

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SINGLE AUDIT REPORTING PACKAGE
YEAR ENDED JUNE 30, 2018**

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MUNICIPALITY OF CEIBA
SINGLE AUDIT REPORTING PACKAGE
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
FINANCIAL STATEMENTS
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 Ceiba
Ceiba, Puerto Rico**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Municipality of Ceiba**, Puerto Rico as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the **Municipality of Ceiba, Puerto Rico's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR’S REPORT (CONTINUED):

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

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

Summary of opinions:

Type of opinion:

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

Basis for qualified opinion on governmental activities

The net pension liability and deferred outflows/inflows of resources in governmental activities of the government-wide statement of net position, and pension expense for the current period charge in that liability in governmental activities of the government-wide statement of activities were derived from the application of the proportional share included in the unaudited financial statements, notes and required supplementary information of the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico, cost-sharing multiple-employer pension plan. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, and pension expenses of the governmental activities and the information disclosed in the notes of the pension plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosures were necessary. The net pension liability and deferred outflows/inflows of resources represent 76 percent, 100 percent and 45 percent of the total liabilities and deferred outflows/inflows of resources, respectively, as of June 30, 2018, while pension expense represents 4 percent of total expenses for the fiscal year then ended.

In addition, the Municipality has not evaluated the capital assets for impairments. Generally accepted accounting principles in the United States of America require that the capital asset should be evaluated for impairment and recognized any loss for permanent impairment, if any.

Qualified opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the **Municipality of Ceiba, Puerto Rico**, as of June 30, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Unmodified opinions

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Ceiba, Puerto Rico** as of June 30, 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 on pages 5 to 13 and 42 to 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2019, on our consideration of the **Municipality of Ceiba** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Ceiba** internal control over financial reporting and compliance.



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

October 15, 2019
Aguas Buenas, Puerto Rico

The stamp No. **E383819** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

This discussion and analysis of the Municipality of Ceiba (Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2018. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2018. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2018 deserve special mention:

1. Total assets of the Municipality amounted to \$22,490,667 which represents a decrease of 3% compared to prior fiscal year.
2. At the end of fiscal year 2018, total liabilities amounted to \$38,624,977. Regarding the amount presented in liabilities, it should be mentioned that \$35,041,934 corresponded to long-term liabilities of which \$33,860,376 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues.
3. Total net position (deficiency) of the Municipality amounted to (\$16,505,532) which represents an additional increase of 13% if compared to prior fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2018

FINANCIAL HIGHLIGHTS (CONTINUED)

4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$10,463,909 derived from the following sources: \$619,103 from operating grants and contributions; \$69,941 from charges for services; \$2,308,997 from capital grants and contributions obtained from other sources, and \$7,465,908 from general revenues available.
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$12,306,410.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a decrease in the Net Position figure by (\$1,842,461). The decrease in Net Position is caused by a reduction of the State Government contributions to Property Taxes, and Grants and Entitlements
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances (deficit) of (\$787,198).
8. As the end of the current fiscal year, the Municipality's General Fund deficiency decrease to (\$1,891,344) compared to the General Fund Balance of (\$2,217,010) in the prior fiscal year.
9. The actual General Fund budgetary activities resulted in a favorable balance of \$544,912.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2018. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision-making process.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS COMPONENTS

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

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

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

A brief review of the Statements of Activities of the Municipality at June 30, 2018 shows total expenses incurred to afford the cost of all functions and programs amounted to \$12,306,410. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$2,998,041 was derived from the following sources: \$619,103 from operating grants and contributions; \$69,941 from charges for services and \$2,308,997 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$7,465,908. When such figure is added to the \$2,998,041 previously mentioned, total revenues available for the financing of activities amounted to \$10,463,949. There was a deficit of revenues over expenditures in the amount of \$711,559 which contributed with an increase to the figure of net position attained at the end of the fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

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

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

INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets (such as roads, bridges, traffic signals, underground pipes not associated with utilities, etc.) have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Ceiba, primary government liabilities exceeded total assets by (\$16,505,532) at the end of 2018, compared to (\$14,663,071), at the end of the previous year, as showed in the following condensed Statement of Net Position of the Primary Government.

