

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SINGLE AUDIT REPORTING PACKAGE
YEAR ENDED JUNE 30, 2017**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SINGLE AUDIT REPORTING PACKAGE
YEAR ENDED JUNE 30, 2017**

TABLE OF CONTENTS

<u>FINANCIAL SECTION</u>	<u>PAGE</u>
Independent Auditor's Report	1-4
Management's Discussion and Analysis	5-11
Basic Financial Statements:	
Governmental –wide financial statement:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	17
Notes to the Financial Statements	18-41
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	42
Schedule of Budgetary Comparison	43
Notes to Schedule of Budgetary Comparison	44-45
Schedule of proportionate share of the net pension liability	46
Schedule of contributions	47
Schedule of Expenditures of Federal Awards	48-49
Notes to Schedule of Expenditures of Federal Awards	50
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	51-53
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with Uniform Guidance	51-57
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	58
Section I. – Summary of Auditor's Results	59
Section II. – Financial Statements Findings	60-61

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**



CARLOS R. DIAZ, CPA, PSC

PO BOX 408, 7 SALAS TORRES ST, AGUAS BUENAS, PUERTO RICO 00703 TEL: 787-732-8020 FAX: 787-732-0685 EMAIL: cdiaz@carlosrdiazcpa.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Municipality of Ceiba**, 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 of Ceiba, Puerto Rico'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 our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR’S REPORT (CONTINUED):

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

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

Summary of opinions:

Type of opinion:

Governmental activities	Qualified
Business type activities	Unqualified
Each mayor funds	Unqualified
Aggregate remaining funds	Unqualified

Basis for qualified opinion on governmental activities

The net pension liability and deferred outflows/inflows of resources in governmental activities of the government-wide statement of net position, and pension expense for the current period charge in that liability in governmental activities of the government-wide statement of activities were derived from the application of the proportional share included in the unaudited financial statements, notes and required supplementary information of the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico, cost-sharing multiple-employer pension plan. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, and pension expenses of the governmental activities and the information disclosed in the notes of the pension plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosures were necessary. The net pension liability and deferred outflows/inflows of resources represent 76 percent, 100 percent and 45 percent of the total liabilities and deferred outflows/inflows of resources, respectively, as of June 30, 2017, while pension expense represents 4 percent of total expenses for the fiscal year then ended.

Qualified opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the **Municipality of Ceiba, Puerto Rico**, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Unmodified opinions

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Ceiba, Puerto Rico** as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information schedule of proportionate share of net pension liability for year ended June 30, 2017 and the schedule of contributions on pages 5 to 12 and 44 to 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Ceiba, Puerto Rico's** basic financial statements. 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 Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2018, on our consideration of the **Municipality of Ceiba** 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 Ceiba** internal control over financial reporting and compliance.



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

September 17, 2018
Aguas Buenas, Puerto Rico

The stamp No. **E345545** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

This discussion and analysis of the Municipality of Ceiba (Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2017. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2017. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2017 deserve special mention:

1. Total assets and deferred outflows of resources of the Municipality amounted to \$23,152,769 which represents a decrease of 1% compared to prior fiscal year.
2. At the end of fiscal year 2017, total liabilities amounted to \$37,351,438. Out of said amount, \$35,128,816 corresponded to long-term liabilities of which \$5,250,000 represented the outstanding balance of bonds and notes issued and \$28,742,119 represent the proportionate net pension liability. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
3. Total net position of the Municipality amounted to (\$14,663,071) which represents a decrease of 4% as compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$12,174,272 derived from the following sources: \$591,142 from operating grants and contributions; \$471,106 from charges for services; \$1,307,300 from capital grants and contributions obtained from other sources, and \$9,804,724 from general revenues available.
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$11,604,273.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Position figure by \$569,999.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017

FINANCIAL HIGHLIGHTS (CONTINUED)

7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances (deficit) of (\$751,516).
8. As the end of the current fiscal year, the Municipality's General Fund (deficit) increase to (\$2,217,010) compared to the General Fund Balance (deficit) of (\$1,440,699) in the prior fiscal year.
9. The actual General Fund budgetary activities resulted in an unfavorable balance of (\$773,397).

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2017. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

FINANCIAL STATEMENTS COMPONENTS

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

A brief review of the Statements of Activities of the Municipality at June 30, 2017, shows total expenses incurred to afford the cost of all functions and programs amounted to \$11,604,273. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$2,369,548 was derived from the following sources: \$591,142 from operating grants and contributions; \$471,106 from charges for services and \$1,307,300 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$9,804,724. When such figure is added to the \$2,369,548 previously mentioned, total revenues available for the financing of activities amounted to \$12,174,272. There was an excess of revenues over expenditures in the amount of \$569,999 which contributed with an increase to the figure of net position attained at the end of the fiscal year.

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

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Ceiba, primary government liabilities exceeded total assets by (\$14,663,071) at the end of 2017, compared to (\$15,233,070), at the end of the previous year, as showed in the following condensed Statement of Net Position of the Primary Government.

