

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2014

(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)



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PART I
FINANCIAL

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Member of the Municipal Legislature
Autonomous Municipality of Arecibo of the
Commonwealth of Puerto Rico
Arecibo, 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 **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements. We were not engaged to audit the financial statements of the discretely presented component unit. These financial statements 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 of material misstatement. Because of the matters discussed in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Unit" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the discretely presented component unit.

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 **Municipality'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 the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Discretely Presented Component Unit	Disclaimer
Governmental Fund – General Fund	Unmodified
Governmental Fund – Head Start Program Fund	Unmodified
Governmental Fund – Debt Service Fund	Unmodified
Governmental Fund – Capital Activities Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Governmental Activities

During our audit the **Municipality** did not provide a subsidiary of capital assets that agreed with the amounts reported in governmental activities of the Governmental-Wide Financial Statements and, accordingly, the depreciation expense on those assets is not supported. Accounting principles generally accepted in the United States of America require that those capital assets been supported to present the assets, net position, and expense of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respect, the respective financial position of the governmental activities of the **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico**, as of June 30, 2014, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion on the Discretely Presented Component Unit

The financial statements of the **Municipality** Component Unit (**MCU**) have not been audited, and we were not engaged to audit the **MCU** financial statements as part of our audit of the **Municipality's** basic financial statements. **MCU's** financial activities are included in the **Municipality's** basic financial statements as a discretely presented component unit.



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Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Unit" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit of the **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico**. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico**, as of June 30, 2014, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Newly Adopted Standards

As discussed in Note 22 to the financial statements, the **Municipality** adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

Also, as discussed in Note 19 to the basic financial statement, the **Municipality** has expended certain federal grant funds in a manner that may have violated certain of the restrictive provisions of the related grants. The possible outcome of this matter is uncertain at this time. If expenditures are disallowed as a result of this situation, the **Municipality** may be subject to possible federal claims for refunds of grants monies.

Other Matters

Restatement of Prior Year Financial Statements

As discussed in Note 21 to the financial statements, the 2013 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.



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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 21, and budgetary comparison information on pages 79 and 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality's** basic financial statements. The accompanying Financial Data Schedule – Section 8 Housing Choice Vouchers Program, as required by U.S. Department of Housing and Urban Development, on pages 82 through 84, and the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, on pages 86 through 88, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The accompanying Financial Data Schedule – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 Financial Data Schedule – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.



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Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2015 on our consideration of the **Municipality's** internal control over financial reporting on our test 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 the 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 considered **Municipality's** internal control over financial reporting and compliance.



CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
March 25, 2015

Stamp No. E135458 was affixed to
the original report.



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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

This discussion and analysis of the Municipality of Arecibo (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2014. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2014 deserve special mention:

1. The Municipality Government-Wide Financial Statements of the Primary Government, reported total assets of \$153,067,335, total liabilities of \$102,227,821, and a Net Position of \$50,839,514.
2. The Municipality net position increased by \$1,359,291 or 2.7% due to excess revenues over expenses.
3. The Financial Statements of the Government Component Unit, reported total assets of \$225,548, total liabilities of \$168,806, and a Net Position of \$56,742.
4. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$11,081,043, an increase of \$4,520,009 or 69% due to excess revenues and other financial sources over expenditures.
5. In the fund financial statements, the governmental activities revenues decreased \$924,279 or 1% and governmental activities expenditures decreased \$1,354,901 or 2% in comparison with prior year.
6. The general fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$4,325,124 or 28% due to excess revenues and other financing sources over expenditures.

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7. As of the end of current fiscal year the Municipality's General Fund deficit amounted to \$11,218,909, compared to a deficit of \$15,544,033 (as restated) in the prior fiscal year.
8. Deferred Revenues for unearned Volume of Business Taxes amounting to \$5,890,886 are fully deposited in a General Fund bank account and are available for next year (2014-2015) operational activities.
9. On a budgetary basis, the General Fund actual revenues exceeded actual expenditures by \$2,834,025, due to a favorable variances in revenues accounts of \$5,017,672 and an unfavorable variance in expenditures accounts of \$2,183,647.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2014. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The basic financial statements include two types of statements that present unique views of the Municipality's financial position.

Mi Arecibo, Inc. (a component unit), is a legally separate entity. The financial statements of this entity have been included in the financial reporting of the Municipality of Arecibo as discretely presented component unit in accordance with GASB Statement No. 14; principally because of the nature of the services they provide, the Municipality's ability to impose its will, through the appointment of their governing authority, and because the component unit provide specific financial benefits to, or impose financial burdens on the Primary Government. The Municipality management has determined it would be misleading to exclude it from the Municipality's financial reporting entity.

This report also contains required supplementary information (budgetary schedule).

COMMONWEALTH OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Government-Wide Financial Statements

The government-wide financial statements are intended to provide readers with a broad overview of the Municipality's and its Component Unit financial position. They are presented using accounting methods very similar to a privately owned business, or the economic resources measurement focus, and full accrual accounting.

- a. The Statement of Net Position present information on all of the Municipality's and its Component Unit assets and liabilities, with the balance between the two reported as Net Position. Over time, increases or decreases in net position can serve as an indicator of the Municipality's and its Component Unit financial condition.
- b. The Statement of Activities presents information showing how the Municipality's and its Component Unit net position changed during the given fiscal year. In this statement all changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only affect cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the Municipality that are principally supported by Taxes, Capital Grants and Contributions (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Municipality include general government, public safety, public works, culture and recreation, health and welfare, urban development, claims and losses, education, training and employment, special communities, projects, depreciation and principal plus interest on related long-term debt.

The reader will need to consider non-financial factors, such as changes in the Municipality's property tax base and the condition of the roads, to assess the overall health of the Municipality.

The government-wide financial statements can be found on pages 22 to 23 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Accordingly, the governmental funds use the modified accrual basis of accounting. 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.

The Municipality maintains five (5) individual governmental funds: General Fund, Special Revenue Fund – Head Start, Capital Activities Fund – State and Local Grants, Debt Service Fund and Other Governmental Funds. Information is shown in the balance sheet and in the statement of revenues, expenditures and changes fund balances.

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

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 financial decisions. The Governmental fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental funds financial statements and its correspondent reconciliations, can be found on pages 24 to 27 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 28 to 77 of this report.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

The budgetary comparison schedule can be found on the page 79 of this report.

Infrastructure Assets

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. Governmental Accounting Standard Board ("GASB 34") requires that these assets be valued and reported in the Government-Wide Statement of Net Position.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation.

In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE – GOVERNMENT-WIDE
FINANCIAL ANALYSIS**

PRIMARY GOVERNMENT

Assets

As of June 30, 2014, the Municipality's total assets amounted to \$153,067,335, an increase of \$1,734,103 or 1% when compared with \$151,333,232 in the prior year. The assets exceeded its liabilities by \$50,839,514.

Capital assets net of depreciation – \$123,375,350 – Include items such as infrastructure, buildings, equipment, machinery, land and other tangible items. Infrastructures include streets, sidewalks, bridges, and others. The Municipality uses capital assets to provide services to the community and thus they are not available for immediate spending. Total capital projects still in process amount to \$2,865,168. During the current fiscal year the Municipality's net capital assets decreased by \$1,874,773 or 1.5 percent.

Any resources needed to repay the debt associated with capital assets must be provided from sources other than the capital assets themselves since the capital assets cannot be liquidated to pay the related liabilities.

Liabilities

At the end of fiscal year 2014, total liabilities amounted to \$102,227,821. The current liabilities and other decreased by \$1,301,756 and at the end of the current fiscal year, the Municipality had outstanding long term debt (bonds, notes and other) of \$88,880,339. During the current fiscal year, the Municipality's issued new long term liabilities in the amount of \$8,160,000. For more details see also pages 54 to 58 Note 10 – Noncurrent Liabilities.

Net Position

The Statement of Net Position serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Arecibo, assets exceed total liabilities by \$50,839,514 at the end of fiscal year 2014, as compared to \$49,480,223 in prior fiscal year (as restated). The Municipality net position increased by \$1,359,291 or 2.7% due to excess revenues over expenses.

The net position consist of the excess of assets over related liabilities. The negative portion of net position are the consequence of previous budgets which did not provide funding for incurred long-term obligations, such as compensated absences, claims and judgments and others. Historically, such obligations have been budgeted, as the Municipality pays, without providing funding for their future liquidation.

An additional portion of the Municipality's net position represents the investment in capital assets, such as land, building, equipment, among others, 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.

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service and for other purposes, represent another portion of the net position, and these are resources subject to external restrictions.

COMPONENT UNIT

As of June 30, 2014, the Municipality Component Unit total assets amounted to \$225,548; total liabilities amounted to \$168,806; and net position amounted to \$56,742. The Municipality of Arecibo invested the amount of \$465 and made a loan of \$165,000 for the creation of this Component Unit.

The following condensed Statement of Net Position shows on a comparative basis the most important components of the Net Position figure of the Primary Government of \$50,839,514, and the \$56,742 of the Component Unit.

**Condensed Statement of Net Position
As of June 30, 2014 and 2013**

<u>PRIMARY GOVERNMENT</u>	<u>2014</u>	<u>RESTATED 2013</u>	<u>Change</u>
ASSETS			
Current and other assets	\$ 29,691,985	\$ 26,083,109	\$ 3,608,876
Capital assets	<u>123,375,350</u>	<u>125,250,123</u>	<u>(1,874,773)</u>
Total assets	<u>153,067,335</u>	<u>151,333,232</u>	<u>1,734,103</u>
LIABILITIES			
Current and other liabilities	13,347,482	14,649,238	(1,301,756)
Long-term debt	<u>88,880,339</u>	<u>87,203,771</u>	<u>1,676,568</u>
Total liabilities	<u>102,227,821</u>	<u>101,853,009</u>	<u>374,812</u>
NET POSITION			
Invested in Capital assets, net of related debt	73,339,729	85,120,257	(11,780,528)
Restricted	26,315,968	19,958,781	6,357,187
Unrestricted (deficit)	<u>(48,816,183)</u>	<u>(55,598,815)</u>	<u>6,782,632</u>
Total net position	<u>\$ 50,839,514</u>	<u>\$ 49,480,223</u>	<u>\$ 1,359,291</u>

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COMMONWEALTH OF PUERTO RICO
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 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2014

<u>COMPONENT UNIT</u>	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets	\$ 225,548	\$ -
LIABILITIES		
Current liabilities	<u>168,806</u>	<u>-</u>
NET POSITION		
Unrestricted	<u>\$ 56,742</u>	<u>\$ -</u>

Changes in Net Position

The Municipality's Primary Government net position increased by \$1,359,291, due to excess revenues over expenses. Approximately 46% of the Municipality's total revenue came from taxes, while 50% resulted from grants and contributions, including federal aid. Charges for Services provided 1%, Interest and others 3% of total revenues. The Municipality's largest expenses included items such as General Government, Education, Community and Urban Development, Culture and Recreation, Health and Sanitation, Public Safety, Public Works, and Interest on Long Term Debt.

The following condensed statement of activities includes the composition of revenues and expenses for the fiscal years ended on June 30, 2014 and 2013 of the Municipality Primary Government and its Component Unit.