<u>Condensed Statement of Net Assets</u>	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>%</u>
Current and other assets	4,586,258	4,221,071	365,187	9%
Capital Assets	<u>17,904,409</u>	<u>18,931,698</u>	<u>(1,027,289)</u>	-5%
Total Assets	<u>22,490,667</u>	<u>23,152,769</u>	<u>(662,102)</u>	-3%
Current and other liabilities	3,954,265	2,687,024	1,267,241	47%
Long-term liabilities	<u>35,041,934</u>	<u>35,128,816</u>	<u>(86,882)</u>	0%
Total liabilities	<u>38,996,199</u>	<u>37,815,840</u>	<u>1,180,359</u>	3%
Invested in capital assets, net of related debt	14,537,921	15,040,209	(502,288)	-3%
Restricted	1,120,450	940,638	179,812	19%
Unrestricted deficit	<u>(32,163,903)</u>	<u>(30,643,918)</u>	<u>(1,519,985)</u>	5%
Total net assets	<u><u>\$(16,505,532)</u></u>	<u><u>\$ (14,663,071)</u></u>	<u><u>\$ (1,842,461)</u></u>	13%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Approximately 65% of the Municipality's total revenue came from taxes, while 35% resulted from grants and contributions, including federal funds. The Municipality's expenses cover a range of services. The largest expenses were for general administration (34%), public works (38%), and public safety (11%). Following a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condensed Statement of Activities	2018	2017	Change	%
Program revenues:				
Charges for services	\$ 69,941	\$ 471,106	\$ (401,165)	(85%)
Operating grants and contributions	619,103	591,142	27,961	5%
Capital grants and contributions	2,308,997	1,307,300	1,001,697	77%
General revenues:				
Property taxes	1,241,462	2,279,038	(1,037,576)	(46%)
Municipal license tax	269,587	288,309	(18,722)	(6%)
Municipal sales and use tax	1,386,673	1,673,252	(286,579)	(17%)
Construction excise tax	186,847	301,747	(114,900)	(38%)
Grants and entitlements	3,619,598	4,256,637	(637,039)	(15%)
Rent	31,911	56,853	(24,942)	(44%)
Licenses and Permits	2,265	4,377	(2,112)	(48%)
Interest and investment earnings	6,628	77,842	(71,214)	(91%)
Recovery of impaired assets	500,000	775,477	(275,477)	(36%)
Other	220,937	91,192	129,745	142%
Total revenues	<u>10,463,949</u>	<u>12,174,272</u>	<u>(1,710,323)</u>	(14%)
Expenses:				
General administration	4,174,091	4,029,659	144,432	4%
Public safety	1,255,231	1,102,143	153,088	14%
Public works and sanitation	4,654,743	2,927,140	1,727,603	59%
Health and welfare	728,969	788,821	(59,852)	(8%)
Human Development	402,017	530,621	(128,604)	(24%)
Education, culture and recreational	467,661	844,410	(376,749)	(45%)
Housing and Urban Development	295,449	1,013,591	(718,142)	(71%)
Interest	328,249	367,886	(39,637)	(11%)
Total expenditures	<u>12,306,410</u>	<u>11,604,271</u>	<u>702,139</u>	6%
Loss on impairment of assets				
Change in net assets	(1,842,461)	569,999	(2,412,460)	(423%)
Net assets	<u>(14,663,071)</u>	<u>(15,233,070)</u>	<u>569,999</u>	(4%)
Net assets, end of year	<u>\$ (16,505,532)</u>	<u>\$ (14,663,071)</u>	<u>\$ (1,842,461)</u>	13%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of (\$787,198) an increase of \$35,682 in comparison with the prior year.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2018, the Municipality's deficit amounted to (\$1,891,344).

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The actual General Fund budgetary activities resulted in an unfavorable balance of (\$711,559).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2018, amounts to \$28,369,652 with an accumulated depreciation of \$12,515,263 leaving a net book value of \$17,904,408. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Debt Administration

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

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

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable. Federal State grant revenues may vary if new grants are available, but the revenue also is very predictable.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2018

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

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 \$2,312,252 for Categories A and B. As of June 30, 2018, the Municipality has received public assistance grants for the amount of \$507,000. Currently the Municipality of Ceiba is assessing the estimates of the damages for the Categories C thru G. Based on preliminary findings we estimate that the damages for Categories C thru G are in the amount of \$21,744,355. As of today, the Municipality has claimed the preliminary amount of \$8,000,000 to the insurance company for the damages suffered to our infrastructure and buildings, etc. This amount may vary as some of the estimates are in the progress. As of today, we have received the amount of \$500,000 from the insurance company.