Condensed Statement of Net Assets	2017	2016	Change	%
Current, other assets and deferred outflows of resources	4,221,071	3,333,629	887,442	27%
Capital Assets	18,931,698	20,131,897	(1,200,199)	-6%
Total Assets and deferred outflows of resources	23,152,769	23,465,526	(312,757)	-1%
Current and other liabilities	2,687,024	2,319,976	367,048	16%
Long-term liabilities	35,128,816	36,378,620	(1,249,804)	-3%
Total liabilities and deferred outflows of resources	37,815,840	38,698,596	(882,756)	-2%
Invested in capital assets, net of related debt	15,040,209	14,794,897	245,312	2%
Restricted	940,638	171,235	769,403	449%
Unrestricted deficit	(30,643,918)	(30,199,202)	(444,716)	1%
Total net assets	<u>\$ (14,663,071)</u>	<u>\$ (15,233,070)</u>	<u>\$ 569,999</u>	-4%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Approximately 90 percent of the Municipality's total revenue came from taxes, while 10 percent resulted from grants and contributions, including federal aid. The Municipality's expenses cover a range of services. The largest expenses were for general administration (42%), public works (24%), and public safety (15%). As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condensed Statement of Activities	2017	2016	Change	%
Program revenues:				
Charges for services	\$ 471,106	\$ 283,883	\$ 187,223	66%
Operating grants and contributions	591,142	426,609	164,533	39%
Capital grants and contributions	1,307,300	1,034,894	272,406	26%
General revenues:				
Property taxes	2,279,038	2,378,110	(99,072)	(4%)
Municipal license tax	288,309	297,012	(8,703)	(3%)
Municipal sales and use tax	1,673,252	910,054	763,198	84%
Construction excise tax	301,747	248,641	53,106	21%
Grants and entitlements	4,256,637	6,661,211	(2,404,574)	(36%)
Rent	56,853	87,096	(30,243)	(35%)
Licenses and Permits	4,377	-	4,377	100%
Interest and investment earnings	77,842	10,952	66,890	611%
Recovery of impaired assets	775,477	-	775,477	100%
Other	91,192	704,158	(612,966)	(87%)
Total revenues	<u>12,174,272</u>	<u>13,042,620</u>	<u>(868,348)</u>	(7%)
Expenses:				
General administration	4,029,659	6,899,872	(2,870,213)	(42%)
Public safety	1,102,143	1,299,044	(196,901)	(15%)
Public works and sanitation	2,927,140	3,853,347	(926,207)	(24%)
Health and welfare	788,821	1,136,712	(347,891)	(31%)
Human Development	530,621	413,375	117,246	28%
Economic development	-	-	-	-
Family and social development	-	-	-	-
Planning	-	-	-	-
Education, culture and recreational	844,410	657,294	187,116	28%
Housing and Urban Development	1,013,591	1,923,181	(909,590)	(47%)
Interest	367,886	478,055	(110,169)	(23%)
Total expenditures	<u>11,604,271</u>	<u>16,660,880</u>	<u>(5,056,609)</u>	(30%)
Loss on impairment of assets	-	-	-	-
Change in net assets	569,999	(3,618,260)	4,188,259	(116%)
Net assets	<u>(15,233,070)</u>	<u>(11,614,281)</u>	<u>(3,618,789)</u>	31%
Net assets, end of year	<u>\$ (14,663,071)</u>	<u>\$ (15,232,541)</u>	<u>\$ 569,470</u>	(4%)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of (\$751,516) an increase of \$517,948 in comparison with the prior year.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2017, the Municipality's deficit amounted to (\$2,217,010).

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The actual General Fund budgetary activities resulted in an unfavorable balance of (\$773,397).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2017, amounts to \$30,274,055 with an accumulated depreciation of \$11,342,357, leaving a net book value of \$18,931,698. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2017, the Municipality has \$5,250,000 of unexpended proceeds mainly from bonds and notes issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017

Debt Administration (Continued)

The applicable law also requires that, in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity". Act No. 64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues.

Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable. Federal State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2017-2018.

HURRICANES IRMA (DR-4336) AND MARÍA (DR-4339)

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected municipalities located in the metro area, north, east and south areas of the Island. It was declared a major disaster area by the President of the United States on September 10, 2017 and almost \$10 million dollars in public assistance grants have been obligated for Puerto Rico. Under this disaster, the Municipality of Ceiba has received public assistance grants in the amount of \$108,318.48.

Just two weeks after Hurricane Irma, on September 20, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 20, 2017 and approximately \$508 million dollars in public assistance grants have been obligated. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricane, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017

HURRICANES IRMA (DR-4336) AND MARÍA (DR-4339) (CONTINUED)

Under this disaster, the Municipality has submitted damages in the amount of \$2,312,252.03 for Categories A and B. As of today, the Municipality has received public assistance grants for the amount of \$784,378.44. Currently the Municipality of Ceiba is assessing the estimates of the damages for the Categories C thru G. Based on preliminary findings we estimate that the damages for Categories C thru G are in the amount of \$21,744,355.00. As of today, the Municipality has claimed the preliminary amount of \$8,000,000 to the insurance company for the damages suffered to our infrastructure and buildings, etc. This amount may vary as some of the estimates are in the progress. As of today, we have received the amount of \$500,000.00 from the insurance company.

The Commonwealth of Puerto Rico and the Financial Oversight and Management Board are working with the Federal Emergency Management Agency (FEMA), the U.S. Congress and the President for the assignment of federal assistance of approximately \$2.6 billion, mainly for the reconstruction of the electric infrastructure and housing assistance for the residents of Puerto Rico.

FINAL COMMENTS

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

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

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
STATEMENT OF NET POSITION
As Of June 30, 2017

ASSETS	GOVERNMENTAL ACTIVITIES
Cash and cash equivalents	\$ 1,562,368
Accounts receivable:	
Other governmental agencies	591,580
Property tax	726,321
Sale and use tax	61,000
Other	2,439
Capital assets, net	<u>18,931,698</u>
 Total Assets	 ▼ <u>21,875,406</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Contribution to employee's retirement plan	<u>1,277,363</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
 LIABILITIES:	
Accounts payable and accrued expenses	482,567
Advances from federal agencies	42,758
Due to other agencies	1,550,075
Accrual Interest	147,222
Long-term debt:	
Due within one year	1,071,026
Due in more than one year	<u>34,057,790</u>
Total Liabilities	▼ <u>37,351,438</u>
 DEFERRED INFLOWS OF RESOURCES:	
Deferred municipal patents	256,230
Unamortized investment in employee's retired plan	<u>208,172</u>
	<u>464,402</u>
 NET POSITION:	
Net invested in capital assets	15,040,209
Restricted for:	
Debt service	82,840
Capital project and others	857,798
Unrestricted	<u>(30,643,918)</u>
 Total Net Position	▼ <u>\$ (14,663,071)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUE</u>		<u>NET (EXPENSE) REVENUE</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:				
General administration	\$ (4,029,659)		\$ 143,500	\$ (3,886,159)
Public safety	(1,102,143)		16,522	(1,085,621)
Education and recreational	(844,410)	\$ 400,994	28,354	(415,062)
Public works and sanitation	(2,927,140)	8,400		(1,611,440)
Health and welfare	(788,821)	61,712	402,766	(324,344)
Urban development	(1,013,591)			(1,013,591)
Human development	(530,621)			(530,621)
Interest	<u>(367,886)</u>			<u>(367,886)</u>
 Total governmental activities	 <u>\$ (11,604,273)</u>	 <u>\$ 471,106</u>	 <u>\$ 591,142</u>	 <u>\$ 1,307,300</u>
 General revenues:				
Taxes:				
Property taxes				2,279,038
Municipal patent tax				288,309
Sale and usage tax				1,673,252
Construction excise tax				301,747
Permits and Licenses				4,377
Grants and entitlements				4,256,637
Interest				77,842
Rent				56,853
Recovery of loss of assets impairment				775,477
Other				<u>91,192</u>
 Total general revenues				 <u>9,804,724</u>
 Changes in net position				 569,999
 Net position at beginning				 <u>(15,233,070)</u>
 Net position at end				 <u><u>\$ (14,663,071)</u></u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF JUNE 30, 2017

	<u>GENERAL</u>	<u>DEBT</u>	<u>OTHER</u>	<u>TOTAL</u>
	<u>FUND</u>	<u>SERVICE</u>	<u>GOVERNMENTAL</u>	<u>GOVERNMENTAL</u>
ASSETS:			FUNDS	FUNDS
Cash:				
Cash in bank	\$ 307,325	\$ 758,313	\$ 496,730	\$ 1,562,368
				-
Receivables:				
Property taxes, net	634,787	91,534	-	726,321
Due from others governmental agencies	105,966	484,908	706	591,580
Sale and use tax	61,000	-	-	61,000
Other	2,439	-	-	2,439
Due from other funds	<u>69,835</u>	<u>-</u>	<u>512,903</u>	<u>582,738</u>
Total assets	<u>1,181,352</u>	<u>1,334,755</u>	<u>1,010,339</u>	<u>3,526,446</u>
Liabilities:				
Accounts payable and accrued expenses	482,567	-	-	482,567
Bond matured payable	-	535,000	-	535,000
Matured interest payable	-	147,222	-	147,222
Due to other fund	512,903	-	69,835	582,738
Advances from federal agencies	-	-	42,758	42,758
Due to other agencies	<u>1,550,075</u>	<u>-</u>	<u>-</u>	<u>1,550,075</u>
Total liabilities	<u>2,545,545</u>	<u>682,222</u>	<u>112,593</u>	<u>3,340,360</u>
Deferred inflows of resources:				
Deferred municipal patents	256,230	-	-	256,230
Deferred property tax	<u>596,587</u>	<u>84,785</u>	<u>-</u>	<u>681,372</u>
	<u>852,817</u>	<u>84,785</u>	<u>-</u>	<u>937,602</u>
Fund balances:				
Restricted for:				
Debt service	-	567,748	-	567,748
Capital project	-	-	703,117	703,117
Education and recreational	-	-	147,656	147,656
Urban development	-	-	7,025	7,025
Unassigned	<u>(2,217,010)</u>	<u>-</u>	<u>39,948</u>	<u>(2,177,062)</u>
Total fund balances	<u>(2,217,010)</u>	<u>567,748</u>	<u>897,746</u>	<u>(751,516)</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 1,181,352</u>	<u>\$ 1,334,755</u>	<u>\$ 1,010,339</u>	<u>\$ 3,526,446</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2017**

Fund balances in governmental funds	\$ (751,516)
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	18,931,698
Amount recorded as deferred income in governmental funds and as income in governmental activities.	681,372
 Amount presented in the statement of net position but not in fund balance due to different basis of accounting:	
Deferred outflows of resources related pension	1,277,363
Deferred inflows of resources related pension	(208,172)
 Long-term liabilities and accrual expenses are not due and payable in the current period and therefore are not reported in the governmental funds:	
Bonds and notes payable	(4,715,000)
Compensated absences	(511,088)
Net pension liability	(28,742,719)
Amount due to CRIM	<u>(625,009)</u>
 <i>Net position of governmental activities</i>	 <u><u>\$(14,663,071)</u></u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUNDS</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Revenues:				
Taxes:				
Property taxes	\$ 1,604,312	\$ 597,280		\$ 2,201,592
Municipal taxes	288,309			288,309
Sale and use tax	1,188,344	484,908		1,673,252
Construction excise taxes	301,747			301,747
Grants	4,256,638		\$ 1,879,446	6,136,084
Licenses and permits	4,377			4,377
Rental income	56,853			56,853
Charge for services			490,101	490,101
Recovery of impaired assets		775,477		775,477
Interest		10,984	66,858	77,842
Other	<u>91,192</u>			<u>91,192</u>
Total Revenues	<u>7,791,772</u>	<u>1,868,649</u>	<u>2,436,405</u>	<u>12,096,826</u>
Expenditures:				
General administration	4,123,721		-	4,123,721
Public safety	965,976		22,880	988,856
Education and recreational	422,469		335,146	757,615
Public works and sanitation	2,165,492		473,769	2,639,261
Health and welfare	330,672		377,068	707,740
Urban development	19,935		945,538	965,473
Human development	420,013			420,013
Debt service:				
Principal	51,313	557,000		608,313
Interest	<u>65,578</u>	<u>302,308</u>		<u>367,886</u>
Total expenditures	<u>8,565,169</u>	<u>859,308</u>	<u>2,154,401</u>	<u>11,578,878</u>
Excess (deficiency) of revenue over expenditures	<u>(773,397)</u>	<u>1,009,341</u>	<u>282,004</u>	<u>517,948</u>
Other financing sources (uses):				
Operating transfer in	10,983	13,897	-	24,880
Operating transfer out	<u>(13,897)</u>	<u>(10,983)</u>	-	<u>(24,880)</u>
Total other financing sources	<u>(2,914)</u>	<u>2,914</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(776,311)	1,012,255	282,004	517,948
Fund balances at beginning of year	<u>(1,440,699)</u>	<u>(444,507)</u>	<u>615,742</u>	<u>(1,269,464)</u>
Fund balances at end of year	<u>\$ (2,217,010)</u>	<u>\$ 567,748</u>	<u>\$ 897,746</u>	<u>\$ (751,516)</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balances – total governmental funds \$ 517,948

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount of capital assets recorded in the current period. 14,485

Depreciation expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (1,214,684)

Governmental funds report principal payments on long-term debts as expenditures, whereas the principal payments reduce the long-term debt in the statement of net position:

Bond and notes	557,000
Amount due to CRIM	23,511
Line of credit payable to Governmental Development Bank of Puerto Rico	27,802

Changes in accrued expenses and other deferred changes which do not require the use of current financial resources:

Compensating absences	566,491
Deferred property tax	<u>77,446</u>

Changes in Net Position of Governmental Activities \$ 569,999

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

1. ORGANIZATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The more significant policies of the Municipality are described below.

Reporting entity

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

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

Government wide and fund financial statements

Basic financial statements include both governments-wide and fund financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide statements

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

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

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

Fund financial statements

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

The Municipality reports the following major governmental funds:

A) General Fund

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B) Debit service fund

This fund accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Measurement focus, basis of accounting and financial statement presentation

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement presentation (continued)

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and change in net position present increases (revenues) and decrease (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operating of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Cash and cash with fiscal agent

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

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

Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of Treasury but not in the Municipality's name. Deposits with GDB are uninsured and uncollateralized and thus represent a custodial credit risk, because in event that the financial institution fails, the Municipality may not be able to recover these deposits. The GDB's liquidity was adversely affected by a significant increase in credit spreads for obligations of the Commonwealth and its public corporations, the Commonwealth's limited capital market access, and a significant reduction of liquidity in the local Puerto Rico capital markets. Then, the credit rating downgrades could further adversely affect the GDB's liquidity. Accordingly, the Municipality has recorded a reserve for loss and deposit of \$1,890,457 for the year ended June 30, 2017.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables:

Receivables consist of all revenues earned but not collected at year -end. These accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable. Intergovernmental grants and contributions receivables represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds. Interfunds receivables and payables between funds within the governmental activities are eliminated in the statement of net position.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the government-wide financial statements.

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

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

	<u>Years</u>
Infrastructure	20 to 50
Building, structures and building improvements	30 to 50
Improvement to land	20
Vehicles	5
Furniture, fixtures, machinery and equipment	5 to 20

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Capital Assets

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

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

Fund Balance

The fund balances amounts are reported as nonspendable restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

- ❖ **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.
- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue sources and restrict its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision making Municipality (governing body through resolutions) and can only be charged by similar resolutions, no later than the end of the fiscal year.
- ❖ **Assigned** - Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by an official or body to which the governing body delegates authority in conformity with the bylaws of the Municipality. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Cost of insurance deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2017 amounted to \$170,009. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$115,307 for workers compensation insurance covering all municipal employees.

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the 60 days or to amount accumulated if the amount accumulated over 60 days was due to need of services.

Effective June 30, 2017 separation from employment prior to the use of all or part of the accumulated sick leave terminates all rights for compensation.

Employees' maximum allowed vacations are accounted for in the Statement of Net Position.

Post-Employment Benefits

Pursuant various Acts, the Municipality is required to cover annually the 3% increase (cost of living allowance) in the retirement plan of its retirees employees. Substantially all of the employees may become eligible for these benefits if they reach normal retirement while working for the Municipality. For the fiscal year ended June 30, 2017, post-employment benefits to retirees amounted to \$190,589. These benefits are recorded as expenditures in the general fund when notified by the retirement plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

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

The Municipality adopted the statement no. 68 of the *Governmental Accounting Standard Board Accounting and Financial Reporting for Pension (GASB 68)* which requires that the pension expenses, as well as deferred outflows of resources and deferred inflows of resources related to pension be recognized for employer's proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The employer's proportionate share should be determined using the employer's proportion of the employee contribution.

Future Adoption of Accounting Pronouncements

- ❖ Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.
- ❖ *GASB Statement No. 80, Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* – The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.
- ❖ *GASB Statement No. 81, Irrevocable Split-Interest Agreements* – The requirements of this Statement are effective for periods beginning after December 15, 2017. Earlier application is encouraged.
- ❖ *GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73* – The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.
- ❖ *GASB Statement No. 83, Certain Asset Retirement Obligation* – The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.
- ❖ *GASB Statement No. 84, Fiduciary Activities* – The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.
- ❖ *GASB Statement No. 85, Omnibus 2017* - The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future adoption of accounting pronouncements (Continued)

- ❖ GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.
- ❖ GASB Statement No. 87, *Leases* - The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- ❖ GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* - The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.
- ❖ GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* - The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Use of estimates

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

Subsequent Events

Management has evaluated subsequent events through September 17, 2018, the date the financial statements were evaluated to be issued.

3. PROPERTY TAX

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

3. PROPERTY TAX (CONTINUED)

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

This settlement has to be completed on a preliminary basis no later than three months after fiscal year-end, and a final settlement made no later than six months after year-end. If the CRIM remits to the municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June 30.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual rate for fiscal year 2017 is 8.53% for real property and 6.53% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.50% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected.

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return no later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2017, \$256,230 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

5. SALE AND USAGE TAX

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

Pursuant to the provision at the Act 72-2017 and effective July 1, 2016, the citizenship contribution was uniformity established in 1.5%, for all the Municipalities of Puerto Rico, of which 1% is collected by the Municipality and the remaining 0.5% is to be collected by the Treasury Department of the Commonwealth of Puerto Rico. A portion of the collected amount by the Treasury Department is submitted to Municipal Finance Corporation (COFIM, by is its spanish acronym), a redemption fund for financing capital project to the municipalities.

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

6. GRANTS AND ENTITLEMENTS REVENUE

Grants and entitlements revenue consists of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer Municipality and the Puerto Rico Electric Power Municipality. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in other governmental funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

<u>Governmental Activities</u>	<u>Balance 30-Jun-16</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Balance 30-Jun-17</u>
Capital asset, not subject to depreciation and amortization:				
Land	\$ 2,017,998			\$ 2,017,998
Cost basis of capital assets, subject to depreciation and amortization:				
Buildings, structures and improvements	12,621,912			12,621,912
Infrastructure	11,719,172			11,719,172
Vehicles, machinery and equipment and Furniture and fixtures	3,651,506	\$ 14,485		3,665,991
Work of art	248,981			248,981
Total cost basis of capital assets subject to depreciation and amortization	<u>28,241,571</u>	<u>14,485</u>		<u>28,256,056</u>
Total cost basis	<u>30,259,570</u>	<u>14,485</u>		<u>30,274,055</u>
Less accumulated depreciation for:				
Buildings, structures and improvements	(5,093,834)	(603,343)		(5,697,177)
Infrastructure	(2,123,911)	(299,655)		(2,423,566)
Vehicles, machinery and equipment and furniture and fixtures	(2,832,463)	(290,036)		(3,122,499)
Work of art	(77,465)	(21,650)		(99,115)
Total accumulated depreciation and amortization	<u>(10,127,673)</u>	<u>(1,214,684)</u>		<u>(11,342,357)</u>
Governmental activities capital assets, net	<u>\$ 20,131,897</u>	<u>\$ (1,200,199)</u>	<u>\$</u>	<u>\$ 18,931,698</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

7. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities</u>	<u>Amount</u>
General government	\$ 472,429
Public safety	113,287
Education and recreation	86,795
Public work and sanitation	302,364
Health and welfare	81,081
Urban development	110,608
Human development	<u>48,118</u>
Total depreciation expenses	<u>\$1,214,684</u>

8. LONG-TERM DEBTS

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

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

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement.

The general long-term debt activity for the year ended June 30, 2017, was as follows:

<u>Description</u>	<u>Balance at</u> <u>30-Jun-16</u>	<u>Borrowings</u> <u>or Additions</u>	<u>Payments or</u> <u>Deductions</u>	<u>Balance at</u> <u>30-Jun-17</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	\$ 5,882,000		\$ (632,000)	\$ 5,250,000	\$ 535,000
Compensated absences	1,077,579		(566,491)	511,088	511,088
Municipal Revenue				-	
Public Act No. 42 of January 26, 2000	648,520		(23,511)	625,009	24,988
Credit line with Governmental Development				-	
Bank of Puerto Rico	27,802		(27,802)	-	
Net pension liability	<u>28,742,719</u>			<u>28,742,719</u>	
Total	<u>\$ 36,378,620</u>	<u>\$ -</u>	<u>\$ (1,249,804)</u>	<u>\$ 35,128,816</u>	<u>\$ 1,071,076</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

8. LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES

The Municipality issues general and special (public improvements) obligations bonds and notes to provide for the acquisition and construction of mayor capital facilities and equipment, as well as, to cover certain operating needs. Long-term debt at June 30, 2017 is composed of the following debts Notes payable with:

	<u>Outstanding Amount</u>
2002 serial bonds face amount of \$270,000 due in annual principal installments ranging from \$10,000 to \$25,000; interest due in semiannual installments at variable rate (1.63% at June 30, 2017) through July 1, 2026.	\$ 170,000
2002 serial bonds face amount of \$855,000 due in annual principal installments ranging from \$35,000 to \$65,000; interest due in annual installments at variable rate (4.9% at June 30, 2017) through July 1, 2026.	500,000
2002 serial municipal bonds face amount of \$220,000 due in annual principal installments ranging from \$10,000 to \$20,000; interest due in semiannual installments at variable rate (4.62% at June 30, 2017) through July 1, 2026.	130,000
2007 serial bonds face amount of \$1,405,000 due on annual principal installment ranging from \$25,000 to \$120,000; interest due in semiannual installments at variable rate (6% to 7%) through July 1, 2038.	1,335,000
2003 serial bonds face amount of \$280,000 due in annual principal installments ranging from \$10,000 to \$25,000; interest due in semiannual installments at variable rate (1.87% at June 30, 2017) through July 1, 2027.	170,000
2017 serial bonds face amount of \$1,750,000 due in annual principal installments ranging from \$30,000 to \$150,000; interest due in semiannual installments at variable rate (6% to 7.5% at June 30, 2017) through July 1, 2038.	1,665,000
2017 serial bonds face amount of \$1,245,000 due in a principal installment of \$220,000; interest at 6% due in semiannual installments through July 1, 2017.	220,000
2017 serial bonds face amount of \$455,000 due in annual principal installments ranging from \$10,000 to \$40,000; interest due in semiannual installments at variable rates (5.00% to 7.5%) through July 1, 2037.	430,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

8. LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES (CONTINUED)

2017 serial bonds face amount of \$600,000 due in annual principal installments ranging from \$90,000 to \$105,000; interest due in semiannual installments at variable rate (6% to 7%) through July 1, 2019.	295,000
2008 serial bonds face amount of \$500,000 due in annual principal installments ranging from \$75,000 to \$95,000 plus interest at 6% due in through July 1, 2019.	250,000
2017 series general obligate note, face amount of \$130,000 due in annual principal installments ranging from \$20,000 to \$25,000 plus interest at 6% through July 1, 2020.	<u>85,000</u>
Total General Obligations – Bonds	<u>\$5,250,000</u>

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

Year Ending June 30,	Principal payment	Interest payment	Total
2018	\$ 535,000	\$ 279,054	\$ 814,054
2019	355,000	253,957	608,957
2020	375,000	233,887	608,887
2021	195,000	218,583	413,583
2022	180,000	209,185	389,185
2023-2027	1,130,000	891,777	2,021,777
2028-2032	795,000	631,950	1,426,950
2033-2037	1,135,000	345,150	1,480,150
2038-2039	<u>550,000</u>	<u>32,700</u>	<u>582,700</u>
Total	<u>\$ 5,250,000</u>	<u>\$ 3,096,243</u>	<u>\$ 8,346,243</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

8. LONG-TERM DEBTS (CONTINUED)

B. Advances from CRIM and PR Treasury Department (Law 42)

The Commonwealth's Public Act No. 42 of January 26, 2000 (Act No. 42) 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 authorized CRIM to finance a debt that the municipalities of Puerto Rico had with such entity, which arose from the difference between the yearly final settlements of property tax advances made by CRIM to the municipalities and the actual property tax collections received by CRIM from taxpayers 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 are assigned through Act No. 42 to repay such note. The increase in this subsidy was the result of Public Act 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 of excess of property tax advances from fiscal year 2000, 2001 and other previous fiscal years. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each fiscal year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB (6.19 percent at June 30, 2010) but not exceeding 8.00 percent. Principal and interest payments on this financing agreement are accounted for in the general fund. The outstanding principal amounted to \$648,520 at June 30, 2017.

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregate Obligation</u>
2018	\$ 24,988	\$ 38,292	\$ 63,280
2019	26,558	36,722	63,280
2020	28,227	35,053	63,280
2021	30,000	33,280	63,280
2022	31,884	31,396	63,280
2023-2027	192,115	124,284	316,399
2028-2032	260,548	55,857	316,405
2033	<u>30,689</u>	<u>951</u>	<u>31,640</u>
	<u>\$ 625,009</u>	<u>\$ 355,835</u>	<u>\$ 980,844</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

8. LONG-TERM DEBTS (CONTINUED)

C. COMPENSATED ABSENCES

The government-wide statement of net position includes \$511,088 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

9. INTERFUND BALANCES AND ACTIVITIES

BALANCE DUE TO / FROM OTHER FUNDS:

Balance due to / from other funds at June 30, 2017, consist of the following:

	Due to		
Due from	<u>General fund</u>	<u>Other governmental fund</u>	<u>Total</u>
General fund		\$512,903	\$512,903
Other governmental fund	<u>\$69,835</u>	_____	<u>69,835</u>
Total	<u>\$69,835</u>	<u>\$512,903</u>	<u>\$582,738</u>

TRANSFER TO / FROM OTHER FUNDS:

Transfer to / from other funds at June 30, 2017 consist of the following:

	Transfer in		
Transfer out	<u>General fund</u>	<u>Debt service funds</u>	<u>Total</u>
General fund		\$13,897	\$13,897
Debt service fund	<u>\$10,983</u>	_____	<u>10,983</u>
Total	<u>\$10,983</u>	<u>\$13,897</u>	<u>\$24,880</u>

10. RETIREMENT SYSTEM

A. *Plan Description* – The ERS is a cost-sharing, multi-employer defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration). It is a trust created by Act no. 447 on May 15, 1951 (Act no. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities of Puerto Rico. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

10. EMPLOYEE'S RETIREMENT PLAN (Continued)

The ERS consists of different benefit structures pursuant to ACT No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a defined contribution hybrid program. The pension plan is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico.

Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the ERS) are covered by the ERS. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

The benefits provided to members of the ERS are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Benefit provisions vary depending on date of membership.

On April 4, 2015, the Legislature enacted Act No. 3 which amended Act No. 447, Act no. 1 of February 16, 1990 ("Act No. 1") and Act. No. 305 of September 24, 1999 ("Act No. 305 or System 200") to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the ERS. Act No.3 of 2015, in conjunction with other recent funding and design changes, provided for a comprehensive pension design of the ERS. All regular employees hired for the first time on or after July 1, 2015, and former employees who participated in the Defined Benefit Program and the system 2000 Program, and were rehired on or after July 1, 2015, became members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2015, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants. Ceasing future defined benefit accruals under Act 447 and Act 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service.

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2015 as described below:

1. Members of Act No. 447 are generally those members hired on or after April 1, 1990 (Defined Benefit Program).
2. Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Program).
3. Members of Act. No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2015 (Defined Contribution Program). Each member has a non-forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

10. EMPLOYEE'S RETIREMENT PLAN (Continued)

All regular employees hired for the first time on or after July 1, 2015, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2015, become members of the defined contribution hybrid program as a condition to their employment. In addition, employees who at June 30, 2015, were participants of previous programs will become part of the Defined Contribution Hybrid Program. Each member has a no forfeitable right to the value of his/her contributions to the Defined Contribution Hybrid account.

The assets of the defined benefit program, the defined contribution program and the defined contribution hybrid program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets. In addition, employers' contributions for members hired on or after January 1, 2000 will be used by the ERS to reduce the unfunded status of the Defined Benefit Program.

This summary of plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

A. Effective for fiscal year ended June 30, 2016, the Municipality implemented de provision of the GASB 68, which accounting and Financial Reporting for Pension as recommended which required that the Municipalities' governmental-wide financial Statements present the proportional net pension liability of the ERS. In addition, the GASB 68 required among other the following disclosures:

1. Employer's proportionate share amount of collective net pension liability.
2. Employer's proportionate percentage of collective net pension liability (including the basis on which it was determined) and change on its proportion since prior measurement debts.
3. Significant assumption used to measure total pension liability, including inflation, salary changes, discounts rate and mortality.
4. Measurement date of collective net pension liability and date of actuarial valuation on which the total liability is base.
5. Information about plan fiduciary net position.

Other information about the net pension liabilities should be disclosed as require supplemental information.

B. On April 4, 2016, the Governor of Puerto Rico signed into law Act No. 3 of 2016, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1 2016 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2016 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

10. EMPLOYEE'S RETIREMENT PLAN (Continued)

2. Increased the minimum pension for current retirees from \$400 to \$500 per month.
3. Increase the retirement age in a range within 58 to 63 years of age depending the act under which the employee is eligible for retirement.
4. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
5. Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
6. The employee contribution rate was increased from 8.275% to 10%.
7. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
8. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the ERS.
9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
10. Survivor benefits were modified.

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

At June 30, 2017, the Municipality reported a liability of \$26,013,611 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Municipality proportion of the net pension liability was based on a projection of the Municipality long-term share of contributions to the pension plan relative to the total projected contributions of the State and all participating school districts, actuarially determined. At June 30, 2016, the Municipality proportion was .08645 percent.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

10. EMPLOYEE'S RETIREMENT PLAN (Continued)

As a result of its requirement to contribute to ERS, the Municipality recognized expense of \$1,491,845 for the year ended June 30, 2017. At June 30, 2017, the Municipality reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirement to contribute to ERS:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 389,447	
Differences between actual and expected experience		
Changes in assumptions		
Change in employer's proportion and differences Between the employer's contributions and the employer's proportionate share of contributions		
Net differences between projected and actual earnings on plan investments	<u>887,916</u>	<u>\$208,172</u>
 Total	 <u>\$1,277,363</u>	 <u>\$208,172</u>

The total pension liability in the June 30, 2017 actuarial valuations was determined using the following actuarial assumptions:

Measurement date	June 30, 2016
Amortization method	18 years closed (beginning July 1, 2015), level dollar
Actuarial cost method	Entry-age normal cost method
Remaining amortization period	17 years
Actuarial assumptions:	
Discount rate	3.80%
Inflation	N/A
Payroll growth	N/A
Projected salary increase	N/A
Investment rate of return	3.10%
Pre – retirement mortality	For general employees not covered under Act No. 127, RP-2015 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement scale MP-2016 from 2017 base year and projected forward using MP-2016 on a generational basis. For members covered under Act No. 127, RP-2015 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement scale MP-2016 from 2017 base year and projected forward using MP-2016 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active services are assumed to be occupational for members covered under Act No. 127.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

10. EMPLOYEE'S RETIREMENT PLAN (Continued)

Post-retirement healthy mortality Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. These base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement disabled mortality Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

The net pension liability (information provided by Actuaries Valuation Report) as of June 30, 2015 is as follows:

Net Pension liability	Proportional Share (0.08645%)
Total pension liability	\$28,242,701
Fiduciary net position (deficit)	(500,282)
Net pension liability	<u>28,742,419</u>
Fiduciary net position as a % of total pension liability	
Covered payroll	<u>2,832,791</u>
Net pension liability as a % covered payroll	101.46%

The following presents the Municipality proportionate share of the net pension liability using the discount rate of 4.29%, as well as what the Municipality a proportionate share of the net pension liabilities would be if it was calculate using a discount rate that is 1% lower (3.29%) or 1% higher (5.29%) than the current rate:

	1% Decrease <u>3.29%</u>	Current Discount Rate <u>4.29%</u>	1% Increase <u>5.29%</u>
Total Pension Liability	\$32,277,179	\$28,272,701	\$24,936,705
Fiduciary Net Position (deficit)	<u>(500,282)</u>	<u>(500,282)</u>	<u>(500,282)</u>
Net Pension Liability	<u>\$37,777,461</u>	<u>\$28,742,419</u>	<u>\$25,436,987</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

10. EMPLOYEE'S RETIREMENT PLAN (Continued)

The discount rates used to measure total pension liability were as follow:

	<u>June 30, 2016</u>
Discount rate	3.80%
Long-term expected rate of return net of investment expense	6.55%
Municipal bond rate*	3.80%

*Bond Buyer General Obligation 20-Bond Municipal Bond Index

Change in Net Pension Liabilities (information provided by Actuaries Valuation Report) for the Year ended June 30, 2016 was a follows:

		Increase (Decrease)		
<u>Changes in net pension liability</u>	<u>Total pension liability</u>	<u>Plan fiduciary net position</u>	<u>Net pension liability</u>	<u>Proportional Share (.08645%)</u>
Balance as of June 30, 2015	\$30,219,517,000	\$ 80,666,000	\$30,138,851,000	\$26,013,661
Changes for the year:				
Service Cost	425,564,000		425,564,000	367,900
Interest on total pension liability	1,279,556,000		1,279,556,000	1,106,176
Effect of plan changes				
Effect of economic/demographic (gains) of losses	(463,898,000)		(463,898,000)	(401,040)
Effect of assumptions changes or inputs	2,781,098,000		2,781,098,000	2,404,411
Benefit payments	(1,572,675,000)	(1,572,675,000)		
Administrative Expenses		(25,744,000)	25,744,000	65,481
Other Expenses		(13,242,000)	13,242,000	11,447
Cost of Bonds		(194,400,000)	194,400,000	168,059
Member Contributions		339,650,000	(339,650,000)	(293,627)
Net Investment Income		70,143,000	(70,143,000)	(60,639)
Employer Contributions		736,969,000	(736,969,000)	(637,110)
Balance as of June 30, 2016	<u>\$(32,669,162,000)</u>	<u>\$ (578,633,000)</u>	<u>\$33,247,795,000</u>	<u>\$28,744,719</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

10. EMPLOYEE'S RETIREMENT PLAN (Continued)

The employer contribution to the above mentioned plans during the years ended June 30, 2017, 2016 and 2015 was as follow.

<u>YEAR</u>	<u>AMOUNT</u>
2017	\$422,253
2016	381,611
2015	399,141

This amounts represent the required contribution for the corresponding year.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2016. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

11. CONTINGENCIES

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

The Municipality is defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations will not have a material adverse effect on the Municipality's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2017

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AT BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes:				
Property taxes	\$1,566,549	\$1,566,549	\$1,566,548	\$ (1)
Municipal tax	279,276	279,276	288,309	9,033
Sales and usage tax	1,226,229	1,226,229	464,267	(761,962)
Construction excise taxes	143,237	143,237	301,747	158,510
Grants and entitlements	5,017,602	5,017,602	4,074,603	(942,999)
Rental income	234,621	234,621	103,187	(131,434)
Permits & Licenses	1,710	1,710	4,377	2,667
Other	<u>809,103</u>	<u>809,103</u>	<u>54,701</u>	<u>(754,403)</u>
Total revenues	<u>\$9,278,327</u>	<u>\$9,278,327</u>	<u>\$6,857,737</u>	<u>\$(2,420,589)</u>
Expenditures:				
General administration	\$5,013,890	\$5,233,490	\$3,724,479	\$ 1,509,010
Public safety	1,013,844	1,016,728	965,975	50,753
Culture and Recreation	450,166	452,016	422,469	29,547
Public works and sanitation	1,844,767	1,738,977	1,625,291	113,686
Urban Development	21,135	21,135	19,935	1,200
Human Development	493,302	470,750	420,013	50,737
Health and Welfare	<u>441,222</u>	<u>345,229</u>	<u>330,672</u>	<u>14,557</u>
Total expenditures	<u>\$9,278,327</u>	<u>\$9,278,327</u>	<u>\$7,508,836</u>	<u>\$ 1,769,491</u>
Excess of revenue over expenditure	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (651,099)</u>	<u>\$ (651,099)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2017

1. BUDGETS AND BUDGETARY ACCOUNTING

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

- 1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
- 3) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 4) The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.
- 5) Unused appropriations for the annual budgeted funds lapse at the end of the year.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2017

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

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

Excess of expenditures over revenues, budgetary basis.	\$ (651,099)
Other adjustments to accounts receivable and accounts payable and accrued expenses to accounting from budgetary to accrual basis.	<u>(125,212)</u>
Excess of revenues and other financial sources under expenditures and other financial sources per generally accepted accounting principle.	<u><u>\$ (776,311)</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017**

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability note	.8645%	.08645%	.8645%
Proportionate share of the net pension liability	\$428,742,719	\$28,742,719	\$26,013,661
Covered – employee payroll	2,832,791	2,832,791	3,016,323
Proportionate share of the net pension liability as percentage of covered-employee payroll	101.47%	101.47%	862.46%
Proportionate plan’s fiduciary net position	\$(500,282)	\$(500,282)	\$69,736
Plan’s fiduciary net position as a percentage of the pension liability	(1.74%)	(1.74)	.26%

Notes to Schedule:

Benefit Change: In 2017, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes Assumptions: In 2017, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

*Fiscal year 2017 was the first year of implementation, therefore only one year is shown.

The amounts presented have a measurement date of June 30, 2016.

Data Reference: Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico; Actuarial Valuation Report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 381,611	\$ 381,611	\$ 399,145
Contribution in relation to the actuarially required contributions	381,611	381,611	399,145
Contribution deficiency			
Covered – employee payroll	2,882,791	2,882,791	3,004,856
Contributions as a percentage of covered – employee payroll	13.23%	13.23%	

Note to schedule:

Fiscal year 2015 was the first year of implementation, therefore 3 years is presented.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

<u>FEDERAL GRANTOR / PASS THROUGH GRANTOR</u> <u>PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>
<u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>		
Direct Programs:		
Section 8 Housing Choice Vouchers	14.871	\$ 273,163
Passed through programs:		
Commissioner Office of Municipal Affairs:		
State Block Grant Program (SBGP)	14.228	646,275
PR Department of Health		
Housing Opportunities for Persons with AIDS	14.241	8,550
PR Department of Family:		
Emergency Solution Grant Program	14.231	<u>283,640</u>
Subtotal U.S. Department of HUD		<u>1,211,628</u>
<u>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
Passed through program:		
Oficina de la Procuradora de las Personas de Edad Avanzada:		
Special Program for the Aging Title II, Part C Nutrition Services	93.045	<u>59,342</u>
<u>US DEPARTMENT OF HOMELAND SECURITY</u>		
Passed through program:		
PR Office Management and Budget (GAR) Disaster Grant- Public Assistance	97.036	<u>91,463</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$1,362,433</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Ceiba, Puerto Rico and is prepared on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

**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**



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

**To Honorable Mayor and
Municipality Legislative Body
Municipality of Ceiba
Ceiba, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Ceiba, Puerto Rico** as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise **Municipality of Ceiba, Puerto Rico's** basic financial statements, and have issued our report thereon dated September 17, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of finding and questioned costs that we consider to be significant deficiencies. (Finding 2017-01 and 2017-02).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Ceiba, Puerto Rico's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2017-01 and 2017-02.

Purpose of this Report

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



Carlos R. Díaz, CPA, PSC

License No. 275

Expire December 1, 2018

September 17, 2018
Aguas Buenas, Puerto Rico

The stamp No. **E345546** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report

**REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
UNIFORM GUIDANCE**



CARLOS R. DIAZ, CPA, PSC

PO BOX 408, 7 SALAS TORRES ST, AGUAS BUENAS, PUERTO RICO 00703 TEL: 787-732-8020 FAX: 787-732-0685 EMAIL: cdiaz@carlosrdiazcpa.com

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

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

Report on Compliance for Each Major Federal Program

We have audited **Municipality of Ceiba, Puerto Rico's** compliance with the types of compliance requirements described in the *Compliance Supplement* that could have a direct and material effect on each of **Municipality of Ceiba, Puerto Rico's** major federal programs for the year ended June 30, 2017. **Municipality of Ceiba, Puerto Rico'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 **Municipality of Ceiba, Puerto Rico's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Municipality of Ceiba, Puerto Rico'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 **Municipality of Ceiba, Puerto Rico's** compliance.

Opinion on Each Major Federal Program

In our opinion, Municipality of Ceiba 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 Ceiba, Puerto Rico** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Municipality of Ceiba, Puerto Rico's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 **Municipality of Ceiba, Puerto Rico's** internal control over compliance.

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

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

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



Carlos R. Díaz, CPA, PSC

License No. 275

Expire December 1, 2018

September 17, 2018

Aguas Buenas, Puerto Rico

The stamp No. **E345547** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report
Expire December 1, 2018

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

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

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP:

Governmental activities - Qualified opinion
Fund Financial Statements - Unmodified opinion

Internal control over financial reporting:

- Material weakness (es) identified? Yes No
 - Significant deficiency (ies) identified? Yes None
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over Major Federal Programs:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None

Type of auditor’s report issued on compliance for Major Federal Programs:

- Unmodified Opinion
- Qualified Opinion
- Adverse Opinion
- Disclaimer Opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of Major Federal Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Communities Development Block Grant/ States Program and Non Entitlement Grant in Hawaii

Dollar threshold used to distinguish between

Type A and Type B Programs: \$750,000
Auditee qualified as low-risk auditee? Yes No

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2017-01

Type of finding - None Compliance - Financial Reporting – Accounting Records

Criteria

Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. Sections (a) & (b) of the Act, indicate that the accounting management system established in the Municipality should provide adequate and effective financial information for management decisions and in accordance with accounting principles general accepted in the United States of America and established by the Governmental Accounting Standard Board (GASB).

Condition

During our examination of the Municipality's accounting system, we noted that the accounting data still requires several reporting adjustments in order to present the Municipality's financial statements in the modified-accrual basis of accounting and to produce the government-wide financial statements.

Questioned Costs

None

Effect

The Municipality's accounting system does not provide updated and complete financial information that presents accurately its financial position. Also, the lack of training of the accounting personnel for the preparation of complex reports, i.e. annual financial statements, could restrict the adequate response of management in financial public affair issues.

Cause

The Municipality did not establish effective internal control over the transactions recorded on its accounting system.

Recommendation

We recommend the Municipality implements internal control procedures in order to maintain an accounting system that contains all information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

SECTION II - FINANCIAL STATEMENTS FINDINGS (CONTINUED)

Finding 2017-02

Operating deficit of general fund

Condition

The Municipality closed its fiscal year ended June 30, 2017 with a fund deficit, before providing reserves in the general fund, of \$2,217,010. The Municipality's internal control relating to the budgeting function does not adequately prevent management from incurring expenditures in excess appropriated funds. In addition, the deficit as caused by the overstatement of estimated revenues and the incurrence of obligations without available credit in the budgetary accounts.

Criteria

Article 8.004 (b) of Law 81 of Autonomous Municipalities establishes that the Municipality cannot obligate or spend funds in excess of the ensuing fiscal year. No amount shall be expended or obligated in a given fiscal year if exceeds its budgeted or authorized amounts by the Municipal Legislation.

Cause

This situation occurs because the Municipality is appropriating expenditures assuming the future collection of revenues using estimated tax collection provided by the Municipality Budgeting Division and the Municipal Revenues Collection Center. Therefore, the Municipality enters into purchases and contracts exceeding the actual taxes revenues earned and collected. The budgeting system does not reflect actual revenues and therefore cannot prevent the obligation of expenditures for which current resources will not be available. The overstatement of estimated revenues and the incurrence of obligations without available credit caused the Municipality to operate with a deficit.

Effect

The Municipality did not comply with the Article 8.004 (b) and Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico.

The continued occurrence of this situation could result in possible significant limitations on available funds and eventual reduction or elimination of municipal services since future collection of revenues will need to be used to pay for accumulated liabilities.

Recommendation

We recommend management to evaluate the adequacy of the provision for deficit reserve accounts in the next fiscal year budget for the amortization of public debt as recommended by law. Also, the Municipality's officers must evaluate the negative variance between budgeted revenues and actual revenues trend to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING NUMBER	AUDITORS DESCRIPTION	AUDITOR'S RECOMMENDATION	CORRECTIVE ACTION	LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	TARGET COMPLETION DATE
2017-01	During our examination of the Municipality's accounting system, we noted that the accounting data still requires several reporting adjustments in order to present the Municipality's financial statements in the modified-accrual basis of accounting and to produce the government-wide financial statements.	We recommend the Municipality implements internal control procedures in order to maintain an accounting system that contains all information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures interfund transactions, etc.	We will consult with our Internal Auditor and our accounting system provider the internal controls or reporting adjustments needed in order to comply with accrual basis of accounting and government-wide financial statements.	Finance Director Accountants Sub-Finance Director	December 1, 2019
2017-02	The Municipality closed its fiscal year ended June 30, 2017 with a fund deficit, before providing reserves in the general fund of \$2,217,010. The Municipality's internal control relating to the budgeting function does not adequately prevent management from incurring expenditures in excess appropriated funds. In addition, the deficit as caused by the overstatement of estimated revenues and the incurrence of obligations without available credit in the budgetary accounts.	We recommend management to evaluate the adequacy of the provision for deficit reserve accounts in the next fiscal year budget for the amortization of public debt as recommended by law. Also, the Municipality's officers must evaluate the negative variance between budgeted revenues and actual revenues trend to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year.	We will evaluate deficit reserve account so we can adequately cover any deficit for the coming fiscal year. We will monitor variances between actual and budgeted revenue in order to adjust budget expenses to avoid deficit at the end of the year.	Finance Director	March 31, 2019

Approved by: _____
Date: _____

