

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

**MUNICIPIO DE AÑASCO
AUDITORÍA 2013-2014
30 DE JUNIO DE 2014**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO

FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT WITH ADDITIONAL REPORTS
REQUIRED UNDER THE OMB CIRCULAR A-133

FOR THE YEAR ENDED JUNE 30, 2014

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COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT WITH
ADDITIONAL REPORTS REQUIRED UNDER THE OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the Municipal Legislature
Municipality of Añasco
Añasco, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Añasco, ("the Municipality"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted 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.

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 qualified opinion.

Basis for Qualified Opinion

We were unable to obtain a discussion or evaluation from the outside legal counsel of the pending or threatened litigation described in Note 10, *Pending Litigation*, and if exist any new pending or threatened litigation in which the Municipality is a plaintiff or a defendant. We were unable to obtain sufficient appropriate audit evidence by performing other auditing procedures.

**To the Honorable Mayor and Members
of the Municipal Legislature
Municipality of Añasco**

Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Añasco, as of June 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the financial statements, The Municipality has pending litigation in the Commonwealth Court System, for breach of contract and damages against The Administration of Health Insurance of Puerto Rico (ASES by its Spanish acronyms). The Supreme Court of Puerto Rico has already established the validity of the Municipality's position, pending a trial evidentiary hearing at a lower level court to establish the level of materiality of breach and damages. The Municipality has presented the evidence it deems necessary to strengthen the claim. At June 30, 2014 a trial date had not been set since both parties are presenting negotiations in order to avoid additional legal expenses. As a result of these negotiations, on August 12, 2014, the Court approved a settlement between the parties which resulted in the collection of \$1,569,352 in favor of **the Municipality**.

As discussed in the Basis for Qualified Opinion paragraph, our opinion was modified with respect to that matter because we were unable to obtain a discussion or evaluation from the outside legal counsel of this pending or threatened litigation.

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 4 through 8 and 46 through 47 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's** financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

To the Honorable Mayor and Members
of the Municipal Legislature
Municipality of Añasco

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality of Añasco's internal control over financial reporting and compliance.

Jose L. Cardona & Co
JOSÉ L. CARDONA & CO. P.S.C.

San Juan, Puerto Rico
March 27, 2015

The stamp number E155146 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the original of this report.



COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF AÑASCO
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Within this section of the Municipality of Añasco's financial statements, the Municipality provides a narrative discussion and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2014. The Municipality's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Municipality's primary government.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality of Añasco exceeded its deferred inflows and liabilities, at the close of the most recent fiscal year, by \$30,835,968 (Net position).
- The capital assets decreased by \$468,527 as compared to prior year, mainly due to depreciation amount related to fiscal year 2013-2014.
- The Municipality's governmental funds reported total ending fund balance of \$6,017,942 this year. This amount represents a decrease of \$252,634 during the current year as compared to the prior year ending fund balance of \$6,270,576. The unassigned fund balance of the General Fund for fiscal year 2014 amounts to \$1,385,056, which represents a decrease of \$87,776 as compared to the prior year balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements include: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the users of the financial statements with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

The First government-wide statement - the *Statement of Net Position* presents information on all of the Municipality's assets and liabilities, and their difference reported as net assets. Fluctuations in net assets may serve as a useful indicator on whether the financial position of the Municipality is improving or deteriorating.

The *Statement of Activities* presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities. This is intended to summarize and simplify the user's analysis of the cost of various governmental services.

The Municipality's activities are principally supported by taxes and intergovernmental revenues (governmental activities). Such governmental activities are classified as general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare.

Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Municipality are classified in the category of governmental funds.

**COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF AÑASCO
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government wide financial statements, government fund financial statements focus on current sources and uses of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a Municipality's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

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

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule between final budgeted amounts and actual amounts for the General Fund.

ANALYSIS OF GOVERNMENT WIDE FINANCIAL STATEMENTS

Net Position - The condensed statement of net position of the Municipality as of June 30, 2014 and 2013 is presented below:

	2014	2013	Change	%Change
Current and other assets, net of accumulated amortization	\$ 11,729,307	\$ 11,173,858	\$ 555,449	
Capital assets, net of accumulated depreciation	<u>43,269,573</u>	<u>43,738,100</u>	<u>(468,527)</u>	
Total assets	<u>\$ 54,998,880</u>	<u>\$ 54,911,958</u>	<u>\$ 86,922</u>	<u>0.16%</u>
Long term liabilities	\$ 17,225,539	\$ 18,314,060	\$ (1,088,521)	
Other liabilities and deferred inflows	<u>6,937,373</u>	<u>6,258,109</u>	<u>679,264</u>	
Total liabilities	<u>\$ 24,162,912</u>	<u>\$ 24,572,169</u>	<u>\$ (409,257)</u>	<u>-1.67%</u>
Net position:				
Investment in capital assets, net of related debts	\$ 30,304,600	\$ 31,804,998	\$ (1,500,398)	
Assigned and restricted	4,632,886	4,797,744	(164,858)	
Unassigned	<u>(4,101,518)</u>	<u>(6,262,953)</u>	<u>2,161,435</u>	
Total net position	<u>\$ 30,835,968</u>	<u>\$ 30,339,789</u>	<u>\$ 496,179</u>	<u>1.64%</u>

As noted above, the Municipality total assets increased by \$86,922 while the total liabilities decreased by \$409,257 mainly due by the accumulated depreciation in capital assets (\$468,527) and the reduction on long term liabilities (\$1,088,521). As a result, the net position increased by another \$496,179.

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) may serve over time as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. The Municipality's net position still strong in the amount of 30,835,968 as of June 30, 2014, as compared to the net position of \$30,339,789 of the previous fiscal year.

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF AÑASCO
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

The amounts restricted for debt service represent another portion of the net position, and these are resources subject to external restrictions for the purposes explained above.

An additional portion of the Municipality's net position is the unrestricted deficit. This is the consequence of previous budgets, which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post-closure care costs, claims and judgments and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operation.

Activities

The condensed statement of activities of the Municipality for the years ended June 30, 2014 and 2013 is presented below. As noted therein, the Municipality's net position increased by \$496,179. Grants and contributions, including federal aid, accounted for approximately 43.97% and 45.06% of the Municipality's total revenue for fiscal years 2014 and 2013, respectively. On the other hand, in fiscal year 2014, approximately 42.18% (44.52% percent in fiscal year 2013) resulted from taxes.

The Municipality's expenses cover a range of services. The largest expenses during fiscal year 2014 were for activities related to general government \$7,508,338, culture, recreation and education \$2,603,358, and public housing and welfare \$2,245,841. Total expenses on 2014 decreased in comparison with fiscal year 2013 total expenses by 11.72% (\$2,274,542).

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>% Change</u>
Program revenues:				
Operating grants and contributions	\$ 1,673,955	\$ 2,187,858	\$ (513,903)	
Capital grants and contributions	1,155,079	1,749,454	(594,375)	
General revenues:				
Property taxes	4,026,812	4,383,380	(356,568)	
Municipal license taxes	2,127,083	1,874,869	252,214	
Construction excise taxes	273,578	389,265	(115,687)	
Sale tax	1,738,197	1,585,649	152,548	
Unrestricted contributions	5,333,420	4,995,369	338,051	
Miscellaneous	1,296,105	2,195,183	(899,078)	
Total revenues	\$ 17,624,229	\$ 19,361,027	\$ (1,736,798)	-8.97%

**COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF AÑASCO
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Expenses:				
General government	7,508,338	7,880,455	(372,117)	
Urban and economic development	1,691,858	2,235,756	(543,898)	
Public safety	726,188	910,241	(184,053)	
Health and sanitation	1,821,610	1,802,211	19,399	
Culture, recreation and education	2,603,358	2,799,522	(196,164)	
Public housing and welfare	2,245,841	3,127,652	(881,811)	
Interest on long-term obligations	530,857	646,755	(115,898)	
Total expenses	\$ 17,128,050	\$ 19,402,592	\$ (2,274,542)	-11.72%
Change in net position	\$ 496,179	\$ (41,565)	\$ 537,744	
Net position at beginning of fiscal year	30,339,789	30,381,354	(41,565)	
Net position at end of year	\$ 30,835,968	\$ 30,339,789	\$ 496,179	1.64%

Total revenues from governmental activities decrease by approximately 8.97 % (\$1,736,798) as compared to prior year. This decrease is mainly the result of a decrease on miscellaneous revenues and property taxes.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable 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.