FINAL COMMENTS

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

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

FINANCIAL CONTACT

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

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

ASSETS	GOVERNMENTAL ACTIVITIES
Cash and cash equivalents	\$ 2,708,996
Accounts receivable other agencies	599,899
Capital assets, net	<u>17,904,409</u>
Total Assets	<u>21,213,304</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Contribution to employee's retirement plan	<u>1,277,363</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
 LIABILITIES:	
Accounts payable and accrued expenses	625,977
Advances from federal agencies	264,978
Due to other agencies	2,560,258
Accrual Interest	131,830
Long-term debt:	
Due within one year	1,181,558
Due in more than one year	<u>33,860,376</u>
 Total Liabilities	 <u>38,624,977</u>
 DEFERRED INFLOWS OF RESOURCES:	
Deferred municipal patents	163,050
Unamortized investment in employee's retired plan	<u>208,172</u>
	<u>371,222</u>
 NET POSITION:	
Net invested in capital assets	14,537,921
Restricted for:	
Debt service	323,436
General administration	913
Education and recreational	36,109
Urban development	724,796
Health and welfare	18,892
Unrestricted	<u>(32,147,599)</u>
 Total Net Position	 <u><u>\$ (16,505,532)</u></u>

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

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

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>PROGRAM REVENUE</u>		<u>NET (EXPENSE) REVENUE</u>
			<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:					
General administration	\$ (4,174,091)		\$ 56,913		\$ (4,117,178)
Public safety	(1,255,231)		283,735		(971,496)
Education and recreational	(467,661)	\$ 42,746	2,515		(422,400)
Public works and sanitation	(4,654,743)	8,400		\$ 2,308,997	(2,337,346)
Health and welfare	(728,969)	18,795	275,940		(434,234)
Urban development	(295,449)				(295,449)
Human development	(402,017)				(402,017)
Interest	(328,249)				(328,249)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total governmental activities	<u>\$ (12,306,410)</u>	<u>\$ 69,941</u>	<u>\$ 619,103</u>	<u>\$ 2,308,997</u>	<u>(9,308,369)</u>
General revenues:					
Taxes:					
Property taxes					1,241,462
Municipal patent tax					269,587
Sale and usage tax					1,386,673
Construction excise tax					186,847
Permits and Licenses					2,265
Grants and entitlements					3,619,598
Interest					6,628
Rent					31,911
Recovery from insurance					500,000
Other					220,937
					<hr/>
Total general revenues					<u>7,465,908</u>
Changes in net position					(1,842,461)
Net position at beginning					<u>(14,663,071)</u>
Net position at end					<u>\$ (16,505,532)</u>

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

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

	GENERAL	DEBT	FEMA	OTHER	TOTAL
	FUND	SERVICE	FUND	GOVERNMENTAL	GOVERNMENTAL
ASSETS:	<u>FUND</u>	<u>SERVICE</u>	<u>FUND</u>	<u>FUNDS</u>	<u>FUNDS</u>
Cash:					
Cash in bank	\$ 484,443	\$ 525,643	\$ 51,689	\$ 1,647,221	\$ 2,708,996
					-
Receivables:					
Due from others governmental agencies	320,276	279,623		-	599,899
Due from other funds	871,586	-		983,540	1,855,126
	<u>1,676,305</u>	<u>805,266</u>	<u>51,689</u>	<u>2,630,761</u>	<u>5,164,021</u>
Total assets					
Liabilities:					
Accounts payable and accrued expenses	331,438	-	294,539	-	625,977
Bond matured payable		350,000		-	350,000
Matured interest payable		131,830		-	131,830
Due to other fund	512,903	-	1,331,296	10,927	1,855,126
Advances from federal agencies	-	-		264,978	264,978
Due to other agencies	2,560,258	-		-	2,560,258
	<u>3,404,599</u>	<u>481,830</u>	<u>1,625,835</u>	<u>275,905</u>	<u>5,788,169</u>
Total liabilities					
Deferred inflows of resources:					
Deferred municipal patents	163,050	-		-	163,050
	<u>163,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,050</u>
Fund balances:					
Restricted for:					
Debt service	-	323,436		-	323,436
General administration				913	913
Education and recreational	-	-		36,109	36,109
Urban development	-	-	(1,574,146)	2,298,942	724,796
Health and welfare	-	-		18,892	18,892
Unassigned	(1,891,344)				(1,891,344)
	<u>(1,891,344)</u>	<u>323,436</u>	<u>(1,574,146)</u>	<u>2,354,856</u>	<u>(787,198)</u>
Total fund balances					
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 1,676,305</u>	<u>\$ 805,266</u>	<u>\$ 51,689</u>	<u>\$ 2,630,761</u>	<u>\$ 5,164,021</u>

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

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

Fund balances in governmental funds \$ (787,198)

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 17,904,409

Amount presented in the statement of net position but not in fund balance due to different basis of accounting:

Deferred outflows of resources related pension	1,277,363
Deferred inflows of resources related pension	(208,172)

Long-term liabilities and accrual expenses are not due and payable in the current period and therefore are not reported in the governmental funds:

Bonds and notes payable	(4,365,000)
Compensated absences	(984,194)
Net pension liability	(28,742,719)
Amount due to CRIM	(600,021)
	(34,691,934)

Net position of governmental activities **\$ (16,505,532)**

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

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

	<u>GENERAL</u> <u>FUND</u>	<u>DEBT</u> <u>SERVICE</u> <u>FUNDS</u>	<u>FEMA</u> <u>FUND</u>	<u>OTHER</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>	<u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
Revenues:					
Taxes:					
Property taxes	\$ 1,426,420	\$ 496,413			\$ 1,922,833
Municipal taxes	269,587				269,587
Sale and use tax	842,019	544,654			1,386,673
Construction excise taxes	186,847				186,847
Grants	3,619,598		\$ 507,500	\$ 2,420,599	6,547,697
Licenses and permits	2,265				2,265
Rental income	31,911				31,911
Charge for services				69,941	69,941
Proceed from insurance		-		500,000	500,000
Interest		6,628		-	6,628
Other	220,939				220,939
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	6,599,586	1,047,695	507,500	2,990,540	11,145,321
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures:					
General administration	3,271,071			56,000	3,327,071
Public safety	833,363			283,736	1,117,099
Education and recreational	323,413			53,052	376,465
Public works and sanitation	2,182,015			73,386	2,255,401
Health and welfare	330,672			313,104	643,776
Urban development	-		2,081,646	390,508	2,472,154
Human development	285,800				285,800
Debt service:					-
Principal	24,988	350,000			374,988
Interest	59,823	268,426			328,249
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	7,311,145	618,426	2,081,646	1,169,786	11,181,003
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenue over expenditures	(711,559)	429,269	(1,574,146)	1,820,754	(35,682)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Other financing sources (uses):					
Operating transfer in	1,052,178	14,953		-	1,067,131
Operating transfer out	(14,953)	(688,534)		(363,644)	(1,067,131)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources	1,037,225	(673,581)	-	(363,644)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balance	325,666	(244,312)	(1,574,146)	1,457,110	(35,682)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances at beginning of year	(2,217,010)	567,748		897,746	(751,516)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances at end of year	<u>\$ (1,891,344)</u>	<u>\$ 323,436</u>	<u>\$ (1,574,146)</u>	<u>\$ 2,354,856</u>	<u>\$ (787,198)</u>

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

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

Net change in fund balances – total governmental funds	\$ (35,682)
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.	
	145,617
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.	
	(1,172,906)
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	350,000
Amount due to CRIM	24,988
Changes in accrued expenses and other deferred changes which do not require the use of current financial resources:	
Compensating absences	(473,106)
Deferred property tax	<u>(681,372)</u>
Changes in Net Position of Governmental Activities	<u><u>\$ (1,842,461)</u></u>

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

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

1. ORGANIZATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting entity

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

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

Government wide and fund financial statements

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide statements

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

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

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

Fund financial statements

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

The Municipality reports the following major governmental funds:

A) General Fund

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B) Debit service fund

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

FEMA Fund

This fund is used to account for all transaction of the Disaster Grant - Public Assistance Program. Following a President declaration of a mayor disaster or emergency, the Federal Emergency Management Agency (FEMA) awards grants to assist with disaster recovery.

Measurement focus, basis of accounting and financial statement presentation

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
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)

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and change in net position 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 operating of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Cash and cash with fiscal agent

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

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

Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of Treasury but not in the Municipality's name. Deposits with GDB are uninsured and uncollateralized and thus represent a custodial credit risk, because in event that the financial institution fails, the Municipality may not be able to recover these deposits. The GDB's liquidity was adversely affected by a significant increase in credit spreads for obligations of the Commonwealth and its public corporations, the Commonwealth's limited capital market access, and a significant reduction of liquidity in the local Puerto Rico capital markets. Then, the credit rating downgrades could further adversely affect the GDB's liquidity. Accordingly, the Municipality has recorded a reserve for loss on deposit of \$1,890,457 as of June 30, 2018.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables:

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

Interfund receivables and payables

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

Capital assets

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Capital Assets

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

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

Fund Balance

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Cost of insurance deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2018 amounted to \$211,380. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$159,608 for workers compensation insurance covering all municipal employees.

