance with the types of compliance 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 Camuy'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 Camuy's compliance.

Opinion on Each Major Federal Program

In our opinion the Municipality of Camuy's 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, 2017.

Report on Internal Control over Compliance

Management of Municipality of Camuy 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 Camuy'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 the Uniform Guidance, 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 Camuy's internal control over compliance.

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

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

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



CPA Gil Alberto Ortiz Cabrera
License 1332 in force.
Guaynabo, Puerto Rico
Stamp # 02759059 was affixed
to the original report.
San Juan, Puerto Rico
July 22, 2018

**COMMONWEALTH OF PUERTO
RICO MUNICIPALITY OF CAMUY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statement

- a. Type of auditor's report issued: Qualified
- b. Internal Control over financial reporting:
- Material weakness (es) identified? _____Yes X No
 - Significant deficiency (ies) identified that is (are)
not considered to be material weakness (es)? _____Yes X No
- c. Material noncompliance to financial statements noted? _____Yes X No

Federal Awards

- a. Internal Control over major programs:
- Material weakness (es) identified? _____Yes X No
 - Significant deficiency (ies) identified that is (are)
not considered to be material weakness (es)? _____Yes X No
- b. Type of auditor's report issued on compliance for major programs: Unqualified
- c. Any audit findings disclosed that are required to be reported
in accordance with 2 CFR 200.516 (a)? _____Yes X No
- d. The programs tested as major program are:

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
14.871	Housing Choice Voucher
14.850	Housing Rehabilitation Program - Contract RQ-3038

The threshold for distinguishing Type A and B programs was \$750,000.
Municipality qualifies as low risk auditee? X Yes _____No

**MUNICIPALITY OF CAMUY
CURRENT YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION II – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Our audit of revealed that the Municipality of Camuy has maintained an effective system of internal control over compliance with requirements of law, regulations, contracts and grants applicable to federal programs. No Federal Award Findings and Questioned Costs were detected during the audit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF PRIOR YEAR AND FINDINGS
AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION II – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There are no prior year findings pending to be resolved.