At the end of the current fiscal year, the Municipality's governmental funds reported ending fund balances of \$6,017,942 which represents a net decrease of approximately a quarter of a million in comparison with prior fiscal year balance of \$6,270,576. For the end of fiscal year 2014 the Municipality of Añasco presents an unassigned fund balance of \$1,385,056. The remainder of the fund balance is assigned or restricted to indicate that it is not available for new spending because it has already been reserved to: a) capital projects \$1,986,356; b) debt service \$2,462,747; and c) other specified purposes \$183,783.

CAPITAL ASSETS

As presented in the following page, the Municipality's investment in capital assets for its governmental activities as of June 30, 2014 amounted to approximately \$30,304,600 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, vehicles, infrastructure and construction in progress.

The total decrease in the Municipality's investment in capital assets was 0.01% as compared to the last fiscal year. Actual expenditures to purchase or construct capital assets for the fiscal year ended June 30, 2014 was \$1,095,421 while depreciation charges amounted to \$1,535,759 for the fiscal year. The ending balance reported on capital assets amounted to \$68,952,179 by the end of year, with depreciation amounting to \$25,682,606.

**COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF AÑASCO
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Cost basis of capital assets and the accumulated depreciation and amortization:

	Cost Basis of Capital Assets at June 30, 2014	Accumulated Depreciation at June 30, 2014
Land	\$ 6,725,440	\$ -
Land improvements	8,576,916	3,860,201
Building, structures and improvements	23,340,244	5,470,847
Infrastructure	22,664,902	10,556,891
Machinery and equipment	2,974,302	1,907,846
Licensed vehicles	4,670,375	3,886,821
Total	<u>\$ 68,952,179</u>	<u>\$ 25,682,606</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which is composed of 12 members, exercises the legislative power.

As previously discussed in this report, the Municipality provides a full range of services to its community in general. The Municipality's principal sources of revenue are property taxes, municipal license taxes, contributions by the state government, and Federal Grants.

The Municipality has a moderate industrial base, which includes factories and industries, wholesalers, retail stores, financial institutions, restaurants, among others. This industrial base has maintained almost the same level during the most recent years.

The Municipality's Budget for the fiscal year 2013-2014 increased by \$370,825 as compared to the prior fiscal year.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, taxpayers, 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 this report or need any additional information, contact the Municipal Director of Finance, Attn: Marindeliza Lugo de Jesús, at P.O. Box 1385, Añasco PR 00610 or call (787) 826-3100.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS	Governmental Activities
Cash in commercial banks	\$ 854,527
Account receivable, net:	
Property taxes	841,072
Sales taxes	70,861
Grants and contributions	1,028,388
Restricted assets:	
Cash and cash equivalents	3,238,982
Cash and cash equivalents with fiscal agent	5,619,209
Capital assets:	
Non-depreciable	6,725,440
Depreciable, net of accumulated depreciation of \$25,682,606	36,544,133
Deferred charges, net of accumulated amortization of \$69,270	<u>76,268</u>
Total assets	\$ 54,998,880
LIABILITIES, DEFERRED INFLOWS AND NET POSITION	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 2,133,417
Due to other agencies	308,268
Unearned revenues - Municipal license tax	1,690,695
Accrued interest	170,335
Non-current liabilities:	
Due within one year	2,168,904
Due after one year	<u>17,093,693</u>
Total liabilities	<u>23,565,312</u>
DEFERRED INFLOWS OF RESOURCES:	
Imposed non-exchange transactions	<u>597,600</u>
Total deferred inflows of resources	<u>597,600</u>
NET POSITION:	
Net investment in capital assets	30,304,600
Assigned for:	
Capital purposes	1,986,356
Restricted for:	
Debt Service	2,462,747
Other specified purposes	183,783
Unassigned	<u>(4,101,518)</u>
Total net position	<u>30,835,968</u>
Total liabilities, deferred inflows and net position	\$ 54,998,880

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Functions/Programs</u>	<u>Expenses, including Depreciation and Amortization</u>	<u>Charges for Services</u>	<u>Program Specific Operating Grants and Contributions</u>	<u>Program Specific Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental activities:					
General government	\$ 7,508,338	\$ 96,491	\$ -	\$ -	\$ (7,411,847)
Urban and economic development	1,691,858		789,573	320,347	(581,938)
Public safety	726,188				(726,188)
Health and sanitation	1,821,610	627,689			(1,193,921)
Culture, recreation and education	2,603,358	571,925	94,707		(1,936,726)
Public housing and welfare	2,245,841		1,070,174	836,958	(338,709)
Interest on long-term obligations	530,857				(530,857)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total governmental activities	<u>\$ 17,128,050</u>	<u>\$ 1,296,105</u>	<u>\$ 1,954,454</u>	<u>\$ 1,157,305</u>	<u>(12,720,186)</u>
General Revenues:					
Taxes:					
Property tax					4,026,812
Municipal license					2,127,083
Construction					273,578
Sales					1,738,197
Total taxes					<hr/> 8,165,670
Grants and Contributions, not restricted to specific programs					4,638,051
Unrestricted interest on deposits					83,372
Miscellaneous					329,272
Total general revenues					<hr/> 13,216,365
Net change in net position					496,179
Net position - beginning of year, as restated					<hr/> 30,339,789
Net position - end of year					<u>\$ 30,835,968</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash in commercial banks	\$ 854,527	\$ -	\$ -	\$ 854,527
Account receivable, net allowance of uncollectible accounts:				
Property taxes	630,574	210,498		841,072
Sales taxes	70,861			70,861
Grants and contributions	278,390		631,478	909,868
Due from other funds	1,238,464		273,128	1,511,592
Restricted assets:				
Cash and cash equivalents	1,940,968		1,298,014	3,238,982
Cash and cash equivalents with fiscal agent		3,682,927	1,936,282	5,619,209
Total assets	<u>\$ 5,013,784</u>	<u>\$ 3,893,425</u>	<u>\$ 4,138,902</u>	<u>\$ 13,046,111</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
Accounts payable and accrued liabilities	\$ 567,607	\$ 165,989	\$ 323,346	\$ 1,056,942
Intergovernmental payables	308,268			308,268
Due to other funds	273,128		1,238,464	1,511,592
Unearned revenues:				
Municipal license tax	1,882,125			1,882,125
Other		465,689	183,953	649,642
Matured bonds due and payable		799,000	223,000	1,022,000
Total liabilities	<u>3,031,128</u>	<u>1,430,678</u>	<u>1,968,763</u>	<u>6,430,569</u>
DEFERRED INFLOWS OF RESOURCES:				
Imposed non-exchange transactions	<u>597,600</u>			<u>597,600</u>
Total deferred inflows of resources	<u>597,600</u>			<u>597,600</u>
FUND BALANCE:				
Assigned to capital projects			1,986,356	1,986,356
Restricted to:				
Debt service		2,462,747		2,462,747
Other specified purposes			183,783	183,783
Unassigned	1,385,056			1,385,056
Total fund balances	<u>1,385,056</u>	<u>2,462,747</u>	<u>2,170,139</u>	<u>6,017,942</u>
Total liabilities, deferred inflows of resources and and fund balances	<u>\$ 5,013,784</u>	<u>\$ 3,893,425</u>	<u>\$ 4,138,902</u>	<u>\$ 13,046,111</u>

See notes to the basic financial statements.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 6,017,942

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

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 43,269,573
- Deferred (unavailable) revenues in the governmental funds that are recognized as revenues in the statements of activities. 841,072
- Debt issued by the Municipality has associated costs (debt issued costs) that are paid from current available financial resources in the governmental funds. However, these costs are deferred in the statement of net assets and reported net of accumulated depreciation. 76,268
- Intergovernmental receivables related to Christmas bonus that are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. 118,520

The following liabilities are not due (mature) in the current fiscal year, therefore are not reported in the governmental funds:

- Accrued employees' Christmas bonus (255,173)
- Accounts payables (987,291)
- Bonds payable (14,003,750)
- Accrued interest payable (4,346)
- Notes payable (173,565)
- Compensated absences (2,214,766)
- Solid waste landfill closure and post closure care cost (1,848,516)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 30,835,968