Compensated absences

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

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 and who are participants of the pension plan who are entitled to sick leave pay up to the 90 days.

Employees’ maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Position.

Accounting for pension cost

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 CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for pension cost (Continued)

At the date, the Municipality's pension costs accounting transitioned from GASB Statement No. 68 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 No. 68". Accordingly, pension costs are reported based on the employer total pension liability, pension expense and deferred outflows/inflows of resources reported by the ERS. For purpose of measuring, pension costs have been determined on the same basis as they are reported by the ERS.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 October 15, 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.

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, whereby 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.

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

3. PROPERTY TAX (Continued)

The annual rate for fiscal year 2018 is 10.33% for real property and 8.33% 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) 7.50% and 6%, 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) 3.50% 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, \$163,050 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue and is presented as a deferred inflow of resources in the accompanying financial statements.

5. SALE AND USAGE TAX

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

Pursuant to the provision at the Act 72-2018 and effective July 1, 2017, 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. COFIM collected all sales tax and usage tax of the Municipality.

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

6. GRANTS AND ENTITLEMENTS REVENUE

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

7. CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance 30-Jun-17</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Balance 30-Jun-18</u>
Capital asset, not subject to depreciation and amortization:				
Land	\$ 2,017,998			\$ 2,017,998
Construction in progress	-	\$ 32,021		32,021
	<u>2,017,998</u>	<u>32,021</u>	<u>-</u>	<u>2,050,019</u>
Cost basis of capital assets, subject to depreciation and amortization:				
Buildings, structures and improvements	12,621,912			12,621,912
Infrastructure	11,719,172			11,719,172
Vehicles, machinery and equipment and furniture and fixtures	3,665,991	113,596		3,665,991
Work of art	248,981			248,981
Total cost basis of capital assets subject to depreciation and amortization	<u>28,256,056</u>	<u>113,596</u>	<u>-</u>	<u>28,369,652</u>
Total cost basis				
Less accumulated depreciation for:				
Buildings, structures and improvements	(5,697,177)	(599,986)		(6,297,163)
Infrastructure	(2,420,276)	(300,965)		(2,721,241)
Vehicles, machinery and equipment and furniture and fixtures	(3,125,789)	(250,705)		(3,376,494)
Work of art	(99,115)	(21,250)		(120,365)
Total accumulated depreciation and amortization	<u>(11,342,357)</u>	<u>(1,172,906)</u>	<u>-</u>	<u>(12,515,263)</u>
Total capital assets, being depreciated, net	<u>16,913,699</u>	<u>(1,059,310)</u>	<u>-</u>	<u>15,854,389</u>
Governmental activities capital assets, net	<u>\$ 18,931,697</u>	<u>\$(1,027,289)</u>	<u>\$ -</u>	<u>\$ 17,904,408</u>

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

7. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities</u>	<u>Amount</u>
General government	\$ 373,913
Public safety	138,133
Education and recreation	91,196
Public work and sanitation	317,696
Health and welfare	85,193
Urban development	50,558
Human development	<u>116,217</u>
Total depreciation expenses	<u>\$1,172,906</u>

8. LONG-TERM DEBTS

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

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

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

The general long-term debt activity for the year ended June 30, 2018, was as follows:

<u>Description</u>	<u>Balance at</u> <u>30-Jun-17</u>	<u>Borrowings</u> <u>or Additions</u>	<u>Payments or</u> <u>Deductions</u>	<u>Balance at</u> <u>30-Jun-18</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	\$ 5,250,000		\$ (535,000)	\$ 4,715,000	\$ 355,000
Compensated absences	511,088	\$ 473,106		984,194	800,000
Municipal Revenue				-	
Public Act No. 42 of January 26,	625,009		(24,988)	600,021	26,558
Net pension liability	<u>28,742,719</u>			<u>28,742,719</u>	
Total	<u>\$ 35,128,816</u>	<u>\$ 473,106</u>	<u>\$ (559,988)</u>	<u>\$35,041,934</u>	<u>\$1,181,558</u>

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

8. LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES

The Municipality issues general and special (public improvements) obligations bonds and notes to provide for the acquisition and construction of mayor capital facilities and equipment, as well as, to cover certain operating needs. Long-term debt at June 30, 2018 is composed of the following debts Notes payable with:

	<u>Outstanding Amount</u>
2002 serial bonds face amount of \$270,000 due in annual principal installments ranging from \$15,000 to \$25,000; interest due in semiannual installments at variable rate (3.32% at June 30, 2018) through July 1, 2026.	\$160,000
2002 serial bonds face amount of \$855,000 due in annual principal installments ranging from \$40,000 to \$65,000; interest due in annual installments at variable rate (5.09% at June 30, 2018) through July 1, 2026.	\$465,000
2002 serial municipal bonds face amount of \$220,000 due in annual principal installments ranging from \$10,000 to \$20,000; interest due in semiannual installments at variable rate (4.80% at June 30, 2018) through July 1, 2026.	120,000
2007 serial bonds face amount of \$1,405,000 due on annual principal installment ranging from \$30,000 to \$120,000; interest due in semiannual installments at variable rate (6% to 7%) through July 1, 2038.	1,310,000
2003 serial bonds face amount of \$280,000 due in annual principal installments ranging from \$15,000 to \$25,000; interest due in semiannual installments at variable rate (2.60% at June 30, 2018) through July 1, 2027.	160,000
2018 serial bonds face amount of \$1,750,000 due in annual principal installments ranging from \$35,000 to \$150,000; interest due in semiannual installments at variable rate (6% to 7.5% at June 30, 2018) through July 1, 2038.	1,635,000
2018 serial bonds face amount of \$455,000 due in annual principal installments ranging from \$10,000 to \$40,000; interest due in semiannual installments at variable rates (6.25% as of June 30, 2018) through July 1, 2037.	420,000

(Continued)

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

8. LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES (CONTINUED)

2018 serial bonds face amount of \$600,000 due in two annual principal installments of \$100,000 to \$105,000; interest due in semiannual installments at variable rate (6% as of June 30, 2018) through July 1, 2019.	205,000
2008 serial bonds face amount of \$500,000 due in two annual principal installments of \$80,000 to \$95,000 plus interest at 6% due in through July 1, 2019.	175,000
2018 series general obligate note, face amount of \$130,000 due in annual principal installments ranging from \$20,000 to \$25,000 plus interest at 6.25% through July 1, 2020.	<u>65,000</u>
Total General Obligations – Bonds	<u><u>\$4,715,000</u></u>

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

Year Ending June 30,	Principal payment	Interest payment	Total
2019	\$ 355,000	\$ 266,330	\$ 621,330
2020	375,000	245,653	620,653
2021	195,000	229,716	424,716
2022	180,000	219,680	399,680
2023	195,000	209,710	404,710
2024-2028	1,075,000	874,709	1,949,709
2029-2033	850,000	606,563	1,456,563
2034-2038	1,220,000	285,937	1,505,937
2039	<u>270,000</u>	<u>8,437</u>	<u>278,437</u>
Total	<u><u>\$ 4,715,000</u></u>	<u><u>\$ 2,946,735</u></u>	<u><u>\$ 7,661,735</u></u>

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

8. LONG-TERM DEBTS (CONTINUED)

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

The Commonwealth's Public Act No. 42 of January 26, 2000 (Act No. 42) was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement authorized CRIM to finance a debt that the municipalities of Puerto Rico had with such entity, which arose from the difference between the yearly final settlements of property tax advances made by CRIM to the municipalities and the actual property tax collections received by CRIM from taxpayers through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth are assigned through Act No. 42 to repay such note. The increase in this subsidy was the result of Public Act No. 238 of August 15, 1999.

In addition, on December 16, 2002 the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining of excess of property tax advances from fiscal year 2000, 2001 and other previous fiscal years. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each fiscal year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB (6.19 percent at June 30, 2010) but not exceeding 8.00 percent. Principal and interest payments on this financing agreement are accounted for in the general fund. The outstanding principal amounted to \$648,520 at June 30, 2018.

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregate Obligation</u>
2019	\$ 26,558	\$ 36,722	\$ 63,280
2020	28,227	35,053	63,280
2021	30,000	33,280	63,280
2022	31,884	31,396	63,280
2023	33,889	29,391	63,280
2024-2028	204,186	112,213	316,399
2029-2033	<u>245,277</u>	<u>39,482</u>	<u>284,759</u>
	<u>\$ 600,021</u>	<u>\$ 317,537</u>	<u>\$ 917,558</u>

C. COMPENSATED ABSENCES

The government-wide statement of net position includes \$984,194 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

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

9. INTERFUND BALANCES AND ACTIVITIES

BALANCE DUE TO / FROM OTHER FUNDS:

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

	Due to			
Due from	<u>General fund</u>	<u>Other governmental fund</u>	<u>FEMA fund</u>	<u>Total</u>
General fund		\$10,927	\$ 860,659	\$ 871,586
Other governmental fund	<u>\$512,903</u>	_____	<u>470,637</u>	<u>983,540</u>
Total	<u>\$512,903</u>	<u>\$10,927</u>	<u>\$1,331,296</u>	<u>\$1,855,126</u>

TRANSFER TO / FROM OTHER FUNDS:

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

	Transfer in		
Transfer out	<u>General fund</u>	<u>Debt service funds</u>	<u>Total</u>
General fund		\$14,953	\$ 14,953
Debt service fund	\$ 688,534		688,534
Other governmental fund	<u>363,644</u>	_____	<u>363,644</u>
Total	<u>\$1,052,178</u>	<u>\$14,953</u>	<u>\$1,067,131</u>

10. RETIREMENT SYSTEM

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,
- 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.

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

10. RETIREMENT SYSTEM (Continued)

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.

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.

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

10. RETIREMENT SYSTEM (Continued)

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.

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.

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

10. RETIREMENT SYSTEM (Continued)

Employee's Retirement System 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.

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.

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

10. RETIREMENT SYSTEM (Continued)

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 \$139,593. As of June 30, 2019, the Municipality due \$591,418 to the ERS.

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.

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.

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

10. RETIREMENT SYSTEM (Continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions; other required disclosures under GASB Statement 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 liability reported in the government-wide financial statements are based on the information by the ERS corresponding to the fiscal year ended June 30, 2016, the latest actuarial valuations available to prepare financial statements under **GASB Statement No. 68**. Amounts reported as deferred outflows \inflows of resources related to pensions and net pension liability in the government-wide financial statements are the amounts reported in the audited Schedule of Employer Allocation and Schedule of Pension Amount by Employer as of and for the years ended June 30, 2016, issued by the Employers Retirement System of the Commonwealth of Puerto Rico on November 2, 2018. In addition, applicable disclosures and required supplementary information have been omitted.

11. CONTINGENCIES

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

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

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>GENERAL FUND</u>			
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL AT</u>	<u>VARIANCE</u>
	<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	\$ 1,231,044	\$ 1,231,044	\$ 1,231,044	\$ -
Municipal tax	385,191	385,191	269,587	(115,604)
Sales and usage tax	861,559	861,559	842,019	(19,540)
Construction excise taxes	835,313	835,313	186,847	(648,466)
Grants and entitlements	3,948,625	3,948,625	3,619,598	(329,027)
Rental income	140,294	140,294	34,350	(105,944)
Permits & Licenses	4,200	4,200	2,265	(1,935)
Other	<u>426,879</u>	<u>426,879</u>	<u>601,441</u>	<u>174,562</u>
 Total revenues	 <u>7,833,105</u>	 <u>7,833,105</u>	 <u>6,787,151</u>	 <u>(1,045,954)</u>
Expenditures:				
General administration	3,598,593	4,190,281	2,744,353	1,445,928
Public safety	1,006,998	901,124	833,363	67,761
Culture and Recreation	408,704	363,565	323,413	40,152
Public works and sanitation	2,004,824	1,727,139	1,724,638	2,501
Human Development	339,314	320,145	285,800	34,345
Health and Welfare	<u>474,672</u>	<u>330,851</u>	<u>330,672</u>	<u>179</u>
 Total expenditures	 <u>7,833,105</u>	 <u>7,833,105</u>	 <u>6,242,239</u>	 <u>1,590,866</u>
 Excess of revenue over expenditure	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 544,912</u>	 <u>\$ 544,912</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2018

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

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

Excess of expenditures over revenues, budgetary basis.	\$ 544,912
Other adjustments to accounts receivable and accounts payable and accrued expenses to accounting from budgetary to accrual basis.	<u>(212,246)</u>
Excess of revenues and other financial sources under expenditures and other financial sources per generally accepted accounting principle.	<u>\$ 325,666</u>

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

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

<u>FEDERAL GRANTOR / PASS THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>
<u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>		
Direct Programs:		
Section 8 Housing Choice Vouchers	14.871	\$ 250,854
Passed through programs:		
Commissioner Office of Municipal Affairs:		
State Block Grant Program (SBGP)	14.228	23,993
PR Department of Family:		
Emergency Solution Grant Program	14.231	<u>7,725</u>
Subtotal U.S. Department of HUD		<u>282,572</u>
<u>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
Passed through program:		
Oficina de la Procuradora de las Personas de Edad Avanzada:		
Special Program for the Aging Title II, Part C Nutrition Services	93.045	<u>23,005</u>
<u>US DEPARTMENT OF HOMELAND SECURITY</u>		
Passed through program:		
Federal Emergency Management Agency Disaster Grant -Public Assistance Grant (Presidentially Declared Disasters)	97.136	<u>507,500</u>
<u>US DEPARTMENT OF JUSTICE</u>		
Passed through program:		
PR Department of Justice: Crime Victim Assistance	16.575	<u>283,735</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$1,096,812</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
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 Ceiba, Puerto Rico and is prepared on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Ceiba, Puerto Rico** as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise **Municipality of Ceiba, Puerto Rico's** basic financial statements, and have issued our report thereon dated October 15, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of finding and questioned costs that we consider to be significant deficiencies. (Finding 2018-01 and 2018-02).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Ceiba, Puerto Rico's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2018-01 and 2018-02.

Purpose of this Report

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



Carlos R. Díaz, CPA, PSC

License No. 275

Expire December 1, 2021

October 15, 2019
Aguas Buenas, Puerto Rico

The stamp No. **E383820** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report

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



CARLOS R. DIAZ, CPA, PSC

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

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

Report on Compliance for Each Major Federal Program

We have audited **Municipality of Ceiba, Puerto Rico's** compliance with the types of compliance requirements described in the *Compliance Supplement* that could have a direct and material effect on each of **Municipality of Ceiba, Puerto Rico's** major federal programs for the year ended June 30, 2018. **Municipality of Ceiba, Puerto Rico's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Municipality of Ceiba, Puerto Rico's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Municipality of Ceiba, Puerto Rico's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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



Carlos R. Díaz, CPA, PSC

License No. 275

Expire December 1, 2021

October 15, 2019

Aguas Buenas, Puerto Rico

The stamp No. **E383821** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
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 on whether the financial statements audited were prepared in accordance with GAAP:

Governmental activities - Qualified opinion
Fund Financial Statements - Unmodified opinion

Internal control over financial reporting:

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

Federal Awards

Internal control over Major Federal Programs:

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

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

- ___ X Unmodified Opinion
- ___ Qualified Opinion
- ___ Adverse Opinion
- ___ Disclaimer Opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

___ X Yes ___ No

Identification of Major Federal Programs:

CFDA Number

Name of Federal Program or Cluster

97.136

Disaster Grant – Public
Assistance Grant Presidentially Declared Disaster

Dollar threshold used to distinguish between

Type A and Type B Programs: \$750,000

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2018-01

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

Criteria

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

Condition

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

Questioned Costs

None

Effect

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

Cause

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

Recommendation

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

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

SECTION II - FINANCIAL STATEMENTS FINDINGS (CONTINUED)

Finding 2018-02

Operating deficit of general fund

Condition

The Municipality closed its fiscal year ended June 30, 2018 with a fund deficit, before providing reserves in the general fund, of \$2,217,010. The Municipality's internal control relating to the budgeting function does not adequately prevent management from incurring expenditures in excess appropriated funds. In addition, the deficit as caused by the overstatement of estimated revenues and the incurrence of obligations without available credit in the budgetary accounts.

Criteria

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

Cause

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

Effect

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

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

Recommendation

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

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2018-03

Single Audit Report

The Single Audit Act of 1984, as amend, requires that the audit report must be submitted to the Federal Audit Clearinghouse no later than nine (9) months after the end of the audit period.

Condition

The Single Audit Report for the fiscal year ended June 30, 2018, was not issued within nine (9) months after the end of the audit period.

Effect

The Municipality could lose federal grants due to the noncompliance with the Single Audit Act requirements.

Cause

The Municipality did not comply with the established regulation as prescribed OMB Super Circular Uniform Guidance.

Recommendation

We recommend that procedures should be implemented to ensure that the Municipality complies with the established Federal Regulation, as prescribed by OMB Super Circular Uniform Guidance.

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

Finding 2018-01

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

Response:

The Municipality of Ceiba will establish the internal controls necessary in order to maintain adequate control of are obligations, unobligated balances, assets, liabilities, expenditures and all other transactions pertaining to our accounting system.

Finding 2018-02

Operating deficit of general fund

Response:

The Municipality of Ceiba has complied with the applicable laws governing budget preparations. We have adequately budgeted provision of deficit reserve account. Therefore, have decrease are deficit by \$325,666.00 and will continue to decrease said budget the following fiscal year.

Finding 2018-03

Single Audit Report

Response:

We have established procedures in order to assure that the Municipality of Ceiba complies with Federal Regulations. Single Audit for fiscal year will be submitted to de Federal Audit Clearinghouse no later than nine (9) months after the end of the audit period.