

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SINGLE AUDIT REPORTING PACKAGE
JUNE 30, 2018**

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TABLE OF CONTENTS

<u>FINANCIAL SECTION</u>	<u>Page</u>
Independent Auditor’s Report	1-4
Management’s Discussion and Analysis	5-16
Basic Financial Statements:	
Governmental-Wide financial statements:	
Statement of Net Position	17
Statement of Activities	18-19
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	20
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position	21
Statement of Revenues, Expenditures and Changes in Fund Balance	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	23
Proprietary Fund:	
Statement of Financial Position	24
Statement of Activities	25
Statement of Cash Flows	26-27
Note to Basic Financial Statements	28-50
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	51
Schedule of Budgetary Comparison	52
Notes to Schedule of Budgetary Comparison	53
<u>SUPPLEMENTARY INFORMATION</u>	
Schedule of Expenditures of Federal Awards	54-55
Notes to Schedule of Expenditures of Federal Awards	56
<u>REPORTS REQUIRE UNDER UNIFORM GUIDANCE</u>	
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	57-59
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	60-62
<u>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</u>	63
Section I - Summary of Auditor’s Results	64
Section II - Financial Statements Findings	65-66
Section III - Federal Awards Findings And Questioned Costs	67

MUNICIPALITY OF ADJUNTAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018



CARLOS R. DIAZ, CPA, PSC

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INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Municipal Legislative Body
Municipality of Adjuntas
Adjuntas, 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 Adjuntas**, Puerto Rico as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the **Municipality of Adjuntas, Puerto Rico's** basic financial statements as listed in the table of contents. We did not audit the financial statements of Valle Verde Project, which represent 100 percent of the assets, fund balance and revenue of the business type activities financial statements.

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 did not audit the financial statements of Valle Verde Project. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Valle Verde Project, is based solely on the report of the other auditors. 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	Unmodified
Each mayor funds	Unmodified
Aggregate remaining funds	Unmodified

Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pension Plan

Management has not recorded the total pension liability, deferred outflow of resources, deferred inflow of resources and related expense required by Statement No. 73 of the Governmental Accounting Standard Board, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provision of GASB Statement 67 and 68 in the governmental activities. The amounts recorded on the municipality's financial statement were provided from the audited Schedules of Employer Allocations and Schedules of Pensions Amounts by Employer of the Employees Retirement System for the year ended June 30, 2016. These schedules apply for employers under GASB Statement No. 68. Consequently, we were unable to determine whether any adjustments to these amounts and disclosures were necessary. The net pension liability and deferred outflows/inflows represent 54 percent of the total liabilities, 100 percent and 19 percent of deferred outflows/inflows of resources, respectively, as June 30, 2018.

The Municipality has not implemented the requirement of Statement No. 75 of the Governmental Accounting Standard Board, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75) as of for the year ended June 30, 2018. Accounting principles generally accepted in the United States of America require that net other postemployment benefit related liability, deferred outflow of resources and deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 75, as well as the effect of current period changes of the aforementioned amounts that must be recognized in other postemployment benefit expense during the current period. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, net position, and other postemployment benefit expense have not been determined.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

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 Adjuntas, Puerto Rico**, as of June 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified opinions

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Adjuntas, Puerto Rico** as of June 30, 2018, 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 5 to 16 and 48 to 50 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 Adjuntas, 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.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2019, on our consideration of the **Municipality of Adjuntas** 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 Adjuntas** internal control over financial reporting and compliance.

March 25, 2019
Aguas Buenas, Puerto Rico



Carlos R. Díaz, CPA, PSC
License No. 275
Expire December 1, 2021

The stamp No. **E365823** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

The discussion and analysis of the Municipality of Adjuntas (Municipality) financial performance provides an overview of the Municipality's financial activities for the year ended June 30, 2018. This MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the financial statements, which begin on page 17.

FINANCIAL HIGHLIGHTS

- The Municipality has reported assets amounting to \$44.18 million in the accompanying statement of net position, of which most significant are capital assets and cash and cash equivalents amounting to \$28.44 million and \$14.08 million respectively.
- Also, the Statement of Net Position for the Governmental Activities of the Municipality shows \$26.91 million in net investment in capital assets. It represents that the capital assets of the Municipality are not pledged with neither long nor short-term liabilities.
- The Municipality has reported liabilities amounting to \$36.12 million in the accompanying statement of Net position, of which \$34.89 is long term debt.
- During fiscal year ended June 30, 2018 the Municipality Net Position increase by \$7.37 million.
- During the year, the Municipality reported revenues of \$7.89 million in the General Fund of total revenues restricted and unrestricted of \$14.26 million.
- The Municipality has reported total expenses amounting to \$6.88 million in the accompanying statement of activities.
- The total fund balances of governmental funds amounted to \$13.59 million at June 30, 2018, which increase by \$3.44 million (excess of revenues and other financing sources over expenditures and other financing uses) during fiscal year ended June 30, 2018.
- The total assets of governmental funds increase from \$14.99 million at June 30, 2017 to \$18.85 million at June 30, 2018, for a increase of \$3.86 million.
- The governmental fund's total liabilities increase from \$3.99 at June 30, 2017 to \$4.71 at June 30, 2018 for a increase of \$0.72 million.
- Total revenues of governmental funds increase from \$10.78 million for the fiscal year ended June 30, 2017 to \$14.26 million for the fiscal year ended June 30, 2018 for a increase of \$3.48 million.
- The governmental fund's total expenditures increase from \$10.58 million for the fiscal year ended June 30, 2017 to \$10.82 million for the fiscal year ended June 30, 2018 for an increase of \$.24 million.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

- Other financing sources (uses), net, of governmental funds increase from \$.98 million for the fiscal year ended June 30, 2017 to \$2.20 million for the fiscal year ended June 30, 2018.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on page 17 through 19) provide information about the activities of the Municipality as a whole and present a long-term view of the Municipality's finances. Fund financial statements start on page 20. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Municipalities' operations in more detail than the government-wide statements by providing information about the Municipality's most significant funds.

Overview of the Basic Financial Statements

The Municipality's financial statements include three components:

1. the government-wide financial statements
2. the fund financial statements
3. notes of the financial statements

These components are described below:

Government-wide financial statement: The Government-Wide Financial Statements are designed to provide to readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2018 even if cash involved have not been received or paid. The Government-Wide Financial Statements include: (1) the Statements of Net Position and (2) the Statement of Activities.

The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the Municipality as a whole and about its activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's *net assets* and changes in them. You can think of the Municipality's net assets, the difference between assets and liabilities, as one way to measure the Municipality's financial health, or *financial position*. Over time, *increases or decreases* in the Municipality's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the roads, to assess the *overall health* of the Municipality of Adjuntas.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

In the Statement of Net Position and the Statement of Activities, we divide the Municipality into:

Governmental activities – Most of the Municipality’s basic services are reported here, including the municipal police, public works, garbage disposal, public energy and health services, and general administration. Property taxes, municipal license tax, state and federal grants finance most of these activities.

Fund Financial Statement: Report the financial position and results of operations of the Municipality’s governmental funds.

The Fund Financial statement components are:

- Balance Sheet-government funds
- Statements of Revenues, Expenditures and Changes in Fund Balance.

The Fund financial statements provide detailed information about the most significant funds, not the Municipality as a whole. Some funds are required to be established by bond covenants.

A fund is a grouping of related accounts that is used to maintain control over resources they have been segregated for specific activities or objectives. The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Municipality’s basic services are reported in the governmental funds, that uses an accounting approach which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund

Statements provide a detailed *short-term view* of the Municipality’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality’s programs.

Notes to the Basic Financial Statement: The notes provide additional information that is essential to a full understanding of the data provided in government-wide and the fund financial statements.

THE MUNICIPALITY AS A WHOLE

Financial Analysis of Government-Wide Financial Statements

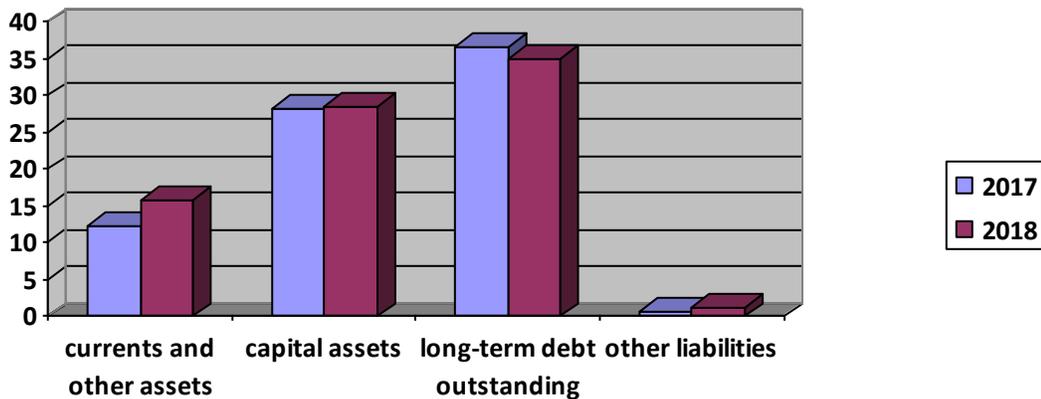
The Municipality’s overall financial position and operations for the last two years are summarized as follows, based on the information included in the accompanying Governmental-Wide Financial Statements.

The Municipality’s combined net position increased in the current year by \$ 7.37 million, to total \$10.99 million at end of year. Table 1 and 2, focus on the net assets and changes in net position of the Municipality’s governmental and business-type activities for the current year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

**Table 1
NET POSITION
(in Million)**

	<u>2018</u>	<u>2017</u>
Current and other assets	\$15.75	\$12.21
Capital assets	<u>28.44</u>	<u>28.27</u>
Total assets	<u>\$44.18</u>	<u>\$40.48</u>
Long-term debt outstanding	(34.89)	(36.58)
other liabilities	(\$1.23)	(\$0.69)
Total liabilities	<u>(\$36.12)</u>	<u>(\$37.27)</u>
Net assets:		
Net investment in capital assets	26.91	26.13
Restricted	14.41	7.71
Unrestricted	<u>(30.33)</u>	<u>(30.26)</u>
Net Assets	<u>\$10.99</u>	<u>\$3.62</u>



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

**Table 2
CHANGES IN NET POSITION
(in Million)**

Revenues	<u>2018</u>	<u>2017</u>
Program revenues:		
Charges for services	\$0.55	\$0.57
Operating grants and contributions	1.41	1.36
Capital grants and contributions	2.61	0.71
General revenues:		
Property taxes	.74	1.33
Municipal License tax	.34	0.06
Gants and entitlements	6.18	5.28
Other income	<u>2.42</u>	<u>2.16</u>
Total Revenues	<u>\$14.25</u>	<u>\$11.47</u>
Program Expenses:		
General administration	\$1.17	\$4.29
Public safety	.29	0.39
Culture, tourism, recreation and education	.63	0.80
Public works	1.92	2.58
Health and welfare	1.28	1.75
Housing	.57	0.53
Other	<u>1.02</u>	<u>0.80</u>
Total Expenses:	<u>\$6.88</u>	<u>\$11.14</u>
Increase in Net Position	<u>\$7.37</u>	<u>\$0.33</u>

Net assets increase by \$7.04 million in the Municipality's governmental activities. *Unrestricted* net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

Financial analysis of the Municipality's Governmental Funds

The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental fund is to provide information on near-term inflow, outflow, and balance of spend able resources. Such information is useful in assessing the Municipality's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Governmental Activities

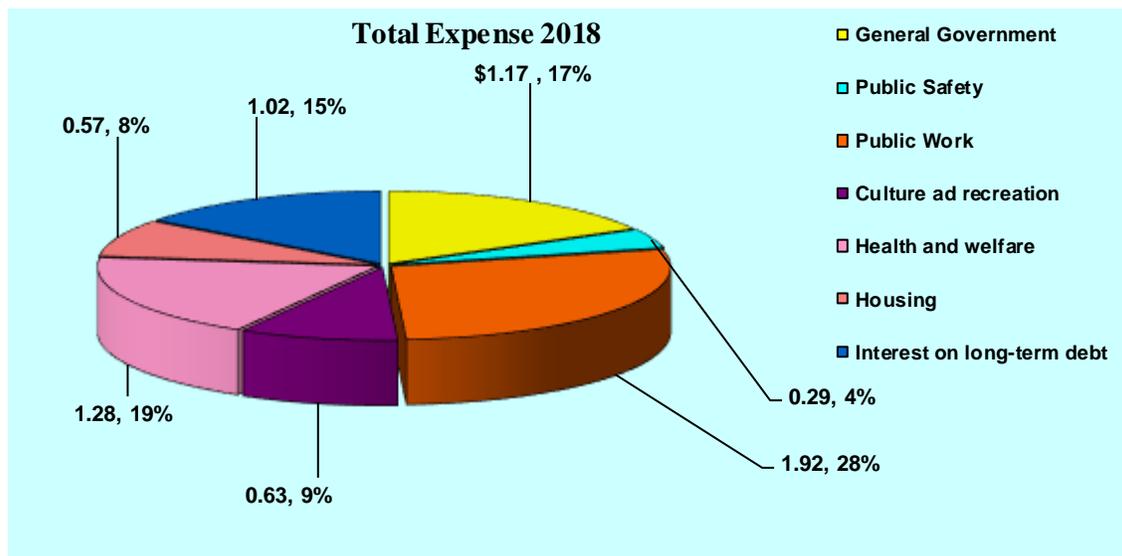
The principal revenues of the Municipality are composed of property taxes and grant contributions. The Mayor of the Municipality of Adjuntas continued with an aggressive collections procedure especially in the property taxes area and submitted state and federal proposals to get competitive grant awards. Also, the Mayor of the Municipality implemented an adequate budget control and record keeping, which benefits the Municipality in its management decisions and operations.

Expenses during the fiscal year ended June 30, 2018 was substantially related to the following:

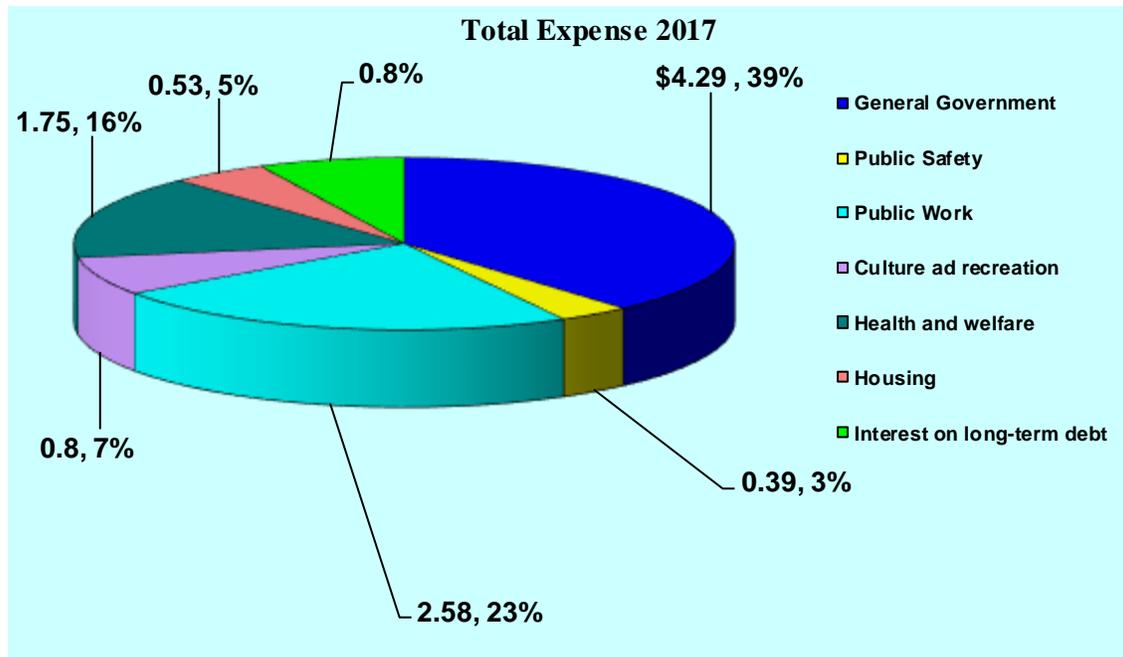
Table 3

**Governmental Activities
(in Million)**

	Total expenses	
	<u>2018</u>	<u>2017</u>
General Government	\$1.17	\$4.29
Public Safety	.29	0.39
Public Work	1.92	2.58
Culture, recreation and education	.63	0.80
Health and welfare	1.28	1.75
Housing	.57	0.53
Interest on long term debt	<u>1.02</u>	<u>0.80</u>
Totals	<u>\$6.88</u>	<u>\$11.14</u>



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**



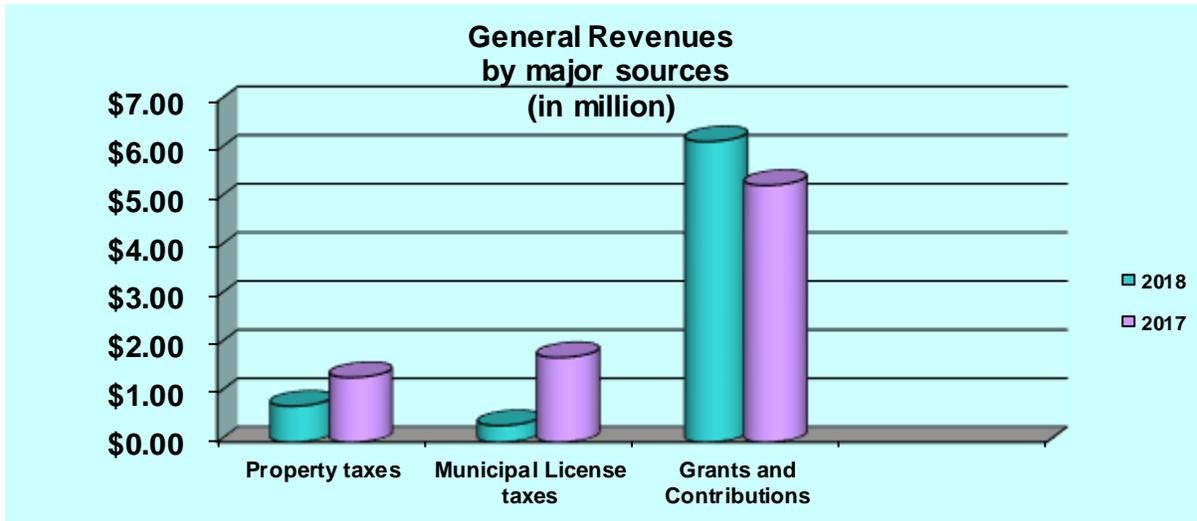
The cost of all governmental activities this year was \$6.88 million compared to \$11.14 million last year. Table 2 presents the cost of each of the Municipality of Adjuntas largest programs.

The major sources of general revenue are property taxes, municipal sales taxes, and grant and contributions not restricted, which in total represent \$7.26 and \$8.35 of all revenues in 2018 and 2017, respective.

**Table 4
Governmental Activities
(in Million)**

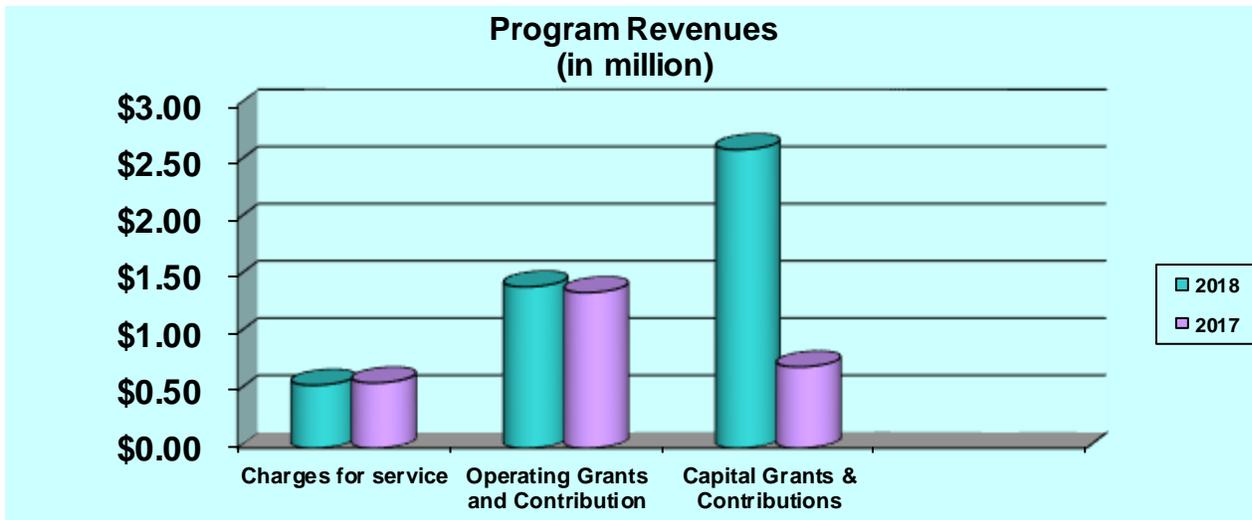
	General Revenues By major sources	
	<u>2018</u>	<u>2017</u>
Property taxes	\$.74	\$1.33
Municipal License taxes	.34	1.74
Grants and contributions	<u>6.18</u>	<u>5.28</u>
Totals	<u>\$7.26</u>	<u>\$8.35</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**



**Table 5
Governmental Activities
(in Million)**

	Program Revenues by major sources	
	<u>2018</u>	<u>2017</u>
Charges for service	\$0.55	\$0.57
Operating Grants and Contribution	1.41	1.36
Capital Grants and Contributions	<u>2.61</u>	<u>0.71</u>
Totals	<u>\$4.57</u>	<u>\$2.64</u>



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

THE MUNICIPALITY'S FUND

As the Municipality completed the year, its governmental funds reported a combined fund balance of \$13.59 million.

General Fund Budgetary Highlights

Once the Municipality's budget for the fiscal year 2017-2018 was approved on June 2017, the financial decisions were taken based on the available appropriations. However, during the course of the year, the Municipal Legislative Body revised the Municipality of Adjuntas budget to adjust the original projections to the actual needs of the citizenship. The budget amendments fall into various categories. The first category includes transfers between expenditure accounts and the second one includes revisions to the amount of budget originally approved.

CAPITAL ASSET AND DEBT ADMINISTRATION

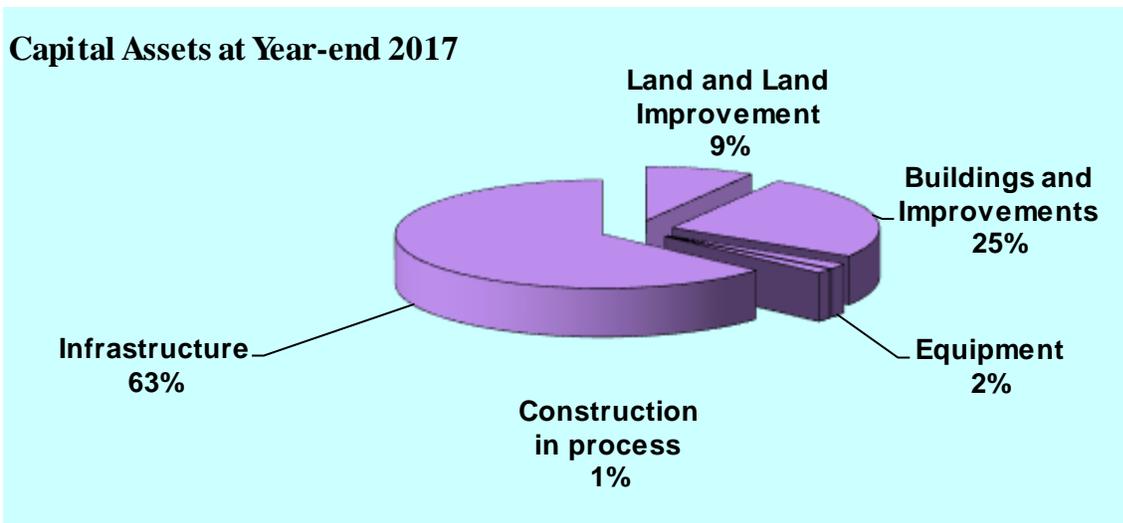
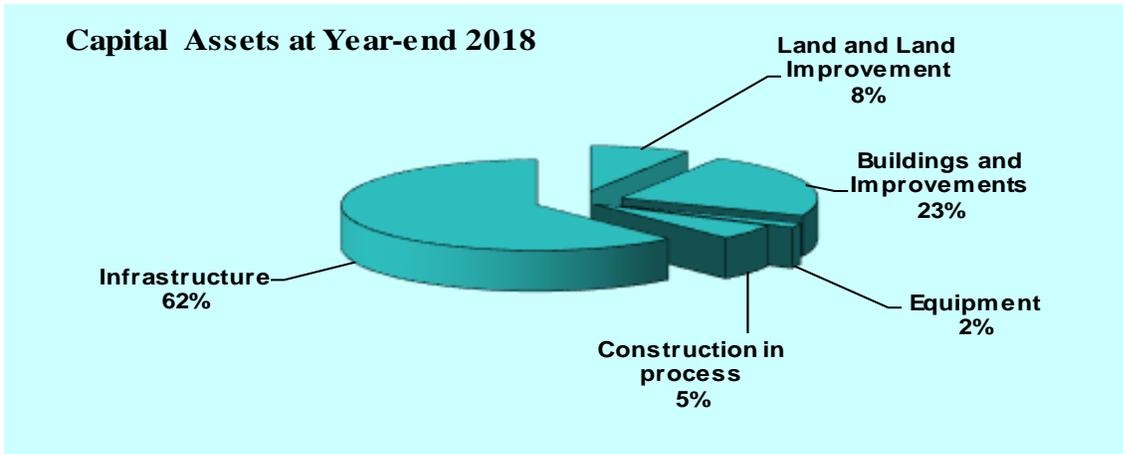
Capital Assets

As of June 30, 2018, the Municipality of Adjuntas had \$28.44 million invested in a broad range of capital assets, including buildings, parks, roads, bridges and equipment.

**Table 6
Capital Assets at Year-End
(Net of depreciation, in Millions)**

<u>Governmental Activities</u>	<u>2018</u>	<u>2017</u>
Land and land improvements	\$2.08	\$2.08
Buildings and improvements	5.85	6.20
Construction in process	1.37	0.32
Infrastructure	15.17	15.51
Equipment	<u>.39</u>	<u>0.40</u>
Totals	<u>\$24.86</u>	<u>\$24.51</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**



More detailed information about the Municipality's capital assets is presented in Note 8 to the financial statements.

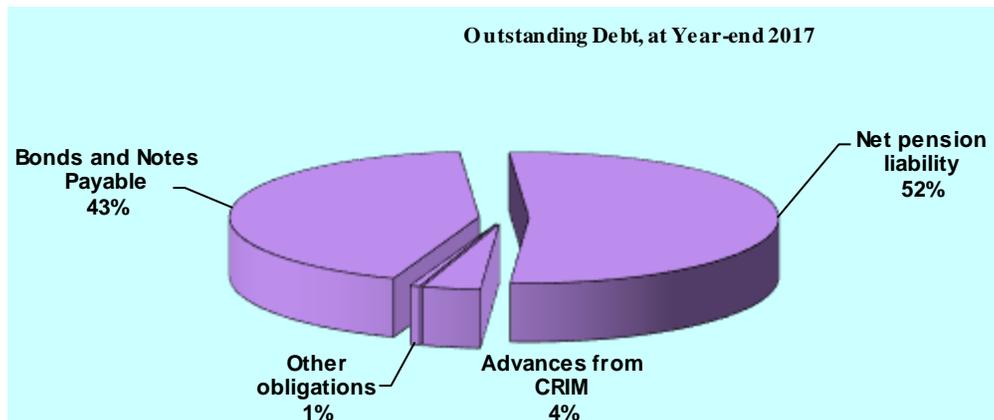
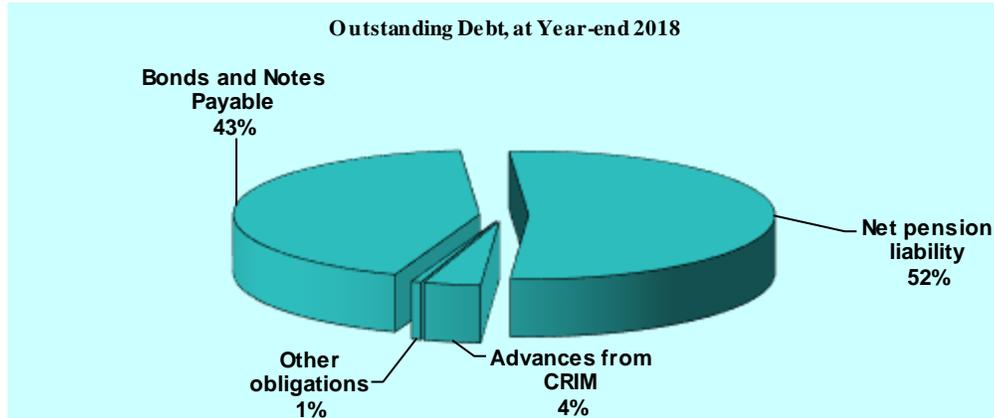
Debt

At year-end, the Municipality of Adjuntas had \$34.89 million, in bonds, notes and other outstanding debts as shown in Table 7.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

**Table 7
Outstanding Debt, at Year-End
(in Thousands)**

	Governmental Activities	
	<u>2018</u>	<u>2017</u>
Bonds and Notes payable	\$15.23	\$15.79
Net pension liability	17.94	19.19
Advances from CRIM	1.30	1.36
Other obligations	<u>.42</u>	<u>0.23</u>
Totals	<u>\$34.89</u>	<u>\$36.57</u>



The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation; and claims and judgments. In the fiscal year 2016 the Municipality implemented the provision of the GASB 68. More detailed information about the Municipality's long-term liabilities is presented in Note 9 to the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS PUERTO RICO
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 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, 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.

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.

Under this disaster, the Municipality has submitted damages in the amount of \$963,361.26 for Categories A and B. As of today, the Municipality has received public assistance grants for the amount of \$786,500.00. Currently the Municipality of Adjuntas 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 \$13,999,780.00. As of today, the Municipality has claimed the preliminary amount of \$1,696,761.88 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 \$1,088,492.92 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2019 budget. Budgeted expenditures are expected to decrease accordingly to the decrease in budgeted revenues. If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of 2019.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Municipality's finances and to show the accountability for the money it receives. If you have questions about this report or need additional financial information, contact us at the Municipality of Adjuntas, PO Box 1009, Adjuntas, Puerto Rico 00601.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL
ASSETS			
Cash in bank	\$ 11,501,179	\$ 499,328	\$ 12,000,507
Investment in certificates of deposit			-
Accounts receivable:			-
Governmental agencies	1,374,282	1,228	1,375,510
Other		1,277	1,277
Restricted cash		290,728	290,728
Other assets			-
Cash with fiscal agent	2,079,067		2,079,067
Capital assets, net	<u>24,855,106</u>	<u>3,582,449</u>	<u>28,437,555</u>
Total Assets	<u>39,809,634</u>	<u>4,375,010</u>	<u>44,184,644</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Contribution to employee's retirement plan	<u>3,479,496</u>	<u>-</u>	<u>3,479,496</u>
LIABILITIES:			
Accounts payable and accrued expenses	854,269	37,104	891,373
Due to other agencies	271,301		271,301
Advances from federal agencies	65,058		65,058
Long-term debt:			-
Due within one year	1,040,774		1,040,774
Due in more than one year	<u>33,850,075</u>		<u>33,850,075</u>
Total Liabilities	<u>36,081,477</u>	<u>37,104</u>	<u>36,118,581</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred municipal license	208,903		208,903
Unamortized investment in employee's retired plan	<u>343,381</u>	<u>-</u>	<u>343,381</u>
	<u>552,284</u>	<u>-</u>	<u>552,284</u>
NET POSITION:			
Net invested in capital assets, net of related liabilities	23,328,187	3,582,449	26,910,636
Restricted for:			
Debt service	1,607,056		1,607,056
Capital projects	7,517,501		7,517,501
Public work	4,995,491	290,728	5,286,219
Unrestricted	<u>(30,792,867)</u>	<u>464,729</u>	<u>(30,328,138)</u>
Total Net Position	<u>\$ 6,655,369</u>	<u>\$ 4,337,906</u>	<u>\$ 10,993,275</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>PROGRAM REVENUE</u>		
			<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>NET (EXPENSE) REVENUE</u>
Governmental activities:					
General administration	\$ (1,172,811)		\$ 219,553		\$ (953,258)
Public safety	(291,554)				(291,554)
Education and recreational	(632,183)				(632,183)
Public works and sanitation	(1,914,924)			\$ 2,610,265	695,341
Health and welfare	(1,284,206)		1,193,610		(90,596)
Interest	<u>(1,018,620)</u>				<u>(1,018,620)</u>
Total governmental activities	<u>(6,314,298)</u>	<u>-</u>	<u>1,413,163</u>	<u>2,610,265</u>	<u>(2,290,870)</u>
Business type activities					
Housing	(564,996)	\$ 549,233			(15,763)
Interest	<u>(850)</u>				<u>(850)</u>
Total Business type activities	<u>(565,846)</u>	<u>549,233</u>			<u>(16,613)</u>
Total	<u>\$ (6,880,144)</u>	<u>\$ 549,233</u>	<u>\$ 1,413,163</u>	<u>\$ 2,610,265</u>	<u>\$ (2,307,483)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

	GOVERNMENTAL <u>ACTIVITIES</u>	BUSINESS-TYPE <u>ACTIVITIES</u>	<u>TOTAL</u>
Net (expense) revenue	\$ <u>(2,290,870)</u>	\$ <u>(16,613)</u>	\$ <u>(2,307,483)</u>
General revenues:			
Taxes:			
Property taxes	740,823		740,823
Municipal patent tax	343,563		343,563
Sale and usage tax	1,238,846		1,238,846
Construction excise tax	93,906		93,906
Permits and Licenses	270		270
Grants and entitlements	6,178,156		6,178,156
Interest	43,789	3,073	46,862
Rent	4,950		4,950
Proceed from insurance	899,415		899,415
Other	<u>135,173</u>	<u>3,575</u>	<u>138,748</u>
Total general revenues	<u>9,678,891</u>	<u>6,648</u>	<u>9,685,539</u>
Changes in net position	7,388,021	(9,965)	7,378,056
Net position at beginning	<u>(732,652)</u>	<u>4,347,871</u>	<u>3,615,219</u>
Net position at end	<u>\$ 6,655,369</u>	<u>\$ 4,337,906</u>	<u>\$ 10,993,275</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF JUNE 30, 2018**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE</u>	<u>STATE LEGISLATIVE JOINT RESOLUTION FUNDS</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS:					
Cash:					
Cash in bank	\$ 5,656,484	\$ 188,071	\$ 1,323,076	\$ 4,333,548	\$ 11,501,179
Cash with fiscal agent		1,006,526		1,072,541	2,079,067
Receivables:					
Property taxes, net	-	-			-
Due from others governmental agencies	341,990	412,459		619,833	1,374,282
Sale and use tax	-				-
Other					-
Due from other funds	<u>668,652</u>		<u>1,993,675</u>	<u>1,236,766</u>	<u>3,899,093</u>
Total assets	<u>6,667,126</u>	<u>1,607,056</u>	<u>3,316,751</u>	<u>7,262,688</u>	<u>18,853,621</u>
Liabilities:					
Accounts payable and accrued expenses	430,253		-	44,850	475,103
Due to other fund	1,460,699		989,772	1,448,622	3,899,093
Deferred income:					-
CRIM	-				-
FEDERAL FUNDS				65,058	65,058
Advances from federal agencies					-
Due to other agencies	<u>271,287</u>			<u>14</u>	<u>271,301</u>
Total liabilities	<u>2,162,239</u>	<u>-</u>	<u>989,772</u>	<u>1,558,544</u>	<u>4,710,555</u>
Deferred inflows of resources:					
Deferred municipal patents	341,990				341,990
Deferred property tax	<u>208,903</u>	<u>-</u>			<u>208,903</u>
	<u>550,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>550,893</u>
Fund balances:					
Restricted for:					
Debt service		1,607,056			1,607,056
Public safety				172,089	172,089
Health,culture and recreation				341,533	341,533
Public work			2,326,979	5,190,522	7,517,501
Unassigned	<u>3,953,994</u>				<u>3,953,994</u>
Total fund balances	<u>3,953,994</u>	<u>1,607,056</u>	<u>2,326,979</u>	<u>5,704,144</u>	<u>13,592,173</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 6,667,126</u>	<u>\$ 1,607,056</u>	<u>\$ 3,316,751</u>	<u>\$ 7,262,688</u>	<u>\$ 18,853,621</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2018**

Fund balances in governmental funds \$ 13,592,173

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 24,855,106

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 3,479,496
Deferred inflows of resources related pension (343,381)

Receivables deferred in governmental fund financial statements 341,990

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 (15,225,000)
Accrued interest (379,168)
Compensated absences (422,916)
Net pension liability (17,941,172)
Amount due to CRIM (1,301,760)

Net position of governmental activities **\$ 6,655,368**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUNDS</u>	<u>STATE LEGISLATIVE JOINT RESOLUTION FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Revenues:					
Taxes:					
Property taxes	\$ 921,910	\$ 185,541			\$ 1,107,452
Municipal taxes	343,563				343,563
Sale and use tax	241,575	997,270			1,238,845
Construction excise taxes	93,906				93,906
Grants	5,054,007		\$ 986,459	\$ 4,161,118	10,201,584
Licenses and permits	270				270
Rental income	4,950				4,950
Interest	4,546	2,290	16	36,937	43,789
Proceed from insurance	1,088,493				1,088,493
Other	<u>133,287</u>			<u>1,886</u>	<u>135,173</u>
Total Revenues	<u>7,886,508</u>	<u>1,185,101</u>	<u>986,475</u>	<u>4,199,941</u>	<u>14,258,025</u>
Expenditures:					
General administration	4,458,636		80.00	234,544	4,693,260
Public safety	157,282				157,282
Education, culture and recreation	251,584				251,584
Public works	1,160,123			1,989,424	3,149,547
Health, sanitation and welfare	164,335			1,118,875	1,283,210
Debt service:					-
Principal		569,000			569,000
Interest		<u>715,891</u>			<u>715,891</u>
Total expenditures	<u>6,191,960</u>	<u>1,284,891</u>	<u>80</u>	<u>3,342,843</u>	<u>10,819,774</u>
Excess (deficiency) of revenue over expenditures	<u>1,694,548</u>	<u>(99,790)</u>	<u>986,395</u>	<u>857,098</u>	<u>3,438,251</u>
Other financing sources (uses):					
Operating transfer in	286,560	600,240		1,309,649	2,196,449
Operating transfer out	<u>(708,679)</u>	<u>(1,331,144)</u>		<u>(156,626)</u>	<u>(2,196,449)</u>
Total other financing sources	<u>(422,119)</u>	<u>(730,904)</u>	<u>-</u>	<u>1,153,023</u>	<u>0</u>
Net change in fund balance	1,272,429	(830,694)	986,395	2,010,121	3,438,251
Fund balances at beginning of year	<u>2,681,565</u>	<u>2,437,750</u>	<u>1,340,584</u>	<u>3,694,023</u>	<u>10,153,922</u>
Fund balances at end of year	<u>\$ 3,953,994</u>	<u>\$ 1,607,056</u>	<u>\$ 2,326,979</u>	<u>\$ 5,704,144</u>	<u>\$ 13,592,173</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Net change in fund balances – total governmental funds	\$ 3,438,251
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.	1,634,293
Changes in deferred inflows and outflows of resources of pension do not require the use of current financial resources and therefore are not recorded in governmental funds	2,508,782
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.	(1,100,353)
Loss from impairment on capital assets is reported in the statement of activities, but it does not require the use of current financial resources. Therefore, the loss from impairment is not reported as expenditure in governmental funds	(189,078)
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	569,000
Amount due to CRIM	59,504
Changes in accrued expenses and other deferred changes which do not require the use of current financial resources:	
Compensating absences	(196,590)
Accrued interest	(220,418)
Net pension liability	1,251,257
Deferred property tax	<u>(366,628)</u>
Changes in Net Position of Governmental Activities	<u><u>\$ 7,388,020</u></u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF FINANCIAL POSITION-PROPRIETARY FUND
AS OF JUNE 30, 2018

	<u>Proprietary Fund</u> <u>Valle Verde Project</u>
Current Assets:	
Cash	\$ 499,328
Accounts receivable:	
Other governmental agencies	1,228
Tenants accounts receivable and other	<u>1,277</u>
	<u>501,833</u>
Noncurrent assets:	
Property and equipment	3,582,449
Restricted deposits	<u>290,728</u>
	<u>3,873,177</u>
	<u>\$ 4,375,010</u>

LIABILITIES AND NET POSITION

Liabilities:	
Current liabilities:	
Accounts payable and accrued expenses	<u>\$ 37,104</u>
Net Position:	
Invested in capital assets, net of related debt	3,582,449
Restricted deposit	290,728
Unrestricted	<u>464,729</u>
	<u>4,337,906</u>
Total liabilities and net position	<u>\$ 4,375,010</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF ACTIVITIES-PROPRIETARY FUND
YEAR ENDED JUNE 30, 2018**

	<u>Proprietary Fund</u> <u>Valle Verde Project</u>
Revenues:	
Rent	\$ 549,233
Other	<u>3,575</u>
Total revenues	<u>552,808</u>
Expenses:	
Administrative	167,434
Utilities	12,493
Operating maintenance	143,307
Taxes and insurance	34,684
Depreciation	<u>207,078</u>
Total expenses	<u>564,996</u>
Operating income	<u>(12,188)</u>
Non-operating revenues (expenses)	
Interest received	3,073
Interest on mortgage	<u>(850)</u>
	<u>2,223</u>
Change in net position	(9,965)
Net position, beginning of year	<u>4,347,871</u>
Net position, end of year	<u><u>\$ 4,337,906</u></u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF CASH FLOWS-PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Proprietary Fund</u> <u>Valle Verde Project</u>
Cash flows from operating activities:	
Cash received from tenants and HUD	\$ 548,094
Other cash received	<u>4,024</u>
	<u>552,118</u>
Administrative	41,204
Management fees	47,495
Salaries and wages	121,095
Utilities	12,493
Operating and maintenance	86,765
Tenants' deposits held in trust	421
Miscellaneous taxes and insurance	<u>34,844</u>
	<u>344,317</u>
Net cash provided by operating activities	<u>207,801</u>
Cash flows from non-capital financing activities:	
Miscellaneous financial	<u>(850)</u>
Net cash used by non-capital financial activities	
Cash flows from capital and related financing activities:	
Mortgage principal payments	(9,590)
Purchases of capital assets	<u>(34,399)</u>
Net cash used in capital and related financing activities	<u>(43,989)</u>
Cash flows from investing activities:	
Interest in investments	3,073
Deposit to reserve for replacement and interest retained in account	(24,184)
Deposits to and interest earned and retained for insurance escrow	(15,002)
Withdrawals from reserve for replacement	<u>22,700</u>
Net cash provided by investing activities	<u>(13,413)</u>
Net increase in cash	149,549
Cash at beginning of year	<u>349,779</u>
Cash at end of year	<u>\$ 499,328</u>

(continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF CASH FLOWS-PROPRIETARY FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Proprietary Fund
Valle Verde Project

Cash flows from operating activities:

Change in the net position	\$ (12,188)
Adjustment to reconcile change in net position to net cash provided by operating activities:	
Depreciation	207,079
Bsd debt expense	17,537
increase in:	
Receivables	(690)
Tenant security deposits	(897)
Increase (decrease) in:	
Accounts payable	(3,570)
Accrued expenses	54
Tenant security deposits	<u>476</u>
Net cash provided by operating activities	<u>\$ 207,801</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

1. ORGANIZATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting entity

A reporting entity consists of the primary government, component units, and other organization 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 Adjuntas, 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 the 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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) 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 support 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government wide and fund financial statements (Continued)

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 as general revenues.

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Debt Service fund

This fund accounts for revenue from property and sales tax for the payments of general long term debt liabilities.

3) State Legislative Joint Resolutions Fund

This fund accounts for revenue sources provided by the Commonwealth of Puerto Rico's Legislature for the development of capital projects and other community services.

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 type 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Proprietary fund financial statements include a statement of financial position, a statement activity, and a statement of cash flows for a low-income housing project know as Valle Verde Housing Project.

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 include on the statement of financial position. The statement of activities presents 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 operations 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, cash equivalents, cash with fiscal agent and investment

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

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. Cash with fiscal agent are deposits with the GDB.

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

Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor.

In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amount in excess of federal depository insurance. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of Treasury but not in the Municipality's name. Deposits with GDB are uninsured and uncollateralized and thus represent a custodial credit risk, because in the event that this financial institution fails, the Municipality may not be able to recover these deposits.

The GDB's liquidity was adversely affected by a significant increase in credit spreads for obligations of the Commonwealth and its public corporations, the Commonwealth's limited capital market access, and a significant reduction of liquidity in the local Puerto Rico capital markets. Then, the credit rating downgrades could further adversely affect the GDB's liquidity. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2018. As of June 30, 2018, deposits on the GAB amounted to \$2,041,565.

Interfund receivables and payables

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

Interfunds receivables and payables between funds within the governmental activities are eliminated in the statement of net position.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements. The Municipality has elected to not capitalize infrastructure acquired before the implementation date of GASB 34 (July 1, 2003).

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

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

Building	50-40 years
Equipment and vehicles	5-10 years
Infrastructure	40 years

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

Impairment of Capital Assets

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Capital Assets (Continued)

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

Fund balance

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

- ❖ **No spendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.
- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue sources and restrict its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision-making authority (governing body through resolutions) and can only be 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 and official or body to which the governing body delegates authority in conformity with the bylaws of the Authority. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund balance (Continued)

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

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Cost of insurance deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2018 amounted to approximately \$131,645. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$116,600 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 maximum allowed.

Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed.

Employees’ maximum allowed vacations and vested sick benefits are accounted for in the statement of net position.

Accounting for pension costs

The Municipality accounts for pension costs in accordance with the requirements of **GASB Statement No. 68** as a participant employer of the retirement plans administered by the Employee’s Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). Accordingly, pension costs are reported based on its proportional share of the collective net pension liability, pension expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, pension costs have all been determined on the same basis as they are reported by the Plan. Effective on July 1, 2017, the Municipality and other participants of the ERS converted to a new PayGo model. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. Paygo payments are recorded as expenditures\expenses in the financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for other postemployment benefits (“OPEB”)

GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” is effective for the Municipality starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2017 basic financial statements, nor has it provided to the Municipality with the required information to implement the referred accounting pronouncement. The Municipality’s contribution for OPEB is included as part of the Paygo charges billed on a monthly basis by the Puerto Rico Department of Treasury (“PRDT”). Paygo payments are recorded as expenditures\expenses in the financial statements.

Future adoption of accounting pronouncements

- ❖ *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, 2018, 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, 2018. 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 2018* - The provisions of this Statement are effective for periods beginning after June 15, 2018. Earlier application is encouraged.
- ❖ *GASB Statement No. 86, Certain Debt Extinguishment Issues* - The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.
- ❖ *GASB Statement No. 87, Leases* - The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future adoption of accounting pronouncements (Continued)

- ❖ *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.
- ❖ *GASB Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* - The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

The Municipality management has not determined the impact in the Municipality financial statements the future adoption of these GASB Statements.

Use of estimates

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

Subsequent Events

Management has evaluated subsequent events through March 25, 2019, 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 ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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 by a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

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

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 2018 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 not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2018, \$208,903 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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 Adjuntas boundaries. The retailers are required to file monthly sales tax returns by 20th days following the month in which the tax are collected.

Pursuant to the provision at the Act 72-2018 and effective July 1, 2018, the citizenship contribution was uniformly established in 1.5%, for all the Municipality of Puerto Rico, of which 1% is collected by the Municipality and the remaining 0.5% is to be collected by the Treasury Department of the Commonwealth of Puerto Rico. A portion of the amount collected by the Treasury Department is submitted to Municipal Finance Corporation (COFIM, by its Spanish acronym), a redemption fund for financing capital projects to the municipalities.

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

6. GRANTS AND ENTITLEMENTS REVENUE

Grants and entitlements revenues consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Electric Power Authority. In addition, 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. Grants and entitlements revenues are recorded in the general fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the other governmental funds.

7. VALLE VERDE HOUSING AND RESTRICTED DEPOSIT

VALLE VERDE HOUSING (the Project) is a housing development consisting of land, building and other improvements owned by Municipality of Adjuntas. The Project leases its 96 rental units to low and moderate income individuals in the Adjuntas area. The accompanying financial statements are those of the Project and do not represent the financial statements of the Municipality.

The Project operates under Section 515 of USDA Rural Development (USDA-RD) Housing of the National Housing Act with HUD Section 8 Housing Assistance Payments program (new construction). The properties are operated subject to Section 8 Housing Assistance Payments agreements with the U.S. Department of Housing and Urban Development (HUD), and a significant portion of the Project's rental income is received from this agency.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

7. VALLE VERDE HOUSING AND RESTRICTED DEPOSIT (CONTINUED)

The agreement was effective in 1985, with terms of five years, with seven renewal options of five years each.

HUD has agreed to pay the Project the difference between the contract rent, as defined in the agreement, and that portion of rent payable by qualified tenants. In addition, HUD has agreed to pay a portion of the contract rent to the project during certain vacancy periods.

Under the term of the Administrative Order, Valle Verde Housing (the Project) is required to set aside specified amounts and the surplus cash deposits for the replacement of property and other project expenditures as approved by USDA-Rural Development.

The Project maintains a restricted cash account for insurance escrow. In addition, all tenant security deposits are deposited into a separate bank account and held in trust for the tenants until they vacate the property. Any amounts not returned to the tenant due to leave violations are transferred to the Projects' general operating account. Restricted funds are held in separate accounts and are not available for operating purposes.

Restricted cash in the business-type activities consists of:

Escrow deposit	\$ 26,390
Tenant security deposits	17,035
Replacement reserve	<u>247,303</u>
	<u>\$290,728</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

Primary Government	Balance 30-Jun-17	Increases	Decreases	Balance 30-Jun-18
Governmental activities:				
Capital asset, not being depreciated:				
Land	\$ 2,078,182			\$ 2,078,182
Construction in progress	320,805	\$ 1,048,636	-	1,369,441
	<u>2,398,987</u>	<u>1,048,636</u>	<u>-</u>	<u>3,447,623</u>
Capital assets being depreciated:				
Buildings	9,943,289		\$ (124,300)	9,818,989
Equipment and vehicles	5,383,388	150,796		5,534,184
Infrastructure	18,747,424	434,862	(64,778)	19,117,508
Total capital assets being depreciated	<u>34,074,101</u>	<u>585,658</u>	<u>(189,078)</u>	<u>34,470,681</u>
Less accumulated depreciation for:				
Buildings	(3,743,664)	(230,156)	-	(3,973,820)
Equipment and vehicles	(4,983,155)	(166,689)	-	(5,149,844)
Infrastructure	<u>(3,236,026)</u>	<u>(703,508)</u>	<u>-</u>	<u>(3,939,534)</u>
Total accumulated depreciation	<u>(11,962,845)</u>	<u>(1,100,353)</u>	<u>-</u>	<u>(13,063,198)</u>
Total depreciable capital assets, net	<u>22,111,256</u>	<u>(514,695)</u>	<u>(189,078)</u>	<u>21,407,483</u>
Governmental activities capital assets net	<u>24,510,243</u>	<u>533,941</u>	<u>(189,078)</u>	<u>24,855,106</u>
Business-type activities:				
Capital assets not being depreciated:				
Land and land improvements	<u>117,280</u>			<u>117,280</u>
Capital assets being depreciated:				
Building and improvements	7,477,993			7,477,993
Equipment	575,413	34,399		609,812
Land improvement	293,979		-	293,979
	<u>8,347,385</u>	<u>34,399</u>	<u>-</u>	<u>8,381,784</u>
Less accumulated depreciation:				
Building and building improvement	(3,945,158)	(181,896)		(4,127,054)
Equipment	(540,381)	(24,733)		(565,114)
Land improvements	<u>(223,998)</u>	<u>(449)</u>	<u>-</u>	<u>(224,447)</u>
	<u>(4,709,537)</u>	<u>(207,078)</u>	<u>-</u>	<u>(4,916,615)</u>
	<u>3,637,848</u>	<u>(172,679)</u>	<u>-</u>	<u>3,465,169</u>
Business activities capital assets, net	<u>3,755,128</u>	<u>(172,679)</u>	<u>-</u>	<u>3,582,449</u>
Total	<u>\$ 28,265,372</u>	<u>\$ 361,262</u>	<u>\$ (189,078)</u>	<u>\$ 28,437,555</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

8. CAPITAL ASSETS (CONTINUED)

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

	Governmental Activities	Business-Type Activities
General administration	\$ 184,814	
Public safety	134,273	
Public works	399,670	
Education, culture and recreation	380,599	
Health, sanitation and welfare	998	
Housing		\$ 207,078
	<u> </u>	<u> </u>
Total depreciation expense	<u>\$ 1,100,354</u>	<u>\$ 207,078</u>

9. LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2018 was as follows:

Primary Government	Beginning				Due within
Governmental activities:	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>one year</u>
Notes and bonds payable	\$ 15,794,000		\$ (569,000)	\$ 15,225,000	\$ 555,000
Other long-term debt:					
Compensated absences	226,326	\$ 196,591		422,917	422,917
Amount due to CRIM	1,361,264		(59,504)	1,301,760	62,857
Net pension liability	<u>19,192,429</u>	<u> </u>	<u>(1,251,257)</u>	<u>17,941,172</u>	<u> </u>
Total	<u>36,574,019</u>	<u>196,591</u>	<u>(1,879,761)</u>	<u>34,890,849</u>	<u>1,040,774</u>
Business-type activities:					
Mortgage payable	<u>9,590</u>	<u> </u>	<u>(9,590)</u>	<u>-</u>	<u> </u>
Total	<u>\$ 36,583,609</u>	<u>\$ 196,591</u>	<u>\$ (1,889,351)</u>	<u>\$ 34,890,849</u>	<u>\$ 1,040,774</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

9. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

A. Notes and Bonds:

\$4,120,000 Special Obligation of 2011 payable in an annual installments ranging \$100,000 to \$345,000 through July 1, 2035, plus interest at variable rate from 6.25% to 7.50% (6.25% as of June 30, 2018).	\$ 3,590,000
\$8,205,000 General Municipal Obligation of 2011 payable in an annual installments ranging from \$235,000 to \$553,000 through on July 1, 2036, plus interest at 5.30%.	6,855,000
\$1,365,000 General Municipal Obligation Bond of 2004 payable in annual installments ranging from \$55,000 to \$85,000 through July 1, 2029 plus interest at LIBOR 90 days' rate plus (3.57% at June 30, 2018).	820,000
\$619,000 General Municipal Obligation Bond of 2007 payable in annual installment ranging from \$20,000 to \$52,000 through July 1, 2031 plus interest at LIBOR 90 days plus 1.25% (3.57% as of June 30, 2018).	470,000
\$4,322,000 Special Obligation Note of 2008 payable in annual installments of \$145,000 to \$367,000 through July 1, 2032 plus interest at LIBOR 90 days' rate plus 1.25% (3.57% at June 30, 2018).	<u>3,490,000</u>
	<u>\$15,225,000</u>

The annual debt service requirements to maturity bonds and notes payables of June 30, 2018 are as follows:

<u>Governmental-type Activities</u>			
<u>Notes and Bonds Payable</u>			<u>Agreement</u>
<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2019	\$ 555,000	\$ 749,419	\$ 1,304,419
2020	592,000	726,161	1,318,161
2021	628,000	696,633	1,324,633
2022	653,000	665,580	1,318,580
2023	697,000	647,811	1,344,811
2024-2028	4,177,000	2,726,926	6,903,926
2029-2033	5,333,000	1,504,301	6,837,301
2034-2036	2,590,000	244,040	2,834,040
	<u>\$ 15,225,000</u>	<u>\$ 7,960,871</u>	<u>\$ 23,185,871</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

9. LONG-TERM DEBTS (CONTINUED)

Amount due to CRIM

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the central government to the municipalities was assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. As of June 30, 2018, the amount due to CRIM amounted to \$1,215,688 and is payable in semi-annual installments of \$65,533 including interest at 3.1%.

In addition, the Municipality entered into a financing agreement with CRIM for the payment of delinquent property tax account sold to private investors. The financing agreement in the form of a line of credit bearing interests at 6.50% during the first 5 years, and variable interest (125 points over LIBOR rate) during the next 25 years. At June 30, 2018, the outstanding principal balance amounted to \$86,073 and is payable in annual installments of \$6,149. Interest at 3.1% is payable semi-annually.

The principal and Interest matured as follow:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Agregated Payment</u>
2019	\$ 62,857	\$ 79,957	\$ 142,814
2020	66,420	75,994	142,414
2021	70,207	71,807	142,014
2022	74,232	67,382	141,614
2023	78,510	62,704	141,214
2024-2028	466,737	226,330	693,067
2029-2032	<u>482,798</u>	<u>68,056</u>	<u>550,854</u>
	<u>\$ 1,301,761</u>	<u>\$ 652,230</u>	<u>\$ 1,953,991</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

10. INTERFUND BALANCES AND ACTIVITIES

BALANCE DUE TO / FROM OTHER FUNDS:

Balance due to / from other funds at June 30, 2018, consist of the following:

<u>Due from</u>	<u>Due to</u>			<u>Total</u>
	<u>General fund</u>	<u>State Legislature joint resolution fund</u>	<u>Other governmental fund</u>	
General fund			\$ 668,652	\$ 668,652
Joint resolution fund	\$1,460,699		532,976	1,993,675
Other governmental fund		<u>\$989,772</u>	<u>246,994</u>	<u>1,236,766</u>
Total	<u>\$1,460,699</u>	<u>\$989,772</u>	<u>\$1,448,582</u>	<u>\$3,899,093</u>

TRANSFER TO / FROM OTHER FUNDS:

Transfer to / from other funds at June 30, 2018 consist of the following:

<u>Transfer from</u>	<u>Transfer to</u>			<u>Total</u>
	<u>General fund</u>	<u>Debt services</u>	<u>Other governmental fund</u>	
General fund		\$600,240	\$ 108,439	\$ 708,679
Debt service fund	\$282,800		1,048,344	1,331,144
Other governmental fund	<u>3,760</u>		<u>152,866</u>	<u>156,626</u>
Total	<u>\$286,560</u>	<u>\$600,240</u>	<u>\$1,309,349</u>	<u>\$2,196,449</u>

11. Pension Plan

General Description

The Municipality is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a trust created by the Commonwealth's Legislature. ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2013, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990,

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

11. Pension Plan (Continued)

General Description (Continued)

- Act No. 1 of February 16, 1990 (“Act 1”) for members hired on or after April 1, 1990 and ending on or before December 31, 1999,
- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 3, 2013.

Employees under Act 447 and Act 1 are participants of a cost-sharing multiple employer defined benefit plan. Act 305 members are participants under a pension program known as System 2000, a hybrid defined contribution plan. Under System 2000, there was a pool of pension assets invested by the System, together with those of the current defined benefit plan. Benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account.

Effective on July 1, 2013, Act No. 3 of 2013 (“Act 3”) amends the provisions of the different benefits structures under the ERS. Act 3 moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include: (1) retirement benefits accrued and savings account balances under the provisions of Act 447, Act 1 and System 2000 as of June 30, 2013; (2) contributions made by all members of ERS after June 30, 2013; and, (3) the investment yield for each semester of the fiscal year.

Benefits Provided

Eligibility for retirement: Act 3 establishes the following retirement eligibility requirements: (1) Act 447 regular employees upon attaining a range between 59 to 61 years (depending of date of birth) and 10 years of creditable service, (2) Act 1 employees upon attaining 55 years with 30 years of creditable service, (3) System 2000 regular employees upon attaining a range between 61 to 65 years (depending of date of birth) and, (4) Act 3 employees hired after July 1, 2013 upon reaching 67 years. High risk employees (state and municipal police, firefighters and custody officials) under Act 447 and Act 1 will be eligible at 55 years with 30 years of creditable service, for System 2000 employees at 55 years of service and for Act 1 employees hired after July 1, 2013 upon reaching 58 years.

Accrued benefits: All members are entitled to a lifetime annuity based on the balance of the deferred contribution individual account at the time of the retirement calculated based on a factor that will incorporate the individual’s life expectancy and a rate of return. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

11. Pension Plan (Continued)

Benefits Provided (Continued)

These participants will receive a pension at retirement age equivalent to what they have accrued under Act 447 and Act 1 up to June 30, 2013 plus the lifetime annuity corresponding to contributions made to the individual account after July 1, 2013 as described above. Act 447 participants, except police and mayors, may elect to coordinate coverage with Social Security benefits (“Coordinated plan”). Under this option, participants are subject to a benefit recalculation upon attainment of the Social Security Retirement Age. For all members, if the balance of the defined contribution individual account is less than \$10,000, the amount shall be paid as a lump sum instead of an annuity. Effective July 1, 2013, the minimum monthly pension amount for members who retired or disabled before July 1, 2013 is \$500.

Termination benefit: Members are eligible to a lump sum payment of the defined contribution individual account as of the date of the permanent separation of service upon termination of service prior to 5 years of service or if the balance of the defined contribution individual account is less than \$10,000.

Deferred retirement: Members are eligible at the applicable retirement eligibility age to a lifetime annuity based on the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) upon termination of service with 5 or more years of service (10 years of creditable service for Act 447 and Act 1 members) but prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal from the defined contribution individual account.

Death benefits: For non-retired members, their designated beneficiaries will receive a refund of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members). For pensioned members retired prior to June 30, 2013, the annual income to a widow or widower or dependent children is equal to 60% of the retirement benefit payable for life for a surviving spouse or disabled children and payable until age 18 or age 25 if pursuing studies for non-disabled children. For pensioned members retired after June 30, 2013, payments to beneficiaries will be the excess, if any, of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) over the total annuity payments paid to the member and any beneficiaries.

Disability benefits: Members who are permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be entitled to the balance of the deferred contribution individual account in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant, plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) at the applicable retirement eligibility age. Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

11. Pension Plan (Continued)

Benefits Provided (Continued)

A disability benefits program is established which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Office of the Commissioner of Insurance of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled shall be made by the insurance company that issues the insurance policy covering the participant.

Special laws and pensioner additional benefits: The Municipality is required to cover other retirement benefits of its retired employees (if retired prior to July 1, 2013) as required by Commonwealth's laws, including: (1) various special laws – ad-hoc cost of living allowance adjustments (COLA) provided in prior years; (2) various special laws –additional minimum pension benefits and, (3) Act 3 retired pensioners "Additional Benefits Program". All of these other retirement benefits are applicable only to employees who retired prior to July 1, 2013 under Act 447 and Act 1. The "Additional Benefits Program" includes: (1) a medication bonus of \$100 per member which shall be paid no later than July 15 of each year; (2) a Christmas bonus of \$200 per member which shall be paid no later than December 20 of each year and, (3) a matching share of \$1,200 for healthcare insurance plan. These costs are billed by ERS and paid by the Municipality through the "Paygo" system.

RETIREMENT SYSTEMS REFORM

Act No. 106 of August 23, 2017 ("Act 106") was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS's governance and administration, effective on July 1, 2017. Those dispositions are summarized as follows:

Determination of accrued pension benefits as of June 30, 2017 and payments

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the PRDT,
- Commonwealth's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth's Legislature.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

11. RETIREMENT SYSTEMS REFORM (CONTINUED)

On June 27, 2017 the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new PayGo model, effective on July 1, 2017. Under the PayGo funding, the participant employers directly pay the pension benefits (including other special laws and additional pensioner benefits) as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of PayGo funding, employers' contributions related to additional uniform contributions were eliminated. Payments are made by the employers (the Municipality) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the PayGo charge will increase. On July 20, 2017 ERS sold investments for approximately \$297 million.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. Each beneficiary, participant or pensioned will have personal collection rights against every incumbent, head of agency, director of budget or finance or any officer with responsibility at government, public enterprise or municipality to claim unpaid contributions starting on the effective date of the Act and demand that they be paid as required. For municipalities, it authorized a legal lien of property tax to be collected by the CRIM through the monthly advances. During the fiscal year 2017-2018, the Municipality was billed and recorded as PayGo expenditures the amount of \$XXXXX, of which \$XXXX was recorded as due to Commonwealth Government as of June 30, 2018.

Creation and transition to a new defined contribution plan

General - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account. The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

11. RETIREMENT SYSTEMS REFORM (CONTINUED)

Payment of benefits - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts of participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

Reform of ERS's governance and administration

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems. ERS's employees that are not retained under the new administrative structure will be transferred to public agencies in conformity to Act No. 8 of 2017.

Pension liabilities, pension expenses, and deferred outflows/inflows of resources related to pensions; other required disclosures under GASB Statement No. 73

As discussed above, pursuant to Act 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition, benefit payments are made through a PayGo funding administered by the PRDT. As a result, the plans operated by ERS under various benefit structures prior to July 1, 2017 are administered through a trust that do not meet the requirements of **GASB Statement No. 68** as of July 1, 2017 and instead, the employers are subject to the requirements of **GASB Statement No. 73**, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68". Since the ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2017 nor has provided to the Municipality certain required information necessary to properly implement the provisions of **GASB Statement No. 73** as of and for the fiscal year ended June 30, 2018, amounts related to pensions reported in the government-wide financial statements are amounts reported in the audited Schedules of Employer Allocation and Schedules of Pension Amounts by Employer as of and for Employees the year ended June 30, 2016 and 2015 issued by the Employees Retirements System of the Commonwealth of Puerto Rico on November 2, 2018. In addition, applicable disclosures and required supplementary information have been omitted.

12. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description

The Municipality is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

12. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Benefits provided

ERS MIPC covers a payment of up to \$100 per month to the eligible medical insurance plan selected by the member provided the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

Contributions

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The Municipality's contribution is financed through the monthly Paygo charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB; other GASB Statement 75 required disclosures

The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2017 nor has it provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2017 (Municipality's measurement date), necessary to comply with the requirements of ***GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"***, as of June 30, 2018. As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

13. 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 ADJUNTAS
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2018

	GENERAL FUND			
	ORIGINAL	FINAL	ACTUAL	VARIANCE
	<u>BUDGET</u>	<u>BUDGET</u>	<u>BUDGETARY</u>	<u>WITH FINAL BUDGET</u>
			<u>BASIS</u>	<u>FAVORABLE</u>
				<u>(UNFAVORABLE)</u>
Revenues:				
Taxes:				
Property taxes	\$ 855,777	\$ 855,777	\$ 855,777	\$ -
Municipal tax	167,885	167,885	343,563	175,678
Sales and usage tax	248,671	248,671	-	(248,671)
Construction excise taxes	179,666	179,666	93,906	(85,760)
Grants and entitlements	4,935,943	4,935,943	4,833,654	(102,289)
Rental income	53,375	53,375	4,950	(48,425)
Permits & Licenses	4,950	4,950	270	(4,680)
Charges for services	3,382	3,382	483	(2,899)
Interest	21,752	21,752	6,270	(15,482)
Other	<u>1,132,870</u>	<u>1,132,870</u>	<u>1,229,224</u>	<u>96,354</u>
 Total revenues	 <u>7,604,271</u>	 <u>7,604,271</u>	 <u>7,368,097</u>	 <u>(236,174)</u>
 Expenditures:				
General administration	5,254,608	5,383,737	4,368,802	1,014,935
Public safety	253,091	234,982	155,802	79,180
Education, culture and recreation	420,819	409,252	253,632	155,620
Public works and sanitation	1,285,841	1,325,961	1,040,025	285,936
Health and Welfare	<u>389,913</u>	<u>250,340</u>	<u>162,059</u>	<u>88,281</u>
 Total expenditures	 <u>7,604,271</u>	 <u>7,604,271</u>	 <u>5,980,320</u>	 <u>1,623,951</u>
 Excess of revenue over expenditure	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 1,387,777</u>	 <u>\$ 1,387,777</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2018

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. No legal budget is adopted for other than general fund.

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:

Net change in fund balance	\$1,272,429
Other adjustments to convert budgetary basis to GAAP	<u>115,348</u>
Excess of revenue over expenditures Budgetary Basis	<u>\$1,387,777</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

	<u>CFDA NUMBER</u>	<u>EXPENDITURES</u>
<u>US Department of Housing and Urban Development</u>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant/ State Grant	14.228	\$ 850,837
Direct Program:		
Section 8 – Housing Choice Vouchers	14.871	212,959
<u>US Department of Health and Human Services</u>		
Direct Program:		
Head Start	93.600	837,708
<u>US Department of Agriculture</u>		
Passed through:		
Puerto Rico Department of Education:		
Child and Adult Care Food Program	10.558	68,212
<u>US Department of Home and Security</u>		
Passed through:		
PR Office of Management and Budget (GAR):		
Disaster Grant – Public Assistance	97.036	<u>975,110</u>
		<u>\$2,944,826</u>

COMMO PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Adjuntas, 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**



CARLOS R. DIAZ, CPA, PSC

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Municipality of Adjuntas, Puerto Rico**, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise **Municipality of Adjuntas, Puerto Rico's** basic financial statements, and have issued our report thereon dated October 16, 2018. Other auditors audited the financial statements of Valle Verde Project, as described in our report on **Municipality of Adjuntas, Puerto Rico's** financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting of compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Municipality of Adjuntas, 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 Adjuntas, Puerto Rico's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Adjuntas, Puerto Rico's** internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Finding 2018-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Adjuntas, Puerto Rico's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned cost as items 2018-1.

Purpose of this Report

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



Carlos R. Díaz, CPA, PSC
License No. 275
Expire December 1, 2021

March 25, 2019
Aguas Buenas, Puerto Rico

The stamp No. **E365824** 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 REQUIRED BY UNIFORM GUIDANCE**



CARLOS R. DIAZ, CPA, PSC

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

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

Report on Compliance for Each Major Federal Program

We have audited **Municipality of Adjuntas, Puerto Rico's** compliance with the types of compliance requirements described in the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* that could have a direct and material effect on each of **Municipality of Adjuntas, Puerto Rico's** major federal programs for the year ended June 30, 2018.

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 Adjuntas, 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 credit requirements of 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 Adjuntas, 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 Adjuntas, Puerto Rico's** compliance.

Opinion on Each Major Federal Program

In our opinion, **Municipality of Adjuntas, Puerto Rico** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of **Municipality of Adjuntas, 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 Adjuntas, 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 Adjuntas, 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, 2021

March 25, 2019
Aguas Buenas, Puerto Rico

The stamp No. **E365825** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Government with financial Statement

Funds financial Statement

Qualified

Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? ___yes X_no
- Significant deficiency (s) identified that is not considered a material weakness. X_yes ___no
- Noncompliance material to financial statement noted? X_yes ___no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ___yes X_no
- Significant deficiency (s) identified that are not considered to be material weakness (es) ___yes X_no

Type of auditor's report issued on compliance for major programs

Unmodified

Any audit findings disclosed that are required to be reported under §200.516 audit finding paragraph

___yes X_no

Identification of major programs:

CFDA Number(s)

Name of Federal Program

14.228

Community Development Block Grant / States Program and Non-Entitlement Grant in Hawaii

97.036

Disaster Grants – Public Assistance (Presidentially declared)

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Audit qualified as low-risk audited?

___yes X_no

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

SECTION II – FINANCIAL STATEMENT FINDING

Finding No. 2018-1

Accounting system

Condition:

The Municipality has not established accounting procedures, control and records necessary to provide accurate information to prepare the financial statements in conformity with generally accepted accounting principles.

During our examination we noted the following matters:

- a) The bank reconciliations are not compared to general ledger and differences noted, if any, are not promptly adjusted.
- b) The accounting system did not recognize most of the payroll transactions. Such transactions are recognized manually at year end.
- c) The manually prepared checks are not recorded in the computerized system.
- d) The financial statements were prepared from worksheets manually prepared.

Criteria:

The Sections 8.010 (a), (c) and (d) of the Law 81 state that the accounting system establishes by the Municipality should be designed to present complete and accurate information of the result of operations, adequate control and accountability of all the funds necessary for the administration of the Municipality. The Law also states that the procedures to collect and deposit municipal funds and control the municipal property, should have adequate controls that prevent the commitment of irregularities and permit that if such irregularities are committed, the responsibility for such irregularities be established.

Effect:

The occurrence of these conditions may result that all transactions are not recorded in the financial statements and that any error could not be detected promptly.

Recommendation:

We recommend that the Municipality establishes an adequate accounting system to ascertain that all transactions are properly recorded.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

SECTION II – FINANCIAL STATEMENT FINDING

2018-001 – Accounting Records – Recognition and Reporting of Net Pension Liability and Postemployment Benefit Other Than Pensions - Material Weakness

Condition

The Municipality has not implemented the requirements of Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68 and Statement N.75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The amount by which this departure would affect the deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Municipality's governmental activities has not been determined.

Criteria

GASB Statement No. 73 state the accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to employees of the state and local governmental employers and are not within the scope of Statement 68. This statement requires that the Municipality report in its financial statements the net pension liability and related expenses.

GASB Statement No. 75 state the accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses /expenditures.

Cause

The government did not engage an actuarial firm to assist in determining the total pension liability and related expenses

Effect

The Municipality's Government-Wide Financial Statements does not present fairly the financial position of the government activities, and changes in financial position of the Municipality.

Recommendation

We recommend the Municipality that they should engage an actuarial firm to determine the total pension liability and related expense.

Management Response and Corrective Action

The Municipality it will be trying to obtain an actuarial firm to comply with these requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

NONE