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Taxes				
Property tax	\$ 3,187,167	\$ 1,078,429	\$ -	\$ 4,265,596
Municipal license	2,127,083			2,127,083
Construction excise	273,578			273,578
Sales and use	1,333,685	404,512		1,738,197
Charges for services	1,252,150		43,955	1,296,105
Grants and contributions	4,920,776		3,112,363	8,033,139
Interest on deposits	41,420	2,613	39,339	83,372
Miscellaneous	325,082		4,190	329,272
	<u>13,460,941</u>	<u>1,485,554</u>	<u>3,199,847</u>	<u>18,146,342</u>
EXPENDITURES:				
Current:				
General government	6,723,369		2,644	6,726,013
Urban and economic development	1,190,877		425,232	1,616,109
Public safety	693,343			693,343
Health and sanitation	1,663,684		22,896	1,686,580
Culture, recreation and education	2,361,524		119,880	2,481,404
Public housing and welfare	935,593		1,490,414	2,426,007
Debt service:				
Principal		920,000	223,000	1,143,000
Interest		421,996	109,103	531,099
Capital outlays	58,238		1,037,183	1,095,421
	<u>13,626,628</u>	<u>1,341,996</u>	<u>3,430,352</u>	<u>18,398,976</u>
Excess (Deficiency) of revenues over expenditures	<u>(165,687)</u>	<u>143,558</u>	<u>(230,505)</u>	<u>(252,634)</u>
Other financing sources (uses):				
Transfer-in from other funds	314,956	237,045	326,502	878,503
Transfer-out to other funds	<u>(237,045)</u>	<u>(275,617)</u>	<u>(365,841)</u>	<u>(878,503)</u>
Total other financing sources (uses), net	<u>77,911</u>	<u>(38,572)</u>	<u>(39,339)</u>	<u>-</u>
Net change in fund balances	(87,776)	104,986	(269,844)	(252,634)
Fund balance at beginning, as restated	1,472,832	2,357,761	2,439,983	6,270,576
Fund balance at end of fiscal year	<u>\$ 1,385,056</u>	<u>\$ 2,462,747</u>	<u>\$ 2,170,139</u>	<u>\$ 6,017,942</u>

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 14/07/2014

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ (252,634)
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 the costs of those assets are allocated over their estimated useful lives as amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization expense	(468,527)
Repayment of principal of long term obligation is expenditure in the governmental funds but the repayment reduces long term liabilities in the statement of net position	1,152,643
Certain adjustments on interest reported in the statement of activities are not considered to affect current financial resources, therefore are not presented in the governmental funds	242
The landfill closure and post closures care cost has been adjusted in accordance with amortization schedule. This adjustment does not affect expenditures in the governmental funds	(54,368)
Some revenues recorded in the statement of activities do not provide current financial resources, therefore, they are not presented in the governmental funds statements. This revenue is measurable but not available at end of fiscal year	(239,010)
The debt issue costs are presented as expenditures in governmental funds, however, this cost is allocated in the statement of activities over their repayment period as amortization expense	(2,043)
Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the statement of governmental funds – Decrease \ Increase in Christmas bonus payable, compensated absences, intergovernmental payable	<u>359,876</u>
CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 496,179</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Municipality of Añasco (“the Municipality”) was constituted on 1733 in the Commonwealth of Puerto Rico (the Commonwealth). **The Municipality** has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act no. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (the Act). **The Municipality** is one of seventy-eight municipalities legally separated from the Commonwealth’s government.

The Commonwealth’s Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, **the Municipality’s** governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of **the Municipality**. The legislative power of **the Municipality** is exercised by the Municipal Legislature, whose members are also elected every four years. The judiciary power is exercised by the General Justice Court System of the Commonwealth, which has jurisdiction over **the Municipality**.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, education, urban development, economic development, and many other fiscal, general and administrative services.

Reporting model

The accompanying basic financial statements present the financial position and the results of operations of **the Municipality** as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2014, in conformity with accounting principles generally accepted in the United States of America (“GAAP”), as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 34: “*Basic Financial Statements - and Management’s Discussion and Analysis – for State and Local Governments*”, (“GASB No. 34”). GASB No. 34, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way **the Municipality** prepares and presents financial information. The Statement was adopted as of July 1, 2003. In addition, to this Statement, GASB Statement No. 37: “*Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*”, and GASB Statement No. 38: “*Certain Financial Statement Note Disclosures*” have been adopted and are reflected in these financial statements.

According to the financial reporting model established by GASB No. 34, the required basic financial statements presentation applicable to **the Municipality** is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI). RSI consists of: (1) Management’s Discussion and Analysis (MD&A), (2) budgetary comparison schedule – general fund and (3) budgetary comparison schedule – debt service fund. RSI is information presented along with, but separate from, **the Municipality’s** basic financial statements.

- MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of **the Municipality’s** financial activities for the fiscal year ended June 30, 2014, based on **the Municipality’s** knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control **the Municipality’s** operations.
- Budgetary comparison schedule – general fund is a companion of the actual results (using the budgetary basis of accounting, which differs from GAAP) with the original budget and the final amended budget for the general fund. A budget to GAAP reconciliation is presented providing information of differences between the budgetary basis of accounting and GAAP.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Reporting entity

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of **the Municipality's** Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality** may be such that exclusion of their basic financial statements from those of **the Municipality** would cause **the Municipality's** basic financial statements to be misleading or incomplete.

As defined by GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, component units are entities that are legally separate organizations that should be included in **the Municipality's** reporting entity because of the significance of their operating of financial relationship with **the Municipality**. By nature and significance of the relationship between the entity and a primary government.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units in the basic financial statements of **the Municipality** for the fiscal year ended June 30, 2014.

Government-wide financial statements

The governmental-wide financial statements ("GWFS") are composed of; the statement of net assets and, the statement of activities. These financial statements report information of all governmental activities of **the Municipality** as a whole. These statements are aimed at presenting a broad overview of **the Municipality's** finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of **the Municipality** as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is **the Municipality's** responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on **the Municipality's** principal operating objective, which is to provide services to its citizens.

The accompanying statement of net position provides short-term and long-term information about **the Municipality's** financial position by presenting all of **the Municipality's** assets and liabilities, with the difference between these two items reported as "net position" (equity) and/or accumulated deficit. This statement assists management in assessing the level of services that can be provided by **the Municipality** in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which **the Municipality** has invested in capital assets and discloses legal and contractual restrictions on resources.

Net position is reported in the accompanying statement of net position within the following three categories:

- Invested in capital assets, net of related debts – these consist of capital assets, net of accumulated depreciation and amortization and, reduced by the outstanding debts that are attributable to the acquisition, construction or improvement of those assets.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

- Assigned and restricted – these represents the net assets of **the Municipality**, which are restricted or assigned by external parties (creditors, grantors, contributors or laws and regulations).
 - o Capital purposes – Represent net resources available to finance the acquisition, construction or improvement of major capital assets under contracts and other commitments.
 - o Debt service – Represents net resources available to cover future debt service payments of bonds and notes payable.
 - o Other specified purposes – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs.
- Unassigned net assets – these consist of net assets, which do not meet the definition of the two preceding categories. Unassigned net assets often are designated to indicate that management does not consider them to be available for general operations.

When both restricted and unassigned resources are available for use, it is **the Municipality's** policy to generally use restricted resources first, and then unassigned resources as they are needed.

The accompanying statement of activities presents **the Municipality's** results of operations by showing, how **the Municipality's** assets and/or liabilities changed during the fiscal year ended June 30, 2014, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of **the Municipality's** functions, programs or other services either contributes to or draws from **the Municipality's** general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education and (6) public housing and welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

- Municipal legislature
- Mayor's office
- Department of finance and budget
- Department of human resources
- Department of municipal secretary
- Department of internal audit

Urban and economic development:

- Department of public works
- Department of tourism

Public safety:

- Department of municipal police
- Department of emergency management

Health and sanitation:

- Department of health
- Department of sanitation

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Culture, recreation and education

- Department of recreation and sports

Public housing and welfare:

- Department of elderly affairs
- Department of federal programs

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This report statements, reports revenues in three broad categories; program revenues, general revenues and special items.

Program revenues are generated directly from a program itself or may come from parties outside **the Municipality's** taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at; the net cost of the function/program that must be financed from **the Municipality's** general revenues or, the net program revenue that contributes to **the Municipality's** general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- Charges for services – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. Also, include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.
- Program-specific operating and capital grants and contributions – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular 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. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to **the Municipality**. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property, municipal license and construction excise taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by **the Municipality** are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of **the Municipality**. Even though some of these costs have been charged to certain funds in the governmental funds financial statements as indirect cost allocations permitted under some federal programs, **the Municipality** has reported these indirect costs as direct expenses of the general government function. Accordingly, **the Municipality** generally does not allocate general government (indirect) costs to other functions.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities.

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support **the Municipality's** programs or services. These governmental activities are also generally reported in the governmental funds financial statements.

The Municipality has no fiduciary activities, which are those in which it would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, **the Municipality** has no operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Governmental fund financial statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying governmental fund financial statements ("GFFS ") are composed of; the balance sheet - governmental funds, and, the statement of revenues, expenditures and changes in fund balances - governmental funds.

These financial statements report the financial position and results operations of **the Municipality's** governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on; **the Municipality's** major governmental funds, as defined below, the fiscal accountability and, the individual parts of **the Municipality's** government. Fiscal accountability represents **the Municipality's** responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by **the Municipality**. For financial reporting purposes, **the Municipality** reports its governmental funds within the following categories:

- General fund – The general fund is **the Municipality's** main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that **the Municipality's** governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund; legal requirements, GAAP requirements or, the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

- Special revenue funds - The special revenue funds are non-major governmental funds, as defined below, used by **the Municipality** to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by **the Municipality** or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital project funds). The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in **the Municipality's** general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

- Debt service fund - The debt service fund is a major governmental fund, as defined below, used by **the Municipality** to account for the accumulation of resources for, and the payment of, principal and interest for; bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or, bonds payable or any general long-term debt for which **the Municipality** is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. Principal and accrued interest due on July 1 of the following fiscal year related to long-term debt for which debt service payments are accounted for in the debt service fund are recorded as debt service fund's liabilities at June 30, if resources are available at June 30 for its payment.

General long-term debts for which debt service payments do not involve the advance accumulation of resources (such as obligations under capital leases, compensated absences, claims and judgments, and notes payable, among others) are accounted for the accompanying statement of net assets. The debt service payments of such debts are generally accounted for as debt service - principal and debt service - interest expenditures in the general fund, except for certain notes payable to HUD, which are accounted for in the HUD Section 108 capital project fund.

- Capital projects funds - Capital projects funds are non-major governmental funds, as defined below, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds accounted for also in the capital projects funds.

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

The focus of the GFFS is on major governmental funds, which generally represent **the Municipality's** most important funds. Accordingly, **the Municipality** is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, **the Municipality's** general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is reported as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Based on the aforementioned criteria, **the Municipality's** major governmental funds reported in the accompanying GFFS are; general fund, debt service fund and, other governmental funds.

The accompanying GFFS are integrated by other statements and schedules required by GAAP; schedule of revenues and expenditures - budget and actual - budgetary basis - general fund, reconciliation of the balance sheet - governmental funds to the statement of net position, and, reconciliation of the statement of revenues, expenditures and changes in fund balances - governmental funds to the statement of activities.

Measurement focus, basis of accounting and financial statements presentation

The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include fees for licenses and permits, charges for services, and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, **the Municipality** groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments **the Municipality** places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred (that generally is when the taxpayers' net sales or revenues subject to tax take place).

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by **the Municipality** on non-governmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Meanwhile, and in accordance with GASB Statement 65, amount received in advance are recorded as deferred inflows of resources in the governmental funds balance sheet.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires **the Municipality** to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, deferred outflows of resources and revenues are generally recorded when all eligibility requirements imposed by the provider have been met.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

For the majority of grants, **the Municipality** must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred inflows of resources.

According to GASB No. 34, all general capital assets and the long-term liabilities are recorded only in the accompanying statement of net position. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as result of transactions and events of the fiscal year reported.

Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, **the Municipality** generally considers most revenues to be available if collected within 90 days after June 30, 2014, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred inflows of resources at June 30, 2014.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits, and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred inflows of resources.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

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Deferred outflows of resources and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

Interest income is recorded when earned only if collected within 90 days after year-end since these revenues are considered both measurable and available at June 30, 2014.

As previously discussed, **the Municipality** adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASB No. 6), which modifies the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting and clarifies a number of situations in which **the Municipality** should distinguish between governmental fund liabilities and general long-term liabilities.

Pursuant to the provisions of GASB No. 6, expenditures and related liabilities are generally recorded in the accompanying GFFS in the accounting period in which the liability is incurred, as under the accrual basis of accounting, but only to the extent that they are normally expected to be liquidated with expendable financial resources.

Modifications to the accrual basis of accounting in accordance with GASB No. 6 include:

- Employees' accumulated vacation, sick leave and compensatory time (compensated absences) is recorded as expenditure when consumed. The amount of the unpaid compensated absences has been reported only in the accompanying statements of net assets.
- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1 which are recorded as governmental fund liabilities at June 30 which is the date when resources were available in the debt service fund.
- Obligations under capital leases, compensated absences, and the reserve for federal cost disallowances are recorded only when they mature (when payment is due).
- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.
- Validated purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.) since these liabilities normally are paid in a timely manner and full from current financial resources.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities, but are not recorded in the accompanying GFFS.

Under the financial reporting model established by GASB No. 34, all general capital assets and unmatured long-term liabilities (determined using the modified accrual basis of accounting) are no longer reported in account groups within the governmental fund balance sheet but are incorporated into the accompanying state of net position.

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Stewardship, compliance and accountability

Budgetary control

According to the Autonomous Municipalities Act of the Commonwealth of Puerto Rico, the Mayor and its Administrative Cabinet prepare each fiscal year an annual budget for **the Municipality's** general fund and debt service fund. Such legally adopted budget is based on expected expenditures by program and estimated resources by source for both funds. The annual budget is developed using elements of performance-based program budgeting and zero-based budgeting, and includes an estimate of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

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

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

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

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

For day to day management control, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. Appropriation control is by program within a fund. The Municipal Legislature may transfer amounts among programs within and between funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

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Budgetary accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The accompanying statement of revenues and expenditures - budget and actual - budgetary basis - general fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2014. Further details of **the Municipality's** budgetary control at the legal level may be obtained from the budgetary liquidation report for the fiscal year ended June 30, 2014, which is prepared by **the Municipality's** Department of Finance and Budget. Copies of that report may be obtained by writing to **the Municipality's** Director of Finance and Budget.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP. Accordingly, the accompanying budgetary comparison schedule is accompanied by a reconciliation of the differences between the budgetary basis and GAAP actual amounts.

The Municipality does not legally adopt budgets for the state legislative joint resolutions capital fund. The financial resources received by these funds are not subject to budgeting by **the Municipality** since the resources received each year from the respective grantors varies from year to year, and the respective amounts are granted at their discretion.

Unrestricted and restricted deposits

The Municipality's deposits are composed of; demand deposits in commercial banks, demand deposits in the Government Development Bank for Puerto Rico (GDB, fiscal agent) and, Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms) a governmental entity responsible for the imposition and collection of property taxes on behalf of all municipalities of Puerto Rico.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements. Under the laws and regulations of the Commonwealth, public funds deposited by **the Municipality** in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in **the Municipality's** name.

Cash in fiscal agent in the debt service funds consists principally of property and sales tax collections amounting to \$3,682,927 which are restricted for the payment of **the Municipality's** debt service, as required by law. Cash with fiscal agent recorded in the non-major governmental funds amounting to \$1,936,282 which is restricted for; the acquisition, construction or improvements of major capital assets and, the operations of federal and state funded programs.

Restricted cash in commercial banks for other governmental funds, amounting to \$1,298,014, are restricted to finance the acquisition, construction and improvement of major capital assets.

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Unassigned and committed accounts and notes receivable

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2014. Major receivable balances for the governmental activities include municipal license taxes, property taxes and intergovernmental receivables.

Tax receivables in the general fund represent uncollected property taxes and municipal license taxes. Restricted tax receivables in the debt service fund consist of uncollected property taxes, which are restricted for the payment of **the Municipality's** debt service, as established by law.

Intergovernmental receivables are mainly composed of: amounts owed to **the Municipality** for reimbursement of expenditures incurred pursuant to state and federally funded programs (recorded in the general fund, special revenue fund and capital project funds as deferred outflows of resources).

These accounts receivables 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.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the GFFS, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, **the Municipality** defines capital assets as assets with an individual cost of \$500 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

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

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Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term.

The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50
Licensed vehicles	8
Furniture and fixtures	5 to 20

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

Deferred inflows of resources

The Municipality reports deferred inflows or resources on its GFFS and GWFS. In the GFFS, a deferred inflow of resources arises when:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period. As previously discussed, available is defined as due (or past due) at June 30, and collected within 90 days thereafter to pay obligations due at June 30, or;
- The resources are received by the **Municipality** before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when **the Municipality** has a legal claim to the resources, the deferred inflow of resources is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when **the Municipality** receives resources before it has a legal claim to them.

Compensated absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the government-wide statement of net assets is limited to leave that; is attributable to services already rendered on or before June 30, 2014 and, is not contingent on a specific event (such as illness) that is outside the control of **the Municipality** and the employee. The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer’s share of Social Security taxes, Medicare taxes, employer contributions to the employees’ retirement systems and others).

The vacation policy of **the Municipality** provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year). Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Compensatory time is accumulated by employees at a rate of 1.5 times the overtime worked.

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All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

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

The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the GFFS only if they have matured, for example, as a result of employee resignations and retirements.

Long-term debt

The long-term liabilities reported in the accompanying statements of net position include **the Municipality's** bonds payable, notes payable, obligations under capital leases; accrued compensated absences, estimated for landfill closure and post closure care costs, and legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1 are recorded as governmental fund liabilities in the GFFS when resources are available in the debt service fund (June 30, 2014). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

Accounting for pension costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of **the Municipality** participate. **The Municipality** is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to **the Municipality** in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to **the Municipality**.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

Risk management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico.

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The Department of Treasury pays the insurance premiums on behalf of **the Municipality** and then is reimbursed each year through monthly equal payments deducted from **the Municipality's** gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico (See Note 4).

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

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from **the Municipality's** gross property tax collections.

Risk management

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by **the Municipality** on behalf of its employees. The current insurance policies have not been canceled or terminated at June 30, 2014. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, **the Municipality** has not settled claims that exceeded insurance coverage.

Reservations of fund balances

Reservations of fund balances represent portions of fund balances that are legally segregated for specific future uses or are not appropriated for expenditure. **The Municipality** has the following types of reservations of fund balances:

- Restricted – Represent amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- Assigned – Represent amounts that are intended to be used by **the Municipality** for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- Unassigned – Represents the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

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Interfund transactions

Permanent reallocations of resources among **the Municipality's** funds are classified as interfund transfers. **The Municipality** has the following types of reciprocal and non-reciprocal interfund activities recorded among governmental funds in the accompanying GFFS:

- Operating transfers – Represent legally required transfers that are reported when incurred as “operating transfers-in” by the recipient fund and as “operating transfer-out” by the disbursing fund.
- Intra-entity activities – Represent transfers among funds that are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
- Advances – represent amounts advanced among funds, which are not considered to be currently available financial resources.

In the GFFS, interfund activity has not been eliminated, as permitted by GAAP.

Use of estimates

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Municipal solid waste landfill closure and post closure care cost

Solid waste landfill closure and post closure care costs are accounted for under the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post closure Care Costs*, issued by GASB (GASB No. 18).

The estimated liability for solid waste landfill closure and post closure care costs (including monitoring and maintenance) includes an estimate of all costs to be incurred near or after the close of **the Municipality's** solid waste landfill. In the government-wide statement of net position, this liability is recognized under the accrual basis of accounting, over the useful life of the landfill, even though such costs will only be incurred, by definition, near or after the close of the landfill.

The estimates of closing and post-closing costs include; the cost of equipment and facilities that will be acquired near the time the landfill stops accepting waste or after for the purpose of post closure care and monitoring, the cost of applying the final cover and the cost of post closure maintenance and monitoring. These cost estimates are made using current costs (costs that would be incurred if these services would have been obtained during the current period). The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

Any changes in the estimated total current costs, that occur before the landfill stops accepting solid waste are reported in the period of the changes, and an adjustment is made to the calculation, which is accounted for prospectively as a change in accounting estimate. On the other hand, the accounting for a horizontal expansion of the land fill has no effect in the factors used to calculate the accrued liability for the closure and post closure costs of the original landfill. In this case, a separate calculation of the closure and post closure care costs for the expanded portion of the landfill is made for each financial reporting period.

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Changes in the estimated total current cost for landfill closure and post closure care costs may also occur after the date that the landfill stops accepting solid waste. The changes may include changes due to inflation (or deflation), changes in technology, changes in closure and post closure care requirements, corrections of errors in estimation, and changes in the extent of environmental remediation that is required. Changes in these estimates would be reported in the period in which the change is probable and reasonably estimable.

In the GFFS, landfill closure and post closure care costs are recorded in the accounting period in which they are due (when they mature) under the modified accrual basis of accounting.

Recent adoption of accounting pronouncements

The Municipality adopted the following statements during year ended June 30, 2013:

- GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structure fund balance classifications, and by clarifying the definitions of existing governmental fund types. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. This new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints.
- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial report.
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. GASB 63 also amends certain provisions of Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

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

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Future adoption of accounting pronouncements

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

GASB Statement No. 68 "*Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*". The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pension. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement will bring the effect of **GASB Statement No. 67** "*Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*" into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems. Cost-sharing employers of the Retirement Systems would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement No. 67 based on the their respective individual proportion to the collective net pension liability of all the governments participating. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).

GASB Statement No. 69 "*Government Combinations and Disposals of Government Operations*". This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis (fiscal year ended June 30, 2015).

GASB Statement No. 70 "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*". The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions this Statement is effective for financial statements for reporting beginning after June 15, 2013 (fiscal year ended June 30, 2015).

GASB Statement No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date*". The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of **GASB Statement No. 68** to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement No. 68 (fiscal year ended June 30, 2015).

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

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2. DEPOSITS

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

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements, cover four main areas; credit risk, interest rate risk, custodial credit risk, foreign exchange exposure.

- Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB.

According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2014.

- Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by; not including debt investments in its investments portfolio at June 30, 2014, limiting the weighted average maturity of its investments to periods of three months or less and keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2014, the interest rate risk associated with the Municipality's cash is considered low.
- Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipalities are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and unsecured. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014. The Municipality's management has concluded that at June 30, 2014, the custodial credit risk associated with the Municipality's cash is considered low.
- Foreign exchange risk – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2014.

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Pursuant to the statement of investment guidelines for the government of the Commonwealth of Puerto Rico, **the Municipality** may invest in obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

3. MUNICIPAL LICENSE TAXES

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Añasco. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. **The Municipality** establishes the applicable tax rates. At June 30, 2014 the municipal license tax rates imposed by **the Municipality** were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with the tax return filed. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred revenues in the GWFS and deferred intflows of resources in the GFFS. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$1,408,181 at June 30, 2014.

4. PROPERTY TAXES

The Municipality is authorized by law No.83 of August 30, 1991 as amended to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force was 6.68% (of which taxpayers pay 6.48% and 0.20% is reimbursed by the Department of Treasury) at June 30, 2014. Real property taxes are assessed by The Municipal Revenue Collection Center ("CRIM"). The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. The total real property tax rate in force was 8.68% (of which 8.48% is paid by taxpayers and 0.20% is also reimbursed by the Department of Treasury) at June 30, 2014.

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury assumes payment of the basic tax (4% and 6% for personal and real property, respectively) to **the Municipality**, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made.

CRIM is responsible for the billing and collections of real and personal property taxes on behalf of **the Municipality**. Prior to the beginning of each fiscal year, CRIM informs **the Municipality** of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, CRIM advances funds to **the Municipality** based on the initial estimated collections.

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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 December 31. If CRIM remits to the **Municipality** property tax advances, which are less than the tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Law No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied by the Commonwealth but is collected by CRIM. Collections of this special tax are remitted to the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth.

In addition, 1.25% of the total personal and real property taxes collected by CRIM is restricted for the **Municipality's** debt service requirements and is retained by GDB for such purposes.

The Additional Lottery System of the Commonwealth ("Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35% corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

Total property tax receivable, net of an allowance for uncollectible accounts of \$13,622,739, amounted to \$841,072 at June 30, 2014. The composition of property taxes receivable and the related deferred inflows or resources at June 30, 2014 is as follows:

	General fund	Debt service fund	Total
Gross property taxes receivable	\$ 10,781,664	\$ 3,682,147	\$ 14,463,811
Less: Allowance for uncollectible Accounts	(10,151,090)	(3,471,649)	(13,622,739)
Net property tax receivable	<u>\$ 630,574</u>	<u>\$ 210,498</u>	<u>\$ 841,072</u>
Deferred (earned but unavailable) property tax revenues in GFFS	<u>\$ 597,600</u>	<u>\$ 195,288</u>	<u>\$ 792,888</u>

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5. MUNICIPAL SALES AND USE TAX

On October 25, 2006, the Municipal Legislature of Añasco approved the Ordinance no. 10, series 2005-06 based on State Public Law No. 117 of July 4, 2006 establishing a local sales and use tax of 1.5%, over the sales of goods and services made within the Municipalities boundaries. The Ordinance, was effective ten days after public notice, and under this Ordinance, every business doing retail sales is required to register in the **Municipality** to obtain a Retailer's Registration Certificate. The retailers are required to file monthly sales tax returns by the 20th day following the month in which the tax was collected. On July 29, 2007, the State Public Law No. 80 establishes that the municipalities may collect only 1.0% of its sales and use tax and the Puerto Rico Treasury Department (PRTD) the other 0.5%. Resources collected would be used for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs.

The resources collected by the PRTD, related to the 0.5% of Municipal Sale Tax, are deposited in the following special funds:

- a. .2% in the Municipal Development Fund to be distributed among all the municipalities through an inverse formula created by the Act,
- b. .2% in a Municipal Redemption Fund to finance future loans to municipalities, and
- c. .1% in a Municipal Improvement Fund to finance capital improvement projects subject to a distribution by the Commonwealth Legislature.

From February 1, 2014 onwards the Act No. 40 of June 30, 2013, as amended, reduced the municipal sales and use tax from 1.5% to 1.0% and increased the Commonwealth Sales and Use Tax from 5.5% to 6.0%. In addition, the Commonwealth approved Act No. 18 and Act No. 19, on January 24, 2014 to provide for the restructuring and creation of financing structures from sales and use tax sources in order to guarantee and pay municipal long term debts. As a result, the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

The Act No. 18 creates a special fund called Municipal Administration Fund under custody of the Governmental Development Bank of Puerto Rico (GDB). This fund permits participants municipalities to guarantee and pay long term debt and provide funds for its general operations. The Act also improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA). The necessary resources to create the Municipal Administration Fund will come from the amounts collected by 0.5% of the 6.0%, related to the Commonwealth Sales and Use Tax, and will be distributed among the special funds that had been created by the Act No. 80 of July 29, 2007.

The Act No. 19 creates a public corporation, as a component unit of the GDB, under the name of Municipal Finance Corporation (COFIM). The new COFIM may issue, pay or refinance the municipalities long term debt related to the Municipal Sales and Use Tax Redemption Fund. Under this corporation the new issuance of municipal long term debts will be guaranteed with the municipal sales and use tax of 1.0%. For this purpose the Municipal Sales and Use Tax of 1.0% will be deposited in the COFIM. From the monthly amount collected, the COFIM will deposit 0.3% of the 1.0% on the COFIM sinking fund. The excess of the required deposit (0.7%) will be transferred to the municipalities.

Act No. 18 and Act No. 19 also include provisions for municipalities that do not want to participate in the new procedures established in the COFINA and the COFIM structures. The non-participating municipalities will receive the full collection of the 1.0% of Municipal Sales and Use Tax, but must relinquish their participation on the Municipal Development Fund created by Act No. 18. The Municipality of Añasco decided to be a participating entity of these processes.

As of June 30, 2014 the Municipality recorded Sales and Use Tax revenues of \$1,333,685 in the General Fund and \$404,512 in the Debt Service Fund corresponding to the Municipal Redemption Fund.

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6. INTERFUND BALANCES

On July 1, 2001, the Municipality adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures*, issued by the Governmental Accounting Standards Board. This statement requires the disclosure of the flow of resources between funds and to assess the collectibility of interfund balances. Interfund balances at June 30, 2014 consisted of the following:

Transfers from				
Major funds				
Transfers to:	General fund	Debt service fund	Other governmental fund	Total governmental funds
Major funds:				
General fund	\$ 314,956	\$ 237,045	\$ 326,502	\$ 878,503
Nonmajor funds:				
Other governmental funds	(237,045)	(275,617)	(365,841)	(878,503)
Total:	\$ (77,911)	\$ (38,572)	\$ (39,339)	\$ -
Due from				
Major funds				
Due to:	General fund	Debt service fund	Other governmental fund	Total governmental funds
Major funds:				
General fund	\$ -	\$ -	\$ 273,128	\$ 273,128
Nonmajor funds:				
Other governmental funds	1,238,464	-	-	1,238,464
Total:	\$ 1,238,464	\$ -	\$ 273,128	\$ 1,511,592

At June 30, 2014, all amounts due to among funds are considered collectible by the Municipality's management.

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7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Increase	Decrease	Reclassifications	Balance June 30, 2014
Governmental Activities					
<u>Capital assets not being depreciated:</u>					
Land	\$ 6,725,440	\$ -	\$ -	\$ -	\$ 6,725,440
Construction in progress	304,567			(304,567)	
Total capital assets, not being depreciated	<u>7,030,007</u>			<u>(304,567)</u>	<u>6,725,440</u>
<u>Capital assets, being depreciated:</u>					
Land improvements	7,998,645	372,134		206,137	8,576,916
Buildings, structures, improvements	22,711,070	542,174		87,000	23,340,244
Infrastructure	22,562,146	91,326		11,430	22,664,902
Machinery and equipment	2,979,713	44,917	50,328		2,974,302
Licenses vehicles	5,033,778	44,870	408,273		4,670,375
Total capital assets, being depreciated	<u>61,285,352</u>	<u>1,095,421</u>	<u>458,601</u>	<u>304,567</u>	<u>62,226,739</u>
<u>Less accumulated depreciation for:</u>					
Land improvements	3,556,324	303,877			3,860,201
Buildings, structures, improvements	5,068,259	402,588			5,470,847
Infrastructure	10,048,011	508,880			10,556,891
Machinery and equipment	1,790,719	139,266	22,139		1,907,846
Licenses vehicles	4,113,946	181,148	408,273		3,886,821
Total accumulated depreciation	<u>24,577,259</u>	<u>1,535,759</u>	<u>430,412</u>	<u>-</u>	<u>25,682,606</u>
Total capital assets, being depreciated, net	<u>36,708,093</u>	<u>(440,338)</u>	<u>28,189</u>	<u>304,567</u>	<u>36,544,133</u>
Governmental activities capital assets, net	<u>\$ 43,738,100</u>	<u>\$ (440,338)</u>	<u>\$ 28,189</u>	<u>\$ -</u>	<u>\$ 43,269,573</u>

Depreciation and amortization expenses for the fiscal year ended June 30, 2014 were charged to functions / programs as follows:

Governmental activities:

General government	\$ 673,261
Public safety	161,769
Urban and economic development	69,402
Health and sanitation	168,823
Public housing and welfare	248,365
Culture, recreation and education	<u>214,139</u>
	<u>\$ 1,535,759</u>

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8. EMPLOYEES' RETIREMENT SYSTEMS

Plan description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. This system covers all regular full time employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems. On February 16, 1990 Act No. 1 was presented to recognize benefits to those employees that became participants of the Plan starting April 1, 1990 and ending December 31, 1999.

On January 1, 2000 became effective a new pension program under Act No. 305 of September 24, 1999. This Act 305 amended Act No. 447 of 1951 and Act No. 1 of February 16, 1990 and establish a new pension program (System 2000). The System 2000 worked as a hybrid defined contribution plan, also known as cash balance plan. There was a pool of pension assets invested by the ERS, together with those of the current defined benefit plan. Under this System benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account.

Act No. 3 of 2013 was enacted by the Commonwealth of Puerto Rico to establish a comprehensive reform of the ERS on April 4, 2013. This new Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS. This system moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contributions plan (System 2000) to a new defined contribution hybrid plan ("New Hybrid Plan"). Contributions will be maintained in individual accounts by each participant.

All retirement benefits accrued, through June 30, 2013, by the active participants of the programs under Act No. 447 of 1951 and Act No. 1 of 1990 will be frozen, and thereafter, all future benefits will accrue under the New Hybrid Plan. Participants will receive a pension at retirement age equivalent to what they have accrued at June 30, 2013 under Act 447 and Act 1, and a supplemental annuity corresponding to contributions made after July 1, 2013. Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.

The new participants under the NHP will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). This New Hybrid Plan eliminates the possibility of accruing a merit pension (payable once the participant has achieved 30 years of creditable service) after June 30, 2013.

Act No. 3 establish the retirement age of Act 447 regular employees at 61 years, Act 447 high risk employees (state and municipal police, firefighters and custody officials) at 55 years. Act 305 (System 2000) regular employees at 65 years; a high risk employee remains the same, at 55 years. Act 1 employees remain the same (65 years for regular employees and 55 for high risk employees). For new employees under the New Hybrid Plan retirement age will be 67 for regular employees and 58 for high risk employees.

The new Act No. 3 also eliminates Special Law benefits to future retirees; reduce the Christmas bonus to \$200, eliminate the summer bonus of \$100 to current retirees, and eliminates disability benefits and requires a mandatory disability insurance policy.

There is no change in medical plan contributions of up to \$1,200 and medicine bonus of \$100 to current retirees. Employers will contribute \$2,000 per retiree and future retiree to help finance Special benefits; the System Law benefits paid out to retirees. As part of the changes, the minimum monthly pension for current retirees was increased to \$500.

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To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries.

Funding policy

The Act No. 3 is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. All participants are required to contribute 10% of gross salary. Participants under the coordinated plan as of June 30, 2013 (benefits coordinated with social security benefits) are required to contribute 7% of gross salary up to \$6,600 plus 10% of gross salary in excess of \$6,600 for fiscal year 2013-2014; 8.5% of gross salary up to \$6,600 plus 10% of gross salary in excess of \$6,600 for fiscal year 2014-2015 and 10% of gross salary effective July 1, 2015

The Municipality contributed 12.275% of gross salary for fiscal year 2013-2014. The Act requires an additional 1% annually for each of the next two fiscal years, and 1.25 % annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. As stated in the Act the increase applicable to the municipalities for fiscal year 2013-2014 was financed through the Commonwealth's budget appropriations.

Questions concerning any of the information provided in this disclosure or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement System Administration, Minillas Station, PO Box 42003, San Juan, PR 00940.

In addition to the pension benefits described in Note 8, as of June 30, 2014 the Municipality is required to cover the annually increase of 3% established in the retirement plan of its retired employees, as required by Commonwealth's laws. The Municipality is responsible of finance cost related to the application of the Special Laws issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year 2014, cost related to these post-employment benefits amounted to \$194,121. The aforementioned benefits are recorded as expenditures of the General Fund

9. LONG-TERM DEBT

The Municipal Legislature is legally authorized to approve the contracting of debts of **the Municipality**. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

- Direct obligations of **the Municipality** (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of **the Municipality**; and
- Direct obligations are not to be issued by **the Municipality** if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all 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 bond anticipation 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 and bond anticipation notes 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. At June 30, 2014, **the Municipality** is in compliance with the debt limitation requirements. The general long-term debt activity for the year ended June 30, 2014 was as follows:

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	Balance at June 30, 2013	Borrowing or Additions	Payments or Deductions	Balance At June 30, 2014	Balance Due Within One Year
Bonds payable:					
General obligation bonds	\$ 7,144,000	\$ -	\$ 393,000	\$ 6,751,000	\$ 421,000
Public improvement	411,000		103,000	308,000	109,000
x Special obligation bonds / operations	3,754,750		175,000	3,579,750	187,500
Special obligation bonds / IVU	2,799,000		196,000	2,603,000	209,000
	14,108,750		867,000	13,241,750	926,500
HUD Section 108	2,007,000		223,000	1,784,000	223,000
Notes payable:					
CRIM:					
Delinquent accounts	183,208		9,643	173,565	13,989
Compensated absences	2,233,643		18,877	2,214,766	1,005,415
Estimated liability for municipal solid waste landfill closure and post closure care costs					
	1,794,148	54,368		1,848,516	
Total	\$20,326,749	\$ 54,368	\$ 1,123,107	\$19,262,597	\$ 2,168,904

Bonds payable

The Municipality issues general obligation, special (public improvement) obligations bonds, and notes to provide for the acquisition, construction of major capital facilities and equipment, as well as, to over certain operating needs. Bonds payable at June 30, 2014 is composed of the following debts:

General obligation and public improvement bonds

2000 serial bonds, original amount of \$865,000, due in annual principal installments ranging from \$60,000 to \$90,000; plus interest due in semiannual installments at rates not to exceed 4.73% through July 1, 2014	\$ 90,000
2001 serial bonds, original amount of \$415,000, due in annual principal installments ranging from \$16,000 to \$25,000; plus interest due in semiannual installments at rates of 3.25% through January 1, 2024	218,000
2002 serial bonds, original amount of \$660,000, due in annual principal installments ranging from \$15,000 to \$55,000; plus interest due in semiannual installments at variables rates not to exceed 8.00% through July 1, 2026	490,000
2003 serial bonds, original amount of \$1,850,000, due in annual principal installments ranging from \$45,000 to \$140,000; plus interest due in semiannual installments at variables rates not to exceed 5.28% through July 1, 2027	1,365,000
2002 serial bonds, original amount of \$415,000, due in annual principal installments ranging from \$10,000 to \$30,000; plus interest due in semiannual installments at variables rates not to exceed 5.31% through July 1, 2028	315,000

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2008 serial bonds, original amount of \$1,485,000, due in annual principal installments ranging from \$20,000 to \$115,000; plus interest due in semiannual installments at variables rates not to exceed 7.5% through July 1, 2033	1,360,000
2009 serial bonds, original amount of \$2,000,000, due in annual principal installments ranging from \$60,000 to \$147,000; plus interest due in semiannual installments at variables rates not to exceed 4.75% through July 1, 2029	1,611,000
2011 serial bonds, original amount of \$1,210,000, due in annual principal installments ranging from \$135,000 to \$215,000; plus interest due in semiannual installments at variables rates not to exceed 7.50% through July 1, 2017	770,000
2012 serial bonds, original amount of \$910,000, due in annual principal installments ranging from \$35,000 to \$100,000; plus interest due in semiannual installments at variables rates not to exceed 7.50% through July 1, 2026	840,000
	<u>7,059,000</u>
<u>Special obligation bonds / operations</u>	
1998 serial bonds, original amount of \$565,000, due in annual principal installments ranging from \$6,250 to \$12,875; plus interest due in semiannual installments at variables rates not to exceed 5% through July 1, 2017	168,750
2001 serial bonds, original amount of \$1,010,000, due in annual principal installments ranging from \$25,000 to \$90,000; plus interest due in semiannual installments at variables rates not to exceed 8.00% through July 1, 2025	715,000
2004 serial bonds, original amount of \$3,421,000, due in annual principal installments ranging from \$80,000 to \$261,000; plus interest due in semiannual installments at variables rates not to exceed 6.60% through July 1, 2029	2,696,000
	<u>3,579,750</u>
<u>Special obligation bonds / IVU</u>	
2008 serial bonds, original amount of \$277,000, due in annual principal installments ranging from \$5,000 to \$25,000; plus interest due in semiannual installments at variables rates not to exceed 7.5% through July 1, 2032	250,000
2008 serial bonds, original amount of \$766,000, due in annual principal installments ranging from \$11,000 to \$66,000; plus interest due in semiannual installments at variables rates not to exceed 7.5% through July 1, 2033	701,000
2008 serial bonds, original amount of \$998,000, due in annual principal installments ranging from \$15,000 to \$83,000; plus interest due in semiannual installments at variables rates not to exceed 7.5% through July 1, 2033	912,000
2010 serial bonds, original amount of \$1,070,000, due in annual principal installments ranging from \$130,000 to \$205,000; plus interest due in semiannual installments at variables rates not to exceed 7.5% through July 1, 2017	740,000
	<u>2,603,000</u>
Total outstanding bonds payable	<u>\$ 13,241,750</u>

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The general obligation bonds and the public improvements bonds are payable from the ad valorem property tax of 1.25% which is restricted for debt service and retained by GDB for such purposes.

The laws and regulations of the Commonwealth provide that public debt of **the Municipality** will constitute a first claim on the available revenue of **the Municipality**. Public debt includes bonds and notes payable. The good faith, credit and taxing power of **the Municipality** are irrevocably pledged for the prompt payment of the principal and interest of the bonds and notes payable.

The Municipality levies an annual additional special tax of 1.25% of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds must be set aside to redeem the bonds in minimum annual or biannual principal and interest payments. The proceeds of this special tax are recorded in the debt service fund.

Interest rates on serial bonds subject to variable rates are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program, not to exceed 8%. Under this program, GDB issues commercial paper in the U.S. taxable and tax-exempt markets, in the Eurodollar market and to corporations that have tax exemption.

In addition, during 2002, **the Municipality** received a HUD Section 108 loan to provide funding for the construction of an industrial park as an economic development activity. The loan amount was \$4,000,000 and bears interest ranging from 4.67% to 6.07% with semiannual principal payments due on February 1 and August 1. The loan matures on August 1, 2021. This loan is secured by a lien on a real property established through a mortgage that contains such provisions that HUD deems necessary. At June 30, 2014, this loan has an outstanding balance of \$1,784,000.

Annual debt service requirements of maturity for bonds payable and the HUD Section 108 loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,149,500	\$ 498,752	\$ 1,648,252
2016	1,123,000	827,334	1,950,334
2017	1,171,500	753,608	1,925,108
2018	1,214,750	675,652	1,890,402
2019	799,000	613,427	1,412,427
2020 – 2024	4,064,000	2,312,158	6,376,158
2025 – 2029	3,830,000	1,079,064	4,909,064
2030 – 2034	<u>1,674,000</u>	<u>254,375</u>	<u>1,928,375</u>
	<u>\$ 15,025,750</u>	<u>\$ 7,014,370</u>	<u>\$ 22,040,120</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Notes payable to CRIM

Delinquent accounts – On March 26, 2001, Resolution No. 10 Series 2001-2002 was enacted which authorized the Municipality to obtain up to \$414,881, for a term not exceeding 30 years, for repayment of bonds issued for the sale of delinquent accounts. A repayment agreement that bears interest at 6.22% beginning July 1, 2007 was settled with the CRIM. The outstanding principal and accrued interest balances of the note payable to CRIM amounted to \$173,565 and \$41,288 respectively, at June 30, 2014. The principal and interest maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 9,643	\$ 4,346	\$ 13,989
2016	9,643	4,105	13,748
2017	9,643	3,863	13,506
2018	9,643	3,622	13,265
2019	9,643	3,380	13,023
2020 – 2024	48,213	13,280	61,493
2025 – 2029	48,213	7,243	55,456
2030 – 2034	<u>28,924</u>	<u>1,449</u>	<u>30,373</u>
Total	\$ <u>173,565</u>	\$ <u>41,288</u>	\$ <u>214,853</u>

Compensated absences

At June 30, 2014, the liability for compensated absences is composed as follows:

	<u>Due within one year</u>	<u>Due after one year</u>	<u>Total</u>
Accrued vacations	\$ 512,054	\$ 391,290	\$ 903,344
Accrued sick leave	348,898	818,061	1,166,959
Accrued compensatory time	<u>144,463</u>	<u>-</u>	<u>144,463</u>
Total compensated absences	<u>\$ 1,005,415</u>	<u>\$ 1,209,351</u>	<u>\$ 2,214,766</u>

Landfill closure and post closure cost

According to the regulations set forth by the U.S. Environment Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991, the Municipality is required to place a final cover on the Municipality's landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with GASB No. 18, the Municipality has performed a study of the activities that need available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recorded estimated liability of \$1,848,516 in the accompanying GWFS, using current costs allocated, based on the actual landfill capacity used at June 30, 2014. The portion of the estimated current costs to be incurred in future years is approximately \$2,811,420, which has not been recorded yet in the accompanying GWFS. Actual costs may be different to the recorded estimate liability due to inflation, changes in technology, or changes in Acts and regulations. At June 30, 2014, the Municipality's landfill is still operating and remaining estimated useful life is approximately 3.5 years.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

10. COMMITMENTS AND CONTINGENCIES

- **The Municipality** is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1995, as amended, persons are authorized to sue **the Municipality** only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of actions. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, **the Municipality** may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is so limitation on the payment of such judgment.

With respects to pending or threatened litigation, **the Municipality** does not have or anticipate unfavorable judgments as of June 30, 2014. Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significantly. **The Municipality** intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into subsequent fiscal years.

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

The Municipality has pending litigation (ET AL. 2013TSPR040), in the Commonwealth Court System, for breach of contract and damages against The Administration of Health Insurance of Puerto Rico (ASES by its Spanish acronyms).

The Supreme Court of Puerto Rico has already established the validity of the Municipality's position, pending a trial evidentiary hearing at a lower level court to establish the level of materiality of breach and damages. The Municipality has presented the evidence it deems necessary to strengthen the claim.

At June 30, 2014 a trial date had not been set since both parties are presenting negotiations in order to avoid additional legal expenses. As a result of these negotiations, on August 12, 2014, the Court approved a settlement between the parties which resulted in the collection of \$1,569,352 in favor of **the Municipality**.

11. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through March 27, 2015, the date the financial statements were available to be issued. Based on such analysis, management decided that no additional significant disclosure is necessary.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Budgeted amounts</u>		<u>Actual amounts (budgetary basis)</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Property	\$ 2,975,821	\$ 3,096,739	\$ 3,096,739	\$ -
Municipal license	1,865,000	1,865,000	2,127,083	262,083
Sales	757,000	757,000	1,057,272	300,272
Construction excise	150,000	150,000	273,578	123,578
Charges for services	1,797,000	2,160,757	2,133,886	(26,871)
Intergovernmental	5,353,080	5,352,855	4,958,807	(394,048)
Interest on deposits	50,000	50,000	41,420	(8,580)
Miscellaneous	52,000	52,000	69,327	17,327
Total revenues:	12,999,901	13,484,351	13,758,112	273,761
Expenditures:				
Current:				
General government	6,983,522	7,600,392	6,757,795	(842,597)
Public safety	771,201	708,725	693,343	(15,382)
Urban and economic development	1,189,902	1,202,726	1,190,877	(11,849)
Health and sanitation	1,261,868	1,191,152	1,663,684	472,532
Culture, recreation and education	1,727,341	1,817,746	1,812,910	(4,836)
Public housing and welfare	1,066,067	963,610	935,593	(28,017)
Total expenditures:	12,999,901	13,484,351	13,054,202	(430,149)
Excess of revenues (expenditures) over expenditures (revenues):	-	-	703,910	703,910
Other financing sources (uses):				
Transfers in from other funds	-	-	314,956	314,956
Transfers out from other funds	-	-	(237,045)	(237,045)
Other sources	-	-	-	-
Total other financing sources (uses)	-	-	77,911	77,911
Excess of revenues and other financing sources over expenditures and other financing uses:	\$ -	\$ -	\$ 781,821	\$ 781,821
Explanation of differences:				
Sources / inflows of resources:				
Actual amounts (budgetary basis) from budgetary comparison schedule				\$ 14,073,068
Differences - budget basis to GAAP:				
Net increase (decrease) in receivables				(196,154)
Resources considered revenues for financial reporting but not for budgetary purposes				109,962
Resources considered revenues for budgetary but not for financial reporting purposes				(525,935)
Total revenues reported on statement of revenues, expenditures and changes in fund balance				\$ 13,460,941
Uses / outflows of financial resources:				
Actual amounts (budgetary basis) from budgetary comparison schedule				\$ 12,817,157
Net increase (decrease) in payables				260,857
Encumbrances recorded as current expenditures for GAAP basis				591,766
Resources considered expenditures for budgetary but not expenses for GAAP				(43,152)
Total expenditures reported on statement of revenues, expenditures and changes in fund balance				\$ 13,626,628

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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

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

The accompanying budgetary comparison schedule – general fund, provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2014.

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

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

To the Honorable Mayor and Members
of the Municipal Legislature
Municipality of Añasco
Añasco, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Añasco, ("the Municipality"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated March 27, 2015.

We were unable to obtain a discussion or evaluation from the outside legal counsel of the pending or threatened litigation described in Note 10, *Pending Litigation*, and if exist any new pending or threatened litigation in which the Municipality is a plaintiff or a defendant. We were unable to obtain sufficient appropriate audit evidence by performing other auditing procedures.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

To the Honorable Mayor and Members
of the Municipal Legislature
Municipality of Añasco

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.

Jose L. Cardona & Co
JOSÉ L. CARDONA & CO. P.S.C.

San Juan, Puerto Rico
March 27, 2015

The stamp number E155147 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the original of this report.



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

To the Honorable Mayor and Members
of the Municipal Legislature
Municipality of Añasco
Añasco, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited Municipality of Añasco's ("the Municipality") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2014. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Municipality 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, 2014.

**To the Honorable Mayor and Members
of the Municipal Legislature
Municipality of Añasco**

Report on Internal Control over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above.

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

Jose L. Cardona & Co
JOSÉ L. CARDONA & CO. P.S.C.

San Juan, Puerto Rico
March 27, 2015

The stamp number E155148 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Federal Grantor Pass/ Through Grantor/Program Title	CFDA Number	Federal Disbursements Expenditures
U.S. Department of Housing and Urban Development (HUD)		
Direct Programs		
Section 8 Housing Choice Voucher - Lower Income Housing Assistance Programs	14.871	\$ 581,110
Community Development Block Grant (CDBG) Program, State Program	14.228	639,236
U.S. Department of Health and Human Services (HHS)		
Passed through Commonwealth of Puerto Rico Department of Family - Child Care and Development Grant	93.575	49,099
U.S. Department of Agriculture		
Direct Program – Community Facilities Loans and Grants	10.766	129,469
Passed through Commonwealth of Puerto Rico Department of Education - Child and Adult Care Food Programs	10.558	<u>10,386</u>
TOTAL		<u><u>\$ 1,409,300</u></u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of **the Municipality's** federal awards programs presented on a modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

PART I - SUMMARY OF AUDITOR'S RESULTS

- a. The auditor's report expresses a qualified opinion on the financial statements of Municipality of Añasco.
- b. No significant deficiencies disclosed during the audit of the financial statements and reported in the 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*. No material weaknesses are reported.
- c. No instances of noncompliance material to the financial statements of Municipality of Añasco which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
- d. No significant deficiencies in internal control over major federal awards programs disclosed during the audit and reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Añasco expresses an unmodified opinion on all major federal programs.
- f. No audit findings are disclosed in this Schedule that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- g. The programs tested as major program were:
 - CFDA 14.871 – Section 8 Housing Choice Vouchers
 - CFDA 14.228 – Community Development Block Grant \ State's Program
- h. The threshold used for distinguishing Types A and B programs was \$300,000.
- i. The Municipality was determined to be a low-risk auditee.

PART II - FINDINGS - FINANCIAL STATEMENTS FINDINGS:

No matters disclosed and reported.

PART III - FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:

No matters disclosed and reported.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

No prior year findings, questioned costs and other matters were disclosed or reported.