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

**Condensed Statement of Activities
For the fiscal year ended June 30, 2014 and 2013**

<u>PRIMARY GOVERNMENT</u>	<u>2014</u>	<u>RESTATED 2013</u>	<u>Change</u>
Program revenues			
Charge for services	\$ 557,568	\$ 777,794	\$ (220,226)
Operating grants and contributions	20,414,006	21,498,285	(1,084,279)
Capital grants and contributions	-	-	-
General revenue			
Property taxes	16,733,188	16,168,931	564,257
Municipal taxes	7,736,842	6,286,528	1,450,314
Municipal sales and use tax	4,116,836	4,406,374	(289,538)
Intergovernmental	11,544,744	15,245,792	(3,701,048)
Other taxes	1,079,347	1,080,286	(939)
Miscellaneous	<u>2,052,225</u>	<u>513,778</u>	<u>1,538,447</u>
Total revenues	<u>63,904,756</u>	<u>65,977,768</u>	<u>(2,073,012)</u>
Expenses			
General government	22,622,056	25,973,067	(3,351,011)
Public safety	3,469,341	4,260,765	(791,424)
Public works	4,397,677	4,153,575	244,102
Health and sanitation	11,038,752	9,088,297	1,950,455
Culture and recreation	2,496,735	2,696,093	(199,358)
Community and urban development	3,087,231	2,478,557	608,674
Education	12,535,965	13,287,448	(751,483)
Interest	<u>3,227,708</u>	<u>2,820,844</u>	<u>406,864</u>
Total expenses	<u>62,875,465</u>	<u>64,758,646</u>	<u>(1,883,181)</u>
Change in net position	1,359,291	1,219,122	140,169
Net position beginning of year	<u>49,480,223</u>	<u>48,261,101</u>	<u>1,219,122</u>
Net position end of year	<u>\$50,839,514</u>	<u>\$49,480,223</u>	<u>\$1,359,291</u>
 <u>COMPONENT UNIT</u>			
Revenues	\$ 115,803	\$ -	
Expenses	<u>59,526</u>	-	
Excess revenues over expenses	56,277	-	
Municipal investment	<u>465</u>	-	
Change in net position	56,742	-	
Net position beginning of year	-	-	
Net position end of year	<u>\$ 56,742</u>	<u>\$ -</u>	

continue

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

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

Combined Fund Balances

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$11,081,043, an increase of \$4,520,009 or 66% in comparison with the prior year of \$6,561,034 (as restated). The combined fund balances include nonspendable fund balance of \$165,000 and restricted fund balances amounting to \$23,651,183. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restriction 1) to pay for specific program purposes (\$2.3 million); 2) to pay for capital projects (\$18.6 million) and 3) to pay for debt services (\$2.8 million). Consequently, since there is an excess of restricted fund balances over total fund balances, a negative unassigned fund balance (or deficit) of \$12,750,408 was reported in the governmental funds at June 30, 2014.

Analysis of Financial Position of Governmental Funds

**Condensed Balance Sheet – Governmental Funds
For the fiscal year ended June 30, 2014 and 2013**

	<u>2014</u>	<u>RESTATED 2013</u>	<u>Change</u>
ASSETS			
Total assets	<u>\$38,413,113</u>	<u>\$36,142,549</u>	<u>\$ 2,270,564</u>
LIABILITIES AND DEFERRED INFLOWS			
Total liabilities and deferred inflows	<u>27,332,070</u>	<u>29,581,515</u>	<u>(2,249,445)</u>
FUND BALANCE			
Nonspendable	165,000	-	165,000
Restricted	23,651,183	23,198,213	452,970
Committed	15,268	14,526	742
Unassigned (deficit)	<u>(12,750,408)</u>	<u>(16,651,705)</u>	<u>3,901,297</u>
Total fund balance	<u>\$11,081,043</u>	<u>\$ 6,561,034</u>	<u>\$ 4,520,009</u>

continue

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

Major Governmental Funds

General Fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$8,287,616 at June 30, 2014. Such assets consist of: (1) Cash \$6,030,049, (2) cash with fiscal agent \$932,607 (3) taxes receivable \$431,223, (4) receivable from intergovernmental grants and contributions \$597,938, (5) due from other funds \$295,799.

The GF's total liabilities and deferred inflow of resources amounted to \$19,506,525 at June 30, 2014. Such liabilities are composed of: (1) account payable and accrued liabilities \$1,222,031, (2) intergovernmental payables \$3,940,314, (3) deferred revenues \$5,890,886, (4) due to other funds \$7,995,993, and (5) Deferred inflow of resources \$457,301.

Deferred Revenues for unearned Volume of Business Taxes amounting to \$5,890,886 are fully deposited in a General Fund bank account and are available for next year (2014-2015) operational activities.

At the end of the current fiscal year, the GF reported a fund deficit of \$11,218,909 compared to a deficit of \$15,544,033 in the prior fiscal year (as restated); reporting, on a current financial resource basis, a deficit reduction of \$4,325,124 or 28% due to excess revenues and other financing sources over expenditures.

Special Revenue fund – Head Start (HSF) – The HSF's total assets amounted to \$659,849 at June 30, 2014, which consist mainly of restricted cash \$233,480, due from Grantor \$274,563, and due from other funds \$151,806. The HSF's total liabilities amounted to \$659,849 at June 30, 2014. Such liabilities are composed of: (1) account payable and accrued liabilities \$27,005, due to other funds \$333,000, (2) unearned revenues \$175,434, and (3) unavailable revenues \$124,410. At the end of the current fiscal year and for prior fiscal year, HSF's reported no fund balance.

Capital Activities Funds (CAF) – The CAF's total assets amounted to \$19,192,011 at June 30, 2014, which consist mainly of (1) restricted cash \$10,753,488, (2) due from other funds \$8,273,523, and (3) loan receivable of \$165,000. At the end of the current fiscal year, CAF's reported accounts payable of \$484,446, nonspendable fund balance of \$165,000, and total reserved fund balance reached \$18,542,565 compared to \$15,837,935 in the prior fiscal year, for an increase of \$2,869,630 or 17%.

Debt Services Fund (DSF) – The DSF's total assets amounted to \$8,807,066 at June 30, 2014, which consist of restricted cash in fiscal agent \$8,221,968 and taxes receivable of \$585,098. The DSF's total liabilities amounted to \$6,004,822 at June 30, 2014, which are composed of: (1) matured bonds due and payable \$4,067,000, (2) interest payable \$1,352,724. At the end of the current fiscal year, DSF's total reserved fund balance reached \$2,802,244 compared to \$4,956,032 in the prior fiscal year, for a decrease of \$2,153,788 or 43%.

continue

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

Analysis of Operating Results of Governmental Funds

**Condensed Statement of Revenues, Expenditures and changes
In Fund Balance – Governmental Funds
Fiscal Years Ended June 30, 2014 and 2013**

	<u>2014</u>	RESTATED <u>2013</u>	<u>Change</u>
Revenues			
Total revenues	\$64,246,898	\$65,171,177	\$ (924,279)
Expenditures			
Total expenditures	<u>67,886,424</u>	<u>69,241,325</u>	<u>(1,354,901)</u>
Excess (deficiency) Revenues over expenditures	(3,639,526)	(4,070,148)	430,622
Other financing sources net	<u>8,159,535</u>	<u>505,000</u>	<u>7,654,535</u>
Changes in fund balance - net	4,520,009	(3,565,148)	7,954,861
Fund Balance beginning of year (restated)	<u>6,561,034</u>	<u>10,126,182</u>	<u>(3,565,148)</u>
Fund Balance end of year	<u>\$11,081,043</u>	<u>\$ 6,561,034</u>	<u>\$ 4,520,009</u>

As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$11,081,043, an increase of \$4,520,009 or 69% due to excess revenues and other financial sources over expenditures.

In the fund financial statements, the governmental activities revenues increased \$924,279 or 1% while governmental activities expenditures decreased \$1,354,901 or 2% in comparison with prior year.

Major Governmental Funds

General Fund (GF) – The total fund balance of the GF increased by \$4,325,124 or 28% during current fiscal year, due to excess revenues and other financing sources over expenditures.

The GF reported total revenues of \$37,054,745. Approximately 62% (\$22,913,394) of the GF's total revenues for the current fiscal year came from property taxes, municipal license, construction excise taxes and sales and use taxes, while 31% (\$11,579,316) resulted from intergovernmental grants and contributions, charges for services provide 1% (\$306,648), and miscellaneous revenues 6% (\$2,255,387).

continue

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

The GF reported total expenditures of \$37,690,313. The largest expenditures of the GF for the fiscal year ended June 30, 2014 were related to: (1) general administrative and operating costs \$24,486,101, which were classified as "General government; and Mayor and Municipal Legislature", (2) public works \$3,189,318, (3) public safety \$3,213,284, (4) health, sanitation and solid waste disposal \$3,184,533, (5) culture and recreation \$1,526,635, and (6) public instruction \$1,336,793.

Other financing sources of \$4,960,692 were net transfers from other funds of \$1,025,692, and operational loan proceed of \$3,935,000.

Special Revenue fund – Head Start (HSF) – Total revenue of HSF's for the current fiscal year came from Federal Grant \$11,405,993. HSF's total expenditures of \$11,405,993, for the current fiscal year were mainly used for public instruction services and human services and welfare. No change in fund balance was reported for the current fiscal year.

Capital Activities Funds (CAF) – The CAF's total fund balance increased by \$2,869,630 or 17% during current fiscal year. Total revenue of CAF's for the current fiscal year came from Local and Federal Governments Grants \$290,090. CAF's total expenditures for the current fiscal year were mainly used for capital outlays \$1,596,088 and public work \$48,757. Other financing sources were net transfers to other funds (\$615) and proceed from bonds \$4,225,000.

Debt Services Fund (DSF) – The total fund balance of the DSF's decreased by \$2,153,788 or 43% during current fiscal year. Property taxes provided \$5,950,086 (87%) of DSF's total revenues, and Sales and use taxes \$916,997 (13%) for a total revenue of \$6,867,083 in the current fiscal year. DSF's total expenditures for the current fiscal year were related to payment of principal and interests \$7,974,854. Other financing sources amounted to \$1,046,017, for net transfers to other funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

For fiscal year 2013-2014, the Municipal Legislature approved an original budget for the General Fund of \$38,140,539. During the year, there were amendments of \$97,258 for a final approved budget of \$38,237,797. The budgetary comparison reflected a favorable variance of \$2,834,025 due to actual amount of charges to appropriations (budgetary basis) of \$40,421,444 with an unfavorable variance of \$2,183,647 or 6% and a favorable variance of \$5,017,672 or 24% in actual amounts of resources (budgetary basis) of \$43,255,469, including transfers from other funds of \$2,265,724 and proceed of bond of \$3,935,000.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2014, amounted to \$176,061,963, which upon deduction of accumulated depreciation in the amount of \$52,686,613; produce a net book value attributable to capital assets in the amount of \$123,375,350. This investment includes land, construction in progress, buildings, improvements, equipment, infrastructure and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. The net decrease of \$1,874,773 in the Municipality's investment in capital assets for the current fiscal year represented approximately 1.5 percent of net book value. Depreciation charges for the year totaled \$3,717,367.

The following chart summarizes the Municipality's capital assets for the fiscal years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Land	\$ 57,595,654	\$ 57,595,654
Work of Arts	157,261	157,261
Construction in progress	2,865,168	5,059,938
Building and building improvements	45,939,408	43,828,699
Infrastructure and infrastructure improvements	15,771,754	16,426,237
Machinery and equipment	<u>1,046,105</u>	<u>2,182,334</u>
 Total	 <u>\$123,375,350</u>	 <u>\$125,250,123</u>

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2014, the Municipality has \$10,654,379 of unexpended proceeds mainly from bond and notes issuances that are committed to future construction activities.

Debt Administration

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

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

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

Under current state statutes, the Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property tax restricted for debt services.

On June 30, 2014, the Municipality had \$88,880,339 in bonds, notes and other long-term debts outstanding, as compared to \$93,269,558 in prior year, a net decrease of \$4,389,219, as shown in table below.

LONG TERM LIABILITIES

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<u>NONCURRENT LIABILITIES</u>					
General Obligation Bonds	\$ 35,019,000	\$ 8,160,000	\$ 3,467,000	\$ 39,712,000	\$ 3,769,000
Special Obligation Bonds	22,325,000	-	1,347,000	20,978,000	899,000
Property Tax Debt - Law 42	1,063,992	-	29,303	1,034,689	31,144
Property Tax Debt - Law 146	833,117	-	43,843	789,274	43,843
CRIM Final Liquidation 2011-12	1,347,602	-	1,347,602	-	-
Department of Labor Debt	80,570	-	26,857	53,713	26,857
Compensated Absences	5,062,309	-	247,631	4,814,678	858,535
Retirement System	2,780,184	1,080,730	1,092,475	2,768,439	1,286,976
Landfill Obligation	18,283,522	-	226,248	18,057,274	-
Christmas Bonus	717,916	648,772	717,916	648,772	-
Claims and Judgments	<u>5,756,346</u>	<u>-</u>	<u>5,732,846</u>	<u>23,500</u>	<u>-</u>
Total	<u>\$ 93,269,558</u>	<u>\$ 9,889,502</u>	<u>\$ 14,278,721</u>	<u>\$ 88,880,339</u>	<u>\$ 7,564,127</u>

Additional information on the Municipality's long-term debt can be found on Note 10 of the Basic Financial Statements.

continue

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. The General Fund next year 2014-2015 budget for resources and appropriations was approved in the amount of \$39,591,323. This amount represents an increase of \$1,353,526 or 4% over fiscal year 2013-2014 budget basis of \$38,237,797 and a decrease of \$830,121 or 2% under fiscal year 2013-2014 actual amounts of charges to appropriations on budgetary basis of \$40,421,444.

In Ordinances 28, 37 and 80 approved by the Municipal Legislature on January 15, January 29 and June 12, 2013, respectively, the legislative body authorized the Mayor to establish financial and administrative policies due to fiscal emergency. This Ordinances establish policies of personnel management, awarding of existent and future contracts, equipment acquisition, determining and collecting accounts receivable, legislative body expenditures, use of municipal vehicles, waste management, land disposition, use of facilities fees, sale of advertisement spots, service fees, reduction of legislators fee, and joint ventures with other government agencies and municipalities to provide services.

Federal and State grant revenues may vary if new grants are available but the revenues and expenditures are very predictable.

Those factors were considered when preparing the Municipality's budget for the fiscal year 2014-2015.

SUBSEQUENT EVENTS

In October 15, 2014 the Municipality obtained the approval for the issuance of general obligation bonds in the amount of \$1,360,000 for the acquisition of equipment. The principal and interest are payable annually for a 7 years term.

In October 15, 2014 the Municipality obtained the approval for the issuance of general obligation bond in the amount of \$5,685,000 for construction and improvements. The principal and interest are payable annually for 20 years term.

In September 15, 2014 the Municipality entered into an agreement with the Commonwealth of Puerto Rico Treasury Department for installment payment of the amount due for employment taxes and withholdings. The agreement requires for 60 monthly installments of \$10,996 until the liquidation of the debt of \$659,771.

In February 28, 2015 the Municipality desisted to continue with the administration of the Head Start Program.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at PO Box 1086, Arecibo, Puerto Rico 00613, or call (787) 878-2299 or (787) 333-1063.

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government	Component Unit
	Governmental Activities	Mi Arecibo, Inc
ASSETS:		
Cash	\$ 8,295,591	\$ 225,214
Cash with Fiscal Agent	18,952,948	-
Receivables (Net):		
Property Taxes	718,013	-
Federal Grants	664,187	-
Due from Government Units	597,938	-
Sales and Usage Taxes	298,308	-
Loan Receivable - Component Unit	165,000	-
Other	-	334
Capital Assets:		
Land and Construction in Progress	60,618,083	-
Other Capital Assets [Net of Accumulated Depreciation]	62,757,267	-
Total Capital Assets	123,375,350	-
TOTAL ASSETS	153,067,335	225,548
LIABILITIES:		
Accounts Payable and Accrued Expenses	1,797,569	3,806
Accrued Interest	1,352,724	-
Loan Payable - Primary Government	-	165,000
Due to Governmental Units	3,940,314	-
Unearned Revenues	6,256,875	-
Noncurrent Liabilities:		
Due Within One Year	7,564,127	-
Due in More than One Year	81,316,212	-
TOTAL LIABILITIES	102,227,821	168,806
NET POSITION:		
Net Investment in Capital Assets	73,339,729	-
Restricted for:		
Capital Projects	18,707,565	-
Debt Service	7,454,342	-
Head Start	124,410	-
Community Development Projects	29,651	-
Unrestricted (Deficit)	(48,816,183)	56,742
TOTAL NET POSITION	\$ 50,839,514	\$ 56,742

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component
					Governmental Activities	Unit
					MI Arecibo, Inc	
Governmental Activities:						
Mayor and Municipal Legislature	\$ 2,726,636	\$ -	\$ -	\$ -	\$ (2,726,636)	
General Government	19,686,759	-	-	-	(19,686,759)	
Public Safety	3,469,341	-	-	-	(3,469,341)	
Public Works	4,397,677	-	-	-	(4,397,677)	
Culture and Recreation	2,496,735	202,697	-	-	(2,294,038)	
Health and Sanitation	951,929	-	-	-	(951,929)	
Solid Waste Disposal	2,006,356	306,648	-	-	(1,699,708)	
Human Services and Welfare	8,080,467	-	6,542,272	-	(1,538,195)	
Urban Development	3,087,231	-	2,105,047	-	(982,184)	
Reimbursement to Grantor Agency	208,661	-	-	-	(208,661)	
Public Instruction	12,535,965	48,223	11,530,403	-	(957,339)	
Landfill Closure and Post-Closure Care Costs	-	-	236,284	-	236,284	
Interest on Long-Term Debt	3,227,708	-	-	-	(3,227,708)	
Total Governmental Activities	62,875,465	557,568	20,414,006	-	(41,903,891)	
Total Primary Government	\$ 62,875,465	\$ 557,568	\$ 20,414,006	\$ -	(41,903,891)	
Component Unit:						
Mi Arecibo, Inc.	\$ 59,526	\$ 115,803	\$ -	\$ -	-	\$ 56,277
Total Component Unit	\$ 59,526	\$ 115,803	\$ -	\$ -	-	56,277
General Revenues:						
Taxes						
Property Taxes, levied for General Purposes					10,766,881	-
Property Taxes, levied for Debt Service					5,966,307	-
Sales and Usage Taxes					4,116,836	-
Volume of Business Taxes					7,736,842	-
Construction Excise Taxes					1,079,347	-
Intergovernmental					11,544,744	-
Miscellaneous					2,052,690	-
Capital Contribution					(465)	465
Total General Revenues					43,263,182	465
CHANGES IN NET POSITION					1,359,291	56,742
Net Position, As Restated – Beginning of Year					<u>49,480,223</u>	<u>-</u>
NET POSITION – ENDING OF YEAR					\$ 50,839,514	\$ 56,742

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014

	GENERAL FUND	HEAD START FUND	DEBT SERVICE FUND	CAPITAL ACTIVITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash	\$ 6,030,049	\$ 233,480	\$ -	\$ 963,233	\$ 1,068,829	\$ 8,296,591
Cash with Fiscal Agent	932,607	-	8,221,968	9,790,255	8,118	18,952,948
Receivables						
Property Taxes	132,915	-	585,098	-	-	718,013
Sales and Usage Taxes	298,308	-	-	-	-	298,308
Federal Grants	-	274,563	-	-	389,624	664,187
Due from Other Funds	295,799	151,806	-	8,273,523	-	8,721,128
Due from Governmental Units	597,938	-	-	-	-	597,938
Loan Receivable - Component Unit	-	-	-	165,000	-	165,000
Total Assets	\$ 8,287,616	\$ 658,849	\$ 8,807,066	\$ 19,182,011	\$ 1,466,571	\$ 38,413,113
LIABILITIES:						
Account Payable	\$ 1,222,031	\$ 27,005	\$ -	\$ 484,446	\$ 64,087	\$ 1,797,569
Bond Payable	-	-	4,067,000	-	-	4,067,000
Accrued Interest	-	-	1,352,724	-	-	1,352,724
Due to Governmental Units	3,940,314	-	-	-	-	3,940,314
Due to Other Funds	7,995,993	333,000	-	-	392,135	8,721,128
Unearned Revenues	5,890,886	175,434	-	-	190,555	6,256,875
Total Liabilities	19,049,224	535,439	5,419,724	484,446	646,777	26,138,610
DEFERRED INFLOWS OF RESOURCES:						
Unavailable Revenues - Commonwealth of Puerto Rico	457,301	-	585,098	-	-	1,042,399
Unavailable Revenues - Federal Grants	-	124,410	-	-	29,651	154,061
Total Deferred Inflows of Resources	457,301	124,410	585,098	-	29,651	1,196,460
FUND BALANCES (DEFICITS):						
Nonspendable	-	-	-	165,000	-	165,000
Restricted	1,520,044	-	2,802,244	18,542,565	786,330	23,651,183
Committed	-	-	-	-	15,268	15,268
Assigned	-	-	-	-	-	-
Unassigned (Deficit)	(12,738,953)	-	-	-	(11,455)	(12,750,408)
Total Fund Balances	(11,218,909)	-	2,802,244	18,707,565	790,143	11,081,043
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	\$ 8,287,616	\$ 658,849	\$ 8,807,066	\$ 19,182,011	\$ 1,466,571	\$ 38,413,113

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF ARECIBO

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2014

Total Fund Balances – Government Funds (Page 22) \$ 11,081,043

Amount reported for Governmental Activities in the Statement of Net Position (Page 20)
 are different because:

Capital Assets used in governmental activities are not financial resources and therefore
 are not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 60,618,083	
Depreciable Capital Assets	115,443,880	
Accumulated Depreciation	<u>(52,686,613)</u>	
Total Capital Assets		123,375,350

Some of the Municipality's revenues will be collected after year-end but are not available soon
 enough to pay for the current period's expenditures and therefore are unavailable in the funds:

HEAD START	124,410	
SBGP	29,651	
Christmas Bonus Reimbursement	324,386	
MRCC Liquidation	<u>718,013</u>	
Total Unavailable Revenues		1,196,460

Some liabilities are not due and payable in the current period and therefore are not reported
 in the funds. Those liabilities consist of:

General and Special Obligation Bonds	(56,623,000)	
Landfill Closure and Post-Closure	(18,057,274)	
Law 42	(1,034,689)	
Law 146	(789,274)	
Department of Labor	(53,713)	
Retirement System	(2,768,439)	
Christmas Bonus	(648,772)	
Claims and Judgments	(23,500)	
Compensated Absences	<u>(4,814,678)</u>	
Total Noncurrent Liabilities		<u>(84,813,339)</u>

Total Net Position of Governmental Activities (Page 20) \$ 50,839,514

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	GENERAL FUND	HEAD START FUND	DEBT SERVICE FUND	CAPITAL ACTIVITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Property Taxes	\$ 10,897,366	\$ -	\$ 5,950,086	\$ -	\$ -	\$ 16,847,452
Volume of Business Taxes	7,736,842	-	-	-	-	7,736,842
Sales and Usage Taxes	3,199,839	-	916,997	-	-	4,116,836
Federal Grants	-	11,405,993	-	-	8,404,290	19,810,283
Intergovernmental	11,579,316	-	-	290,090	176,474	12,045,880
Construction Excise Taxes	1,079,347	-	-	-	-	1,079,347
Interest on Deposits	819,307	-	-	-	-	819,307
Rent	202,697	-	-	-	-	202,697
Charges for Services	306,648	-	-	-	48,223	354,871
Miscellaneous	1,233,383	-	-	-	-	1,233,383
Total Revenues	37,054,745	11,405,993	6,867,083	290,090	8,628,987	64,246,898
EXPENDITURES:						
Current						
Mayor and Municipal Legislature	2,726,243	-	-	-	-	2,726,243
General Government	21,759,658	-	-	-	33,436	21,793,294
Public Safety	3,213,264	-	-	-	30	3,213,314
Public Works	3,189,318	-	-	48,757	61,342	3,299,417
Culture and Recreation	1,526,635	-	-	-	-	1,526,635
Health and Sanitation	951,929	-	-	-	-	951,929
Solid Waste Disposal	2,232,604	-	-	-	-	2,232,604
Public Instruction	1,336,793	10,294,166	-	-	-	11,630,959
Human Services and Welfare	79,462	929,260	-	-	7,052,559	8,061,281
Urban Development	507,894	-	-	-	1,916,745	2,424,639
Reimbursement to Grantor Agency	-	182,567	-	-	26,094	208,661
Capital Outlay	166,293	-	-	1,596,088	80,213	1,842,594
Debt Service						
Principal	-	-	4,747,146	-	-	4,747,146
Interest and Other Charges	-	-	3,227,708	-	-	3,227,708
Total Expenditures	37,690,313	11,405,993	7,974,854	1,644,845	9,170,419	67,886,424
EXCESS OF REVENUES OVER (UNDER)						
EXPENDITURES	(635,568)	-	(1,107,771)	(1,354,755)	(541,432)	(3,839,526)
OTHER FINANCING SOURCES (USES):						
Proceed of Bonds	3,935,000	-	-	4,225,000	-	8,160,000
Transfers – In	2,273,772	-	1,219,707	855,688	884,211	5,233,378
Transfers – Out	(1,248,060)	-	(2,265,724)	(856,303)	(863,736)	(5,233,843)
Total Other Financing Sources (Uses)	4,960,692	-	(1,046,017)	4,224,385	20,475	8,159,535
Net Change in Fund Balances	4,325,124	-	(2,153,788)	2,869,630	(520,957)	4,520,009
Fund Balances (Deficit) As Stated – Beginning	(15,544,033)	-	4,966,032	15,837,935	1,311,100	6,561,034
FUND BALANCES (DEFICIT) – ENDING	\$ (11,218,909)	\$ -	\$ 2,802,244	\$ 18,707,565	\$ 790,143	\$ 11,081,043

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances – Government Funds (Page 24)	\$ 4,520,009
Amount reported for Governmental Activities in the Statement of Activities (Page 21)	
are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:	
Capital Outlays	\$ 1,842,594
Depreciation Expense	<u>(3,717,367)</u>
Excess of Depreciation Expense over Capital Outlays	(1,874,773)
Revenues in the Statement of Activities that do not provide current financial resources are reported as revenues in the funds and vice versa:	
HEAD START	124,410
SBGP	12,749
Christmas Bonus	(34,572)
MRCC Liquidation	<u>(114,264)</u>
Total of Revenues	(11,677)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase Noncurrent Liabilities in the Statement of Net Position. In the current period, proceeds received was	
	(8,160,000)
Repayment of long-term principal is expenditure in the governmental funds, but issuing debt reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were	
	4,747,146
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Decrease in Christmas Bonus	69,144
Decrease in Retirement System Debt	11,745
Decrease in MRCC Liquidation	1,347,602
Decrease in Landfill Closure and Post-Closure Care Costs	226,248
Decrease in Claims and Judgments	209,359
Decrease in Department of Labor	26,857
Decrease in Compensated Absence	<u>247,631</u>
Total Additional Expenses	<u>2,138,586</u>
Change in Net Position of Governmental Activities (Page 21)	<u>\$ 1,359,291</u>

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

The Municipality was founded in the year 1515, and operates as a governmental unit of the Commonwealth of Puerto Rico (Commonwealth), under the Act Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Municipality is governed by a Mayor and is elected every four years in the general elections of the Commonwealth. The legislative body (Municipal Legislature) consists of 16 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the Municipality is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable. The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the Municipality's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality. A second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government

continue

1. FINANCIAL REPORTING ENTITY – continuation

GASB Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*, provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions. The relative importance of each criterion *must* be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

C. Component Unit

Mi Arecibo, Inc. component unit, a legally separate entity, consistent with GASB Statement No. 14, as amended by GASB Statements No. 39 and 61, are discretely presented in the basic financial statements principally because of the nature of the services they provide, the Municipality's ability to impose its will, principally through the appointment of their governing authority, and because the component unit provide specific financial benefits to, or impose financial burdens on, the Municipality has determined it would be misleading to exclude it from the Municipality's financial reporting entity. This component unit is not blended with the primary government because they do not provide services entirely, or almost entirely to the primary government, their governing board is not substantively the same as that of the primary government, the primary government does not have any operational responsibilities over them, and they do not have total debt outstanding being repaid entirely or almost entirely with resources of the primary government. This has been classified by management as major component unit. A major discretely presented component unit is determined by the Municipality based on the nature and significance of its relationship to the primary government. This determination is based on the evaluation of the following factors: a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users, b) there are significant transactions with the primary government, or c) there is a significant financial benefit or burden relationship with the primary government. If a component unit is expected to meet some of these considerations for inclusion as major component unit in a future year, the Municipality may elect to report it as a major component unit.

Mi Arecibo, Inc., a for-profit corporation, is created by Ordinance No. 4, Series 2013-2014 on November 12, 2013, in accordance with Article 2.004 (u) of the Law 81-1991, as amended, known as the Autonomous Municipalities Act. Is governed by a Board of Directors compose by five (5) members of the Municipality officers designated by the Mayor. The corporation has broad powers to carry out its responsibilities in accordance with laws and regulations. These powers include, among other things, the administration and complete control and supervision of the following municipal properties: Passive Park on Victor Rojas Marginal; one Kiosk on Victor Rojas Marginal; and a new Kiosk established on the Municipal Public Square. It's authorized to construct facilities, owned, or operated municipal facilities, and may sue and be sued and the Municipality will not respond for claims that are performed against the corporation. Twenty-five percent (25%) of the profits will be used to expand the franchises and create more jobs, or to ensure the operation thereof, if an economic crisis affect the production costs or reduce consumption. The remainder of the proceeds shall be deposited in the Municipality bank accounts in accordance with the Law 81-1991, as amended.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the respective financial position of the Governmental Activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2014, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

A. Financial Statement Presentation

The basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to local governmental units (GAAP). The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as Governmental Activities.

The financial information of the Municipality is presented in this report as follows:

Required Supplementary Information – Management’s Discussion and Analysis

Management’s Discussion and Analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Municipality’s financial activities.

Government-wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information of all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government’s Puerto Rico Electric Power Authority function of the government. Elimination of this charges would distort the direct cost and program revenue reported for the various functions concerned.

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the Municipality’s Governmental Activities. This statement combines and consolidates governmental fund’s current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities’ assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net positions. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the Municipality’s management are not presented as restricted net position.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for the different Governmental Activities of the Municipality and for each function. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Governmental Funds Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*] provide information about the Municipality's funds. Separate statements for each fund category (Governmental Activities) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Non-major funds are summarized into a single column.

Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The Municipality uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

The Municipality reports the following major governmental funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for all financial resources, except those required to be accounted for in another fund.

Head Start Fund – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness. It is used to account for all financial resources from the Federal Government (US Department of Health and Human Services) and the corresponding matching funds.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of long-term debt principal and interests.

Capital Activities Fund – This fund is used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some operational funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar operational funds have been combined into single funds in the accompanying fund financial statements.

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information at June 30, 2014 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund Balance – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2014.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

During the course of operations the Municipality has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in Governmental Activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the Governmental Activities column.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in Governmental Activities are eliminated so that only the net amount is included as transfers in the Governmental Activities column.

The Municipality reports its financial position (Balance Sheet) and results of operations (*Statement of Revenues, Expenditures and Changes in Fund Balances*) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Notes to the Basic Financial Statements

The notes to the financial statements provide information that is essential to a user's full understanding of the data provided in the basis 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 – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2014, all revenues sources met this availability criterion.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Sheet*. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2014, which are recorded as governmental fund liabilities of June 30, 2014 which is the date when resources were available in the debt service fund. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying *Balance Sheet – Governmental Funds* generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying *Balance Sheet – Governmental Funds*.

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.

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

The unencumbered balance of any appropriation at the end of the year will lapse at the end of such fiscal year. Other appropriations, mainly capital project 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 Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the *Budgetary Comparison Schedule – General Fund*:

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Office of the Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying *Budgetary Comparison Schedule*, is presented on the budgetary basis to enhance comparability.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Final Budget

The final budgetary data presented in the *Budgetary Comparison Schedule – General Fund* reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.
2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as restricted, committed and assigned fund balances under GAAP.
2. Interfund transactions of the General Fund are not included in the budgetary basis.
3. Certain accrued liabilities and other debts are not included in the budgetary basis.
4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

Excess of Expenditures over Appropriations

For the year ended June 30, 2014, expenditures exceeded appropriations in the Mayor and Municipal Legislature by \$5,294, general government function of the general fund by \$3,119,157 corresponding to the contribution "in lieu of tax" from the Quasi-public Corporation, Puerto Rico Electric Power Authority which revenue are included in the intergovernmental revenues; and urban development by \$42,468. While overspending of this appropriation is authorized by law up to \$100,000 if related to cases involving imminent public endangerment (e.g., the need to inspect properties with damage from collision, natural disaster, fire, or water to determine their inherent stability), which was the case this year, it is nevertheless considered a budgetary violation. Further, the overspending comes with a consequence for the subsequent year's budget. However, the budgetary variance during the year present an excess of revenues of \$5,017,672 and disbursements of \$2,183,647 for a total increase in Budgetary Fund Balance of \$2,834,025.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

D. Assets, Liabilities, and Net Position

1) *Cash, Cash Equivalent, and Cash with Fiscal Agent*

The Municipality's cash and investment are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995. The Finance Director of the Municipality, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments, if available. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. Cash Equivalents are investments with an original maturity of 90 days or less.

Cash with fiscal agent in the Debt Service Fund represents special additional property tax collections retained by the Commonwealth, deposit in the GDB and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in other governmental funds consists of undisbursed proceeds of certain bonds and notes issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

2) *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due 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."

Advance between funds, as reported in the fund financial statements, if any, 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.

Receivables consist of all revenues earned but not collected at June 30, 2014. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables in the general fund represent mostly sales and usage taxes, federal grant and contributions, property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Commonwealth. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

3) *Inventories*

The Municipality used the purchase method to account for the purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

4) *Capital Assets*

Capital assets, which include land, buildings and improvement, machinery and equipment, motor vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the GWFS. Capital assets, other than infrastructure assets, are defined by the Municipality as assets with an initial, individual cost of more than \$25 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The Municipality reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by Governmental Activities) the Municipality chose to include all such items regardless of their acquisition date or amount.

The Municipality was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the Municipality constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the Municipality values these capital assets at the estimated fair value of the item at the date of its donation.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the Municipality capitalization threshold is met. Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. No depreciation is recorded for land and construction in progress. The estimated useful lives of major capital asset categories are:

DESCRIPTION	YEARS
Buildings and Improvement	40
Infrastructure	40
Vehicles	5
Furniture and Fixtures	5
Machinery and Equipment	3-5

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 function/programs but reported as direct expense of the public works and urban development functions.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The accounting policy for Works of Art is that they are capitalized at their historical cost or fair value at date of donation whether they are held as individual items or in a collection. Capitalized collections or individual items that is exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, are depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible. At June 30, 2014, all Work of Art are considered inexhaustible.

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

The Municipality is prevented legally from entering into obligations extending beyond one fiscal year, and most lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. The Municipality's lease agreements do not include contingent rental payments no escalation clauses. Accordingly, lease payments are recorded in the GWFS as expense when incurred.

5) *Deferred Outflows/Inflows of Resources*

In addition to assets, the *Statement of Net Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no items that qualify for reporting in this category.

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Municipality has no items that qualify for reporting in this category.

The Municipality has items, which arises only under a modified accrual basis of accounting that qualifies for reporting in deferred inflows of resources. Accordingly, the items, *unavailable revenue*, is reported only in the governmental funds *Balance Sheet*. The governmental funds report *unavailable revenues* from three sources: Christmas Bonus Reimbursement from the Commonwealth, Property Taxes from MRCC liquidation, and Federal Grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6) *Unearned Revenues*

In the GWFS, deferred revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

7) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, if any. As per GASB Statement No. 65, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

In the GFFS, governmental fund types recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

8) Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2014. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due in accrued upon the employee's separation from employment.

9) Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Long-Term Liabilities includes, when appropriate, an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

10) Accounting for Pension Costs

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.

For the purpose of applying the requirements of GASBS No. 27, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing defined benefit pension plan and System 2000, a hybrid defined contribution plan, 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 and the basic financial statements of such retirement systems are part of the financial reporting entity of Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 17).

11) Landfill

As per requirements of State and Federal laws and regulations the Municipality should be obligated to place a final cover on its closed landfill and perform certain maintenance and monitoring functions at the landfill site for the next thirty years (See Note 11). The estimated liability for municipal solid waste landfill post-closure care costs (including monitoring and maintenance) include an estimate of all post-closure care costs to be incurred in the Municipality's closed solid waste landfill, and is recorded as a liability in the accompanying GWFS, *Statement of Net Position*, under the provisions of GASB Accounting Standards Codification Section L 10, *Landfill Closure and Post-Closure Care Costs*.

The estimates post-closing costs are made using current costs. The liability should be adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

At the governmental funds' level, landfill post-closure care costs do not constitute an outflow of current financial resources and should not result in the recognition of a governmental fund liability or expenditures. Post-closure care costs are recorded in the *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* as expenditures in the accounting period in which the payments are made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

12) *Net Position/Fund Balance*

A) *Net Position*

Net position represent the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements.

The GWFS utilize a net position presentation, which are categorized as follow:

- *Net Invested in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.

Net investment in capital assets is comprised of the following:

	Governmental Activities
Capital Assets, Net of Accumulated Depreciation	\$123,375,350
Outstanding Balance on Related Debt	(60,690,000)
Unspent Capital Debt Proceeds	<u>10,654,379</u>
Net Investment in Capital Assets	<u>\$ 73,339,729</u>

- *Restricted Net Position* – These result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – These consist of net position which do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources that are imposed by management, but can be removed or modified.

Net Position Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the GWFS, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

B) Fund Balance

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the Municipality honors constraints on the specific purposes for which amounts in those funds can be spent.

The nonspendable classification contains amounts not in spendable form or legally or contractually required to be maintained intact. Restricted amounts contain restraints on their use externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or imposed by law through constitutional provisions or enabling legislation. Committed amounts can only be used for specific purposes imposed by formal action of the Municipality's highest level of decision-making authority. The highest level of decision-making authority is the Municipal Legislature and it takes a resolution to establish a fund balance commitment. Amounts intended to be used for specific purposes are assigned. Assignments should not cause deficits in the Unassigned Fund Balance. Unassigned Fund Balance is the residual classification for the General Fund.

Fund Balance Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted and unrestricted resources (the total committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the GFFS a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted fund balance to have been depleted before using any of the components or unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policy

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

Restrictions of Fund Balance

Restrictions of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. The Municipality has implemented the provisions of the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010, in which it is required to classify and report amounts in the appropriate fund balance classification by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Policy on Committing Funds

It is the policy of the Municipality that fund balance amounts will be reported as “Committed Fund Balance” only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a resolution prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this resolution before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance contained within GASB 54. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

Policy on Assigning Funds

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Policy on Unassigned General Fund Balance

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 10% of budgeted expenditures. The Municipality considers a balance of less than 5% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 15% as excessive. An amount in excess of 15% is to be considered for reservation to accumulate funding for purchase of machinery and equipment, for capital projects, and/or to reduce the tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from Unassigned General Fund Balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital assets purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The Municipality hasn't met its GASB 54 fund balance targets at June 30, 2014.

Prioritization of Fund Balance Use

In circumstances where expenditure is for a purpose that quantities are available in multiple fund balance classifications, the order in which the resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

C) Components of Fund Balance

	GENERAL FUND	HEAD START FUND	DEBT SERVICE FUND	CAPITAL PROJECT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonspendable:	\$ -	\$ -	\$ -	\$ 165,000	\$ -	\$ 165,000
Restricted For:						
Improvement of Streets and Sidewalks	-	-	-	7,879,992	-	7,879,992
Improvement and Construction of Facilities	-	-	-	5,676,952	9,510	5,686,462
Capital Outlay	-	-	-	4,392	-	4,392
Welfare	-	-	-	-	567,474	567,474
Improvement to Landfill	-	-	-	575,233	-	575,233
Improvement of Water and Sewer System	-	-	-	4,405,996	-	4,405,996
Debt Repayment	-	-	2,802,244	-	-	2,802,244
General Government	1,520,044	-	-	-	209,346	1,729,390
Total Restricted	1,520,044	-	2,802,244	18,542,565	786,330	23,651,183
Committed To:						
Total Committed	-	-	-	-	15,268	15,268
Assigned To:						
Total Assigned	-	-	-	-	-	-
Unassigned:	(12,738,953)	-	-	-	(11,455)	(12,750,408)
Total Fund Balances	\$ (11,218,909)	\$ -	\$ 2,802,244	\$ 18,707,565	\$ 790,143	\$ 11,081,043

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

E. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. The Municipality has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Intra-Entity Transactions – There are two types of intra-entity transactions: First, the flow of resources between the primary government and its component units, and among the component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund activity, as described above. Second, the intra-entity balances between the primary government and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the *Statement of Net Position*, the proceeds in the primary government's funds, and the asset in the discretely presented component units' *Statement of Net Position*. For the fiscal year there are not intra-entity transactions.

F. Risk Financing

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses with private insurance company. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance to the Municipality for the year ended June 30, 2014 amounted to \$789,477, paid in full at the beginning of the fiscal year. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACCA), a component unit of the Commonwealth of Puerto Rico. 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 AACCA.

The Municipality obtains workers compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. 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. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2014 amounted to \$918,719.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

G. Use of Estimates

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

H. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

I. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2014:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

The primary government of the Commonwealth, as well as its component units and the municipalities, are considered "cost-sharing" employers of the Retirement Systems; therefore, they would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement 67 as follows:

- Based on their respective individual proportion to the collective net pension liability of all the governments participating
- The proportion should be consistent with the method used to assess contributions (percentage of payroll). The use of their respective long term expected contribution effort to Retirement Systems divided by those of all governments in the plan, is encouraged.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY2014-2015). Earlier application is encouraged. The Commonwealth and the Retirement Systems are in the process of evaluating the impact of this Statement on its agencies and component units and also on the municipalities of the Commonwealth. The information to adopt this Statement will be based on the new actuarial reports to be prepared under the new Statement No. 67.

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. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 (FY 2014-2015), and should be applied on a prospective basis.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of Statement 68, which is required to be applied in fiscal years beginning after June 15, 2014 (FY 2014-2015).

The Municipality has not yet determined the effect these statements will have on the Municipality's financial statements.

continue

3. CASH AND INVESTMENTS

Cash in Banks

Municipality's cash and investments at June 30, 2014 are composed of: (1) demand deposits in commercial banks, (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent), and (3) cash equivalents in commercial banks. Cash equivalents of \$28.4 million are deposits in commercial bank accounts and interest bearing accounts in GDB, and are recorded at cost, which approximates fair value.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. 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 Deposit Insurance Corporation (FDIC) coverage. 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.

Municipality follows the practice of pooling cash. At June 30, 2014, the pool cash account in interest bearing commercial banks accounts had a balance of \$8.3 million of which \$6.0 million in the General Fund, \$233,480 in the Head Start Fund, \$963,233 in the Capital Activities Fund, and \$1.1 million in Other Governmental Funds. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally deposit in accounts with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

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 Deposit Insurance Corporation (FDIC) coverage. 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 with fiscal agent in the Debt Service Fund consists of property tax collections and sales and usage taxes amounting to \$8,221,968 that are restricted for the payment of the Municipality's debt service, as required by law. Cash with Fiscal Agent in General Fund consist of \$932,607, in \$8.2 million in the Debt Service Fund, in Capital Activities Fund consist principally of \$9.8 million of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets, and \$8,118 in the Other Governmental Fund. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2014:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2014, the Municipality has invested only in cash equivalents of \$8.3 million consisting of deposit in commercial bank accounts, which are insured by the FDIC, generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2014. 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.

continue

3. CASH AND INVESTMENTS – continuation

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the Municipality may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2014, the Municipality has balances deposited in commercial banks amounting to \$8.3 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to \$19.0 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2014, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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: (1) not including debt or equity investments in its investments portfolio at June 30, 2014, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits in certificates of deposit and in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2014, the interest risk associated with the Municipality's cash and cash equivalent 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.

4. ACCOUNTS AND NOTE RECEIVABLE

Federal Grants

The due from federal grants of the Other Governmental Funds for the fiscal year ended June 30, 2014 corresponds to \$20,269 from the Disaster Grants – Public Assistance, \$275,021 from the Homeland Security Grant Program, \$63,358 from Special Programs for the Aging Title III, \$16,049 from Crime Victim Assistance, \$7,064 from Child and Adult Care Food Program, \$2,439 from Family Violence Prevention and Services, \$5,018 from HUD Programs Emergency Solutions Grants Program and Urban Development Action Grant Program, and \$406 from Child Care Development Block Grant.

Sales and Usage Taxes

Municipality has sales and usage taxes receivable of \$298,308, in the general fund that represents filed tax returns that were uncollected as of June 30, 2014, net of allowance for uncollectible accounts.

continue

4. ACCOUNTS AND NOTE RECEIVABLE – continuation

Loan Receivable – Component Unit

The Municipality has made a loan to Mi Arecibo, Inc. in the amount of \$165,000. This amount will be paid from the excess of 25% of annual earnings of the corporation.

Note Receivable

On August 2005, the Municipal Legislature authorized the Mayor to sell the Puerto Rico Distiller for a sale price of \$3,000,000. Of this amount the buyer are paid \$2,090,850. The remaining balance as of June 30, 2014, \$909,150 are claimed by judicial trial. A reserve for uncollectable receivable was made by the Municipality for the total amount of the receivable. The Municipality Legal Division is in charge to collect the amount due.

5. UNEARNED REVENUES

Government-wide *Statement of Net Position* does not report *deferred inflows of resources*, but report *unearned revenues* for resources receive before it has a legal claim to them. Governmental funds balance sheet report *unearned revenues* in connection with cash collected for revenues that are not considered to be earned in the current period as follows:

Governmental Funds:	
Volume of Business Taxes	\$ 5,890,886
Federal Grants:	
Child and Adult Care Food Program	176,068
Family Self Sufficiency	17,873
Special Programs for the Aging - Title III	28,324
Child Care and Development Block Grant Program	56,266
Emergency Shelter Grant Program	6,037
Urban Development Action Grant Program	5,858
Crime Victim Assistance	18,002
Promoting Safe and Stable Families	25,260
Home Investment Partnerships Program	20,508
Family Violence Prevention and Services	846
ARRA - Child Care and Development Block Grant Program	<u>2,292</u>
Subtotal Federal Grants	<u>357,334</u>
State Grants:	
"Manejo de Emergencias" - Defensa Civil	<u>8,656</u>
Total Unearned Revenues	<u>\$ 6,256,875</u>

continue

6. DEFERRED INFLOW OF RESOURCES

Governmental funds balance sheet report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the basic financial statements were as follows:

Governmental Funds:	
Christmas Bonus - Commonwealth	\$ 324,386
Property Taxes - MRCC	718,013
Federal Grants:	
Head Start Program	124,410
Community Development Block Grant	<u>29,651</u>
Total Deferred Inflows of Resources	\$ 1,196,460

7. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. Interfund Receivable and Payable Balances

During the course of operations, numerous transactions occur between the Municipality's funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as "Due from Other Funds" and "Due to Other Funds" on the *Balance Sheet* and *Statement of Net Position* and will be settled within one year. Due to/from Other Funds at June 30, 2014 are summarized as follows:

Due to	General Fund	Head Start Fund	Debt Service Fund	Capital Activities Fund	Other Governmental Funds	Total Due To
General Fund	\$ -	\$ 151,806	\$ -	\$ 7,844,187	\$ -	\$ 7,995,993
Head Start Fund	-	-	-	333,000	-	333,000
Debt Service Fund	-	-	-	-	-	-
Capital Activities Fund	-	-	-	-	-	-
Other Governmental Funds	<u>295,799</u>	-	-	<u>96,336</u>	-	<u>392,135</u>
Total Due From	\$ 295,799	\$ 151,806	\$ -	\$ 8,273,523	\$ -	\$ 8,721,128

continue

7. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS - continuation

B. Interfund Transfers

During the course of the fiscal year, transactions occur between the Municipality's funds for operating subsidies. Related interfund receipts and disbursements are classified as "Transfers In" and "Transfers Out" on the *Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Net Position*. The transfers are routine and consistent with the activities of the funds. Principality, transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

Transfers In	Transfers Out					Total Transfer In
	General Fund	Head Start Fund	Debt Service Fund	Capital Activities Fund	Other Governmental Funds	
General Fund	\$ -	\$ -	\$ 2,265,724	\$ -	\$ 8,048	\$ 2,273,772
Head Start Fund	-	-	-	-	-	-
Debt Service Fund	1,219,707	-	-	-	-	1,219,707
Capital Activities Fund	-	-	-	-	855,688	855,688
Other Governmental Funds	28,373	-	-	855,838	-	884,211
Subtotal	1,248,080	-	2,265,724	855,838	863,736	5,233,378
Component Unit	-	-	-	465	-	465
Total Transfer Out	\$ 1,248,080	\$ -	\$ 2,265,724	\$ 856,303	\$ 863,736	\$ 5,233,843

Transfer from General Fund to Debt Service Fund are for payment of principal and interest. Transfer from Capital Activities Fund and Other Governmental Funds are for equity transfers other purposes.

8. DUE FROM/TO OTHER GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2014 corresponds to \$324,386 from Puerto Rico Treasury Department for the Christmas Bonus and \$273,552 from Municipal Revenue Collection Center for excess of fund retentions.

As of June 30, 2014, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

	AMOUNT
PR Aqueduct and Sewer Authority	\$ 2,164,142
PR Treasury Department	610,361
PR Retirement System	774,212
PR Department of Labor and Human Resources	289,717
Commonwealth of Puerto Rico Employees Association	101,882
Total Due to Governmental Units	\$ 3,940,314

9. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2014 was as follows:

DESCRIPTION	BALANCE		DECREASE	BALANCE
	JULY 1, 2013	INCREASE		JUNE 30, 2014
Governmental Activities:				
Non-Depreciable Capital Assets:				
Construction in Progress	\$ 5,059,938	\$ -	\$ (2,194,770)	\$ 2,865,168
Works of Art	157,261	-	-	157,261
Land	57,595,654	-	-	57,595,654
Total Non-Depreciable Capital Assets	<u>62,812,853</u>	<u>-</u>	<u>(2,194,770)</u>	<u>60,618,083</u>
Depreciable Capital Assets:				
Buildings	48,495,062	3,732,386	-	52,227,448
Building Improvements	13,214,591	-	-	13,214,591
Infrastructure	16,750,585	266,108	-	17,016,693
Infrastructure Improvements	14,150,765	-	-	14,150,765
Equipment	5,571,011	38,870	-	5,609,881
Furnitures	1,786,045	-	-	1,786,045
Computers	997,437	-	-	997,437
Motor Vehicles	10,441,020	-	-	10,441,020
Total Depreciable Capital Assets	<u>111,406,516</u>	<u>4,037,364</u>	<u>-</u>	<u>115,443,880</u>
Less Accumulated Depreciation:				
Buildings	(15,554,877)	(1,260,266)	-	(16,815,143)
Building Improvements	(2,326,077)	(361,411)	-	(2,687,488)
Infrastructure	(11,256,296)	(163,169)	-	(11,419,465)
Infrastructure Improvements	(3,218,817)	(757,422)	-	(3,976,239)
Equipment	(4,782,387)	(497,703)	-	(5,280,090)
Furnitures	(1,734,210)	(46,035)	-	(1,780,245)
Computers	(988,493)	(7,096)	-	(995,589)
Motor Vehicles	(9,108,089)	(624,265)	-	(9,732,354)
Works of Art	-	-	-	-
Total Accumulated Depreciation	<u>(48,969,246)</u>	<u>(3,717,367)</u>	<u>-</u>	<u>(52,686,613)</u>
Total Depreciable Capital Assets (Net)	<u>62,437,270</u>	<u>319,997</u>	<u>-</u>	<u>62,757,267</u>
CAPITAL ASSETS, NET	<u>\$125,250,123</u>	<u>\$ 319,997</u>	<u>\$ (2,194,770)</u>	<u>\$123,375,350</u>

continue

9. CAPITAL ASSETS - continuation

Depreciation expenses were charged to governmental functions/programs as follows:

	AMOUNT
Governmental Activities:	
Mayor and Municipal Legislature	\$ 393
General Government	705,274
Public Safety	256,027
Public Works	1,098,260
Culture and Recreation	970,100
Human Services and Welfare	19,186
Public Instruction	5,535
Urban Development	<u>662,582</u>
Total Depreciation Expenses	\$ 3,717,367

10. NONCURRENT LIABILITIES

A. General Obligations Bonds and Special Obligations Bonds

The principal long-term obligations of the Municipality are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities and purchase of machinery and equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 11).

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2014:

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income:					
General Construction	1994	\$ 400,000	2019	4.87%	\$ 136,000
General Construction	1995	14,975,000	2020	4.70% to 6.63%	7,310,000
Operational Expenditures	1998	900,000	2023	4.75%	471,000
General Construction	1999	7,365,000	2024	2.70% to 5.60%	4,835,000
General Construction	2002	5,030,000	2026	2.70% to 5.60%	3,670,000
Operational Expenditures	2003	605,000	2028	1.53% to 6.00%	460,000
General Construction	2004	1,610,000	2029	1.53% to 6.60%	1,200,000
General Construction	2004	410,000	2019	3.28% to 4.80%	195,000
Operational Expenditures	2005	7,670,000	2014	1.53% to 6.60%	950,000
Operational Expenditures	2006	1,056,000	2016	1.53% to 7.00%	395,000
General Construction	2008	1,015,000	2033	1.53% to 7.50%	935,000
General Construction	2009	4,020,000	2033	4.75% to 7.50%	3,670,000
Operational Expenditures	2009	805,000	2024	4.75% to 7.50%	675,000
General Construction	2010	1,355,000	2029	6.00% to 7.50%	1,215,000
Acquisition of Capital Assets	2011	825,000	2017	6.00% to 7.50%	520,000
Operational Expenditures	2012	5,775,000	2018	6.00% to 7.50%	4,415,000
Operational Expenditures	2012	505,000	2037	6.00% to 7.50%	500,000
Operational Expenditures	2014	3,935,000	2033	6.00% to 7.50%	3,935,000
General Construction	2014	4,225,000	2033	6.00% to 7.50%	4,225,000
Total General Obligations Bonds					<u>39,712,000</u>

continue

continue

10. NONCURRENT LIABILITIES – continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
Special Obligations Bonds:					
General Revenues:					
Operational Expenditures	2002	\$10,545,000	2026	1.28% to 8.00%	\$ 7,450,000
Operational Expenditures	2003	4,235,000	2028	6.00%	3,085,000
Subtotal					<u>10,535,000</u>
Sales & Usage Taxes:					
Acquisition of Capital Assets	2009	1,845,000	2034	5.00% to 7.50%	1,725,000
Operational Expenditures	2010	2,095,000	2035	6.00% to 7.50%	2,005,000
Acquisition of Capital Assets	2010	4,140,000	2035	6.50% to 7.00%	3,930,000
Operational Expenditures	2010	1,228,000	2017	6.00% to 7.50%	778,000
Operational Expenditures	2011	2,065,000	2036	6.00% to 7.50%	2,005,000
Subtotal					<u>10,443,000</u>
Total Special Obligations Bonds					<u>20,978,000</u>
Total General and Special Obligations Bonds					<u>\$ 60,690,000</u>

During the fiscal year ended June 30, 2014 the Municipality issued general obligation bonds payable in the amount of \$3,935,000 for operational purposes. Principal and interest on the general obligation bonds are appropriated and paid from resources accumulated in the Debt Service Fund.

Also, during the fiscal year ended June 30, 2014 the Municipality issued general obligation bonds payable in the amount of \$4,225,000 for capital projects purposes. Principal and interest on the general obligation bonds are appropriated and paid from resources accumulated in the Debt Service Fund.

Variable interest rates on bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the USA, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the US Internal Revenue Code.

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2014, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

B. Legal Debt Limit and Legal Debt Margin

On March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The Municipality debt limits are 10% of valuation of property subject to taxation, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the Municipality.

continue

10. NONCURRENT LIABILITIES – continuation

C. Other Noncurrent Liabilities

Following are the other noncurrent liabilities as of June 30, 2014 and corresponding change during the fiscal year:

DESCRIPTION	BALANCE JULY 1, 2013	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2014	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
Law Number 42-MRCC	\$ 1,063,992	\$ -	\$ (29,303)	\$ 1,034,689	\$ 31,144	\$ 1,003,545
Law Number 146-MRCC	833,117	-	(43,843)	789,274	43,843	745,431
Landfill Obligation	18,283,522	-	(226,248)	18,057,274	-	18,057,274
MRCC Liquidation 2012	1,347,602	-	(1,347,602)	-	-	-
Christmas Bonus	717,916	648,772	(717,916)	648,772	648,772	-
PR Department of Labor	80,570	-	(26,857)	53,713	26,857	26,856
Employees Retirement System	2,780,184	1,080,730	(1,092,475)	2,768,439	1,286,976	1,481,463
Claims and Judgments	5,756,346	-	(5,732,846)	23,500	-	23,500
Compensated Absences	5,062,309	-	(247,631)	4,814,678	858,535	3,956,143
TOTAL	\$ 35,925,558	\$ 1,729,502	\$ (9,464,721)	\$ 28,190,339	\$ 2,896,127	\$ 25,294,212

Borrowing from MRCC

On July 1, 2007, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 146. The original amount of debt is \$1,096,202 to be paid during 25 years plus annual interest of 6.22%.

On July 1, 2002, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 42. The original amount of debt is \$1,284,410 to be paid during 30 years plus annual interest of 6.1875%.

Landfill Obligation

The Municipality is the current owner of a municipal solid waste landfill consisting of approximately 100 acres, and accounts for certain costs associated with its landfill in accordance with GASB Accounting Standards Codification, Section L10, *Landfill Closure and Post-Closure Care Costs*. Accordingly, the Municipality is required to recognize a liability equal to the estimated total current cost of post-closure care for its landfill. Post-closure care of the Municipality's landfill after its closure is mandated by state and federal laws and consists of various maintenance and monitoring functions at the landfill site. The estimated liability for municipal solid waste landfill closure and post-closure care costs (including monitoring and maintenance) is recorded as a liability in the accompanying GWFS, *Statement of Net Position*.

10. NONCURRENT LIABILITIES - continuation

The estimated total current cost of the landfill closure and post-closure care costs expense during the fiscal year was \$419,258, based on the 63% usage (filled) of the landfill. It is estimated that an additional \$10,707,728 will be recognized between the date of the Statement of Net Position and the expected filled capacity (2032). The estimated total future closure and post-closure care costs (\$28,991,250) is based on the amount that would be paid if all equipment, facilities and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2014. However, due to the nature of closure and post-closure care of municipal landfills, the estimated future costs are subject to annual revision due to changes in applicable regulations, market prices and conditions, and other unforeseeable events.

The Municipality is required to provide financial assurance for the post-closure care activities in accordance with federal regulations, and should identified current and future resources to cover costs relating to the closure and post-closure care costs of the landfill as of June 30, 2014. The Municipality hasn't demonstrates financial assurance to comply with such requirements.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2014 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2014.

Department of Labor and Human Resources

On June 30, 2014, the Municipality entered into a repayment agreement with the Department of Labor and Human Resources of the Commonwealth of Puerto Rico to repay the unemployment benefit as of June 30, 2014. The repayment agreement is payable in monthly aggregate installments of principals and interest at 8.00% of \$2,238.08. The original amount of debt is \$80,570 under the agreement to be paid during 3 years.

Claims and Judgments

This amount represents the amount accrued for possible claims arising from litigations as recommended by the Municipality's attorneys and classified as due after one year. Only claims is presented as due within one year when the Municipal Legislature approved it in the next fiscal year budget.

Compensated Absences

This amount represents the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations.

D. Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended June 30, 2014:

DESCRIPTION	BALANCE JULY 1, 2013	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2014	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
General Obligations Bonds	\$ 35,019,000	\$ 8,160,000	\$ (3,467,000)	\$ 39,712,000	\$ 3,769,000	\$ 35,943,000
Special Obligations Bonds	22,325,000	-	(1,347,000)	20,978,000	899,000	20,079,000
Other Obligations	35,925,558	1,729,502	(9,464,721)	28,190,339	2,896,127	25,294,212
TOTAL	\$ 93,269,558	\$ 9,889,502	\$ (14,278,721)	\$ 88,880,339	\$ 7,564,127	\$ 81,316,212

continue

10. NONCURRENT LIABILITIES – continuation

E. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The Municipality believes it is in compliance with all significant limitations and restrictions.

The annual requirements to amortize the noncurrent liabilities outstanding as of June 30, 2014 are as follows:

YEAR ENDING JUNE 30,	General Obligation Bonds		Special Obligation Bonds		Other Noncurrent Obligations		TOTAL	
	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL	INTEREST
Governmental Funds:								
2015	\$ 3,769,000	\$ 2,059,075	\$ 899,000	\$ 1,370,100	\$ 2,896,127	\$ 82,759	\$ 7,564,127	\$ 3,511,934
2016	3,031,000	2,070,118	972,000	1,441,701	77,046	79,705	4,080,046	3,591,524
2017	3,269,000	1,939,775	1,041,000	1,366,876	79,025	76,527	4,389,025	3,383,178
2018	3,348,000	1,783,853	1,126,000	1,286,251	81,235	73,219	4,555,235	3,143,323
2019	3,452,000	1,573,891	970,000	1,208,289	83,584	70,320	4,505,584	2,852,500
2020-2024	10,223,000	5,714,573	6,055,000	4,799,758	458,664	294,388	16,736,664	10,808,719
2025-2029	6,245,000	3,184,159	5,140,000	2,458,469	543,957	181,650	11,928,957	5,824,278
2030-2034	4,820,000	1,431,551	3,155,000	1,200,316	425,465	44,070	8,400,465	2,675,937
2035-2038	1,555,000	324,065	1,620,000	133,214	-	-	3,175,000	457,279
Unmatured	-	-	-	-	23,545,236	-	23,545,236	-
TOTAL	\$ 39,712,000	\$ 20,081,060	\$ 20,978,000	\$ 15,264,974	\$ 28,190,339	\$ 902,638	\$ 88,880,339	\$ 36,248,672

11. DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico (MRCC) to the Municipality (See Note 12).

These property taxes are accumulated by the MRCC in costs of the general obligations bonds issued by the Municipality (See Note 10). Payments are made to the GDB from such accumulated funds by the MRCC.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

continue

17. PENSION PLAN – continuation

- (1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:
 - (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service
 - (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.
 - (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.
- (2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.
- (3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:
 - (i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.
 - (ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

Pension Computation

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

- (i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.
- (ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.

continue

17. PENSION PLAN - continuation

- (iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.
- (iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.
- (v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.
- (vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447.

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

- (i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.
- (ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.
- (iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.
- (iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.
- (v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

continue

17. PENSION PLAN – continuation

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

Coordinated Plan – Prior to July 1, 2013 on the coordinated plan, the participating employee contributes 5.775% for the first \$6,600 of salary plus 8.275% for the excess over \$6,600. For fiscal 2013-2014 the contribution was 7.00% for the first \$6,600 of salary plus 10.00% for the excess over \$6,600. For fiscal 2014-2015 the contribution was 8.50% for the first \$6,600 of salary plus 10.00% for the excess over \$6,600. After July 1, 2015 the contribution was 10.00% of salary. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- \$165 per month if retired with 55 years of age and 30 years of credited service.
- \$110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between \$82 and \$100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

Non-Coordinated Plan (Supplementation Plan) – Prior to July 1, 2013 on the non-coordinated plan, the participating employee contributes 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits. After July 1, 2015 the contribution was 10.00% of salary.

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

- (a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.
- (b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:
 - (1) Effective July 1, 2013, shall contribute seven percent (7%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
 - (2) Effective July 1, 2014, shall contribute eight point five percent (8.5%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
 - (3) Effective July 1, 2015, shall contribute ten percent (10%) of their full monthly salaries.

The participants of the Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

continue

17. PENSION PLAN – continuation

- (c) Mandatory Contribution for the Purchase of Disability Insurance – Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

Employer Contributions to the System (ERS and Hybrid Program)

On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Every employer, beginning on July 1, 2013, shall mandatorily contribute to the System the following:

July 1, 2013	Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant
July 1, 2014	Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant
July 1, 2015	Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant
July 1, 2016	Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant
July 1, 2017	Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant
July 1, 2018	Eighteen point twenty-five percent (18.025%) of the salary of each participant
July 1, 2019	Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant
July 1, 2020	Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant

It is provided that the established increases applicable to the municipalities for fiscal years 2012-2013 and 2013-2014, shall be included in the budget petition submitted by the Office of Management and Budget to the Legislative Assembly.

continue

17. PENSION PLAN – continuation

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

Death of a Pensioner

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

Separation from Service for Disability or Terminal Illness

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator.

Additional Benefits Program

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

- (a) A Medication Bonus equal to one hundred (\$100), which shall be paid no later than July 15 of each year:

continue

17. PENSION PLAN – continuation

- (b) A Christmas Bonus equal to two hundred dollars (\$200), which shall be paid no later than December 20 of each year; and
- (c) A Government contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars (\$100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars (\$2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

The persons who retire under the provisions of Act 305-1999, known as 'Retirement Savings Accounts Program', and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

Annual Contribution

The Municipality's contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

FISCAL YEAR	DEFINED BENEFIT	HYBRID PROGRAM	ACT NO. 3
2014	\$ 195,883	\$ 149,937	\$ 653,126
2013	209,118	205,115	-
2012	812,173	788,262	-

Total employee contributions to the above-mentioned plans during the year ended June 30, 2014, 2013 and 2012 amounted to approximately \$2,709,475.

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

18. HEALTHCARE COSTS

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidize the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to approximately \$2,145,456 for the fiscal year ended June 30, 2014.

19. CONTINGENCIES

A. Claims and Judgments

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available determine that of these claims the Municipality should reported liabilities of \$23,500.

B. Federal Grants

In the normal course of operations, Municipality participates in various federal grant agreements from year to year. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program regulations, the Municipality may be required to reimburse the grantors for such expenditures.

The Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for the year ended June 30, 2014, disclosed several instances of noncompliance with applicable laws and regulations that were considered to be material weaknesses.

Of the federal expenditures authorized for the fiscal year 2013-2014, the auditors determined that cost amounting \$307,027 are disallowed. Also, \$806,286 of the disallowed costs from prior years are pending of final resolution of the awarding agencies.

Municipality is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

20. COMMITMENTS

A. Operating Leases

The Municipality leases real property, buildings, and equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund for the year ended June 30, 2014, amounted to approximately \$253,850. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

continue

20. COMMITMENTS – continuation

B. Construction

The Municipality had encumbrances at June 30, 2014 for the construction, improvements, or renovation of several municipal facilities in the following funds:

	Encumbered For	Amount	Reported within Fund Balance Classification
Capital Activities Fund	Improvement of Facilities	\$ 927,618	Restricted to Improvement and Construction of Facilities
	Resurfacing of Streets and other improvements	143,669	Restricted to Improvement of Streets and Sidewalks
	Improvement of Water and Sewer Facilities	52,641	Restricted to Improvement of Water and Sewer System

C. Landfill

Landfill Administration

The Municipality has a contract with Landfill Technologies of Arecibo Corp. (LTAC) until June 30, 2018, to provide the service for the operation and administration of the Municipality's landfill. The Municipality shall deposit solid waste at no cost in the landfill by using authorized vehicles of the Municipality. In addition, LTAC is committed to pay the Municipality \$2.00 per ton deposit in the Municipality landfill, except from the Municipality, as royalty, of which \$1.00 should be retained by LTAC for capital improvement on the landfill. On February of 2008, both parts agreed to change the royalty for a recycling program established by LTAC. Also, LTAC is authorized to increase the capacity of the landfill by adding a new cell. When this cell beginning operation, LTAC is committed to pay the Municipality as royalty of 10% of gross revenues.

Solid Waste Disposal Contracts

The Municipality has solid waste disposal contracts with Landfill Technologies of Arecibo Corp. (LTAC) until June 30, 2016, to provide the service for the recollection and disposal of solid waste in the Municipality's landfill. As mentioned above, the Municipality shall deposit solid waste at no cost in the landfill by using authorized vehicles of the Municipality. The contracts provided that the Municipality is committed to pay annually the following amounts. Also, the contracts provide an increase of ten percent (10%) at the third year of service. Expenditure for the year ended June 30, 2014 for this service amounts to \$2.2 million, approximately.

Future commitments are scheduled as follows:

<u>Year</u>	<u>Amount</u>
2015	\$3,254,766
2016	<u>3,325,297</u>
Total	<u>\$6,580,063</u>

20. COMMITMENTS – continuation

D. Financial and Administrative Policies Due to Fiscal Emergency

In Ordinances 28, 37 and 80 approved by the Municipal Legislature on January 15, January 29 and June 12, 2013, respectively, the legislative body authorized the Mayor to establish financial and administrative policies due to fiscal emergency. This Ordinances establish policies of personnel management, awarding of existent and future contracts, equipment acquisition, determining and collecting accounts receivable, legislative body expenditures, use of municipal vehicles, waste management, land disposition, use of facilities fees, sale of advertisement spots, service fees, reduction of legislators fee, and joint ventures with other government agencies and municipalities to provide services.

21. NET POSITION / FUND BALANCES RESTATEMENTS

A. Net Position

For the year ended June 30, 2013, the Municipality adjusted net position for the following concept:

	GOVERNMENTAL ACTIVITIES
Net Position, as Previously Reported, At June 30, 2013	\$ 43,414,436
Adjustments to Claims and Judgments Debt	6,024,487
Adjustments to Fund Balance	<u>41,300</u>
Beginning Net Position, as Restated, At July 1, 2013	<u>\$ 49,480,223</u>

B. Fund Balance

The following reconciles the June 30, 2013 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2013 for the various funds:

	GENERAL FUND	HEAD START FUND	DEBT SERVICE FUND	CAPITAL ACTIVITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Fund Balance, as Previously Reported, At June 30, 2013	\$ (15,841,401)	\$ -	\$ 4,966,032	\$ 16,071,503	\$ 1,333,600	\$ 6,519,734
Adjustment to Cash	-	-	-	41,300	-	41,300
Adjustment to Due to Other Funds	<u>297,368</u>	<u>-</u>	<u>-</u>	<u>(274,868)</u>	<u>(22,500)</u>	<u>-</u>
Beginning Fund Balance, as Restated, At July 1, 2013	<u>\$ (15,544,033)</u>	<u>\$ -</u>	<u>\$ 4,966,032</u>	<u>\$ 15,837,935</u>	<u>\$ 1,311,100</u>	<u>\$ 6,561,034</u>

continue

21. NEW ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2014:

GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement, and to defined contribution plans that provide postemployment benefits other than pensions.

The major fundamental change, among others related to the application and determination of certain measurement assumptions in valuing pension plans, is switching from the existing "funding-based" accounting model, where currently the Annual Required Contribution (ARC) is compared to the actual payments made and that difference determines the Net Pension Obligation; to an "accrual basis" model similar to current FASB standards, where the Total Pension Obligation (Actuarially determined) is compared to the Net Plan Position (or assets) and the difference represents the Net Pension Liability. This particular Statement will be applicable to the three Retirement Systems of the Commonwealth of Puerto Rico, not to the rest of the Commonwealth's agencies or any of the Commonwealth's component units. The impact of this Statement will be establishing its new net pension liability for the Commonwealth to an amount resembling the existing actuarial deficiency in the aforementioned Retirement Systems which at June 30, 2013 amounted to approximately \$34 billion.

GASB Statement No. 70 ("GASB 70"), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

A nonexchange financial guarantee is a credit enhancement or assurance offered by a guarantor without receiving equal or approximately equal value in exchange. The guarantor agrees to pay an obligation holder in the event that the issuer of the obligation is not able to make its required payments to the obligation holder. Nonexchange financial guarantees can include guarantees by a state for bonds issued by local governments within that state or guarantees of mortgage loans to individuals, if equal or approximately equal value is not received in exchange.

GASB 70 does not have any impact on the Municipality's financial statements.

22. SUBSEQUENT EVENT

In October 15, 2014 the Municipality obtained the approval for the issuance of general obligation bonds in the amount of \$1,360,000 for the acquisition of equipment. The principal and interest are payable annually for a 7 years term.

In October 15, 2014 the Municipality obtained the approval for the issuance of general obligation bond in the amount of \$5,685,000 for construction and improvements. The principal and interest are payable annually for 20 years term.

In September 15, 2014 the Municipality entered into an agreement with the Commonwealth of Puerto Rico Treasury Department for installment payment of the amount due for employment taxes and withholdings. The agreement requires for 60 monthly installments of \$10,996 until the liquidation of the debt of \$659,771.

In February 28, 2015 the Municipality desisted to continue with the administration of the Head Start Program.

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through March 25, 2014, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final	(See Accompanying Notes)	
BUDGETARY FUND BALANCE, JULY 1, 2013	\$ (16,921,051)	\$ (16,921,051)	\$ (16,921,051)	\$ -
Resources (Inflows):				
Property Taxes	10,633,964	10,633,964	10,897,366	263,402
Volume of Business Taxes	8,803,193	8,803,193	7,736,842	(1,066,351)
Sales and Usage Taxes	4,216,032	4,866,532	3,199,839	(1,666,693)
Intergovernmental Revenues	8,628,473	7,396,926	11,579,316	4,182,390
Construction Excise Taxes	1,120,000	1,120,000	1,079,347	(40,653)
Charges for Services	512,000	539,000	306,648	(232,352)
Rent	197,600	197,600	202,697	5,097
Interest on Deposits and Investment	50,000	50,000	819,307	769,307
Miscellaneous	3,882,000	4,630,582	1,233,383	(3,397,199)
Transfer from Other funds	97,277	-	2,265,724	2,265,724
Proceed of Bond	-	-	3,935,000	3,935,000
Total Resources (Inflows)	38,140,539	38,237,797	43,255,469	5,017,672
Amounts Available for Appropriation	21,219,488	21,316,746	26,334,418	5,017,672
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	2,819,105	3,244,881	3,250,175	(5,294)
General Government	19,404,401	19,145,381	22,264,538	(3,119,157)
Public Safety	3,432,936	3,444,685	3,248,152	196,533
Public Works	4,140,430	3,915,141	3,372,459	542,682
Culture and Recreation	1,489,828	1,583,569	1,559,716	23,853
Health and Sanitation	736,403	1,037,983	951,929	86,054
Solid Waste Disposal	2,302,285	2,302,285	2,232,604	69,681
Human Services and Welfare	192,854	99,155	79,462	19,693
Public Instruction	1,354,070	1,354,072	1,339,417	14,655
Urban Development	483,527	652,622	695,090	(42,468)
Capital Outlays	211,000	238,316	208,195	30,121
Transfers to Other Funds	1,573,700	1,219,707	1,219,707	-
Total Charges to Appropriations	38,140,539	38,237,797	40,421,444	(2,183,647)
BUDGETARY FUND BALANCE, JUNE 30, 2014	\$ (16,921,051)	\$ (16,921,051)	\$ (14,087,026)	\$ 2,834,025

The accompanying Notes to Required Supplementary Information are an integral part of this schedule

1. Budgetary Reporting

The Budgetary Comparison Schedule – General Fund is presented as Required Supplementary Information in accordance with GASB Accounting Standard Codification Section 1700, *The Budget and Budgetary Accounting*. Formal and legal budgetary control is based upon major classes of expenditures known as functions.

2. Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>General Fund</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) *Available for Appropriation* from the Budgetary Comparison Schedule (See Page 76)	\$ 26,334,418
Difference – Budget to GAAP:	
Proceed of Bond	(3,935,000)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(2,265,724)
The Fund Balance (Deficit) at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	<u>16,921,051</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 24)	<u>\$ 37,054,745</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) *Total Charges to Appropriation* from the Budgetary Comparison Schedule (See Page 76)	\$ 40,421,444
Difference – Budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(1,518,104)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	6,680
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(1,219,707)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 24)	<u>\$ 37,690,313</u>

END OF THIS SECTION

**SUPPLEMENTARY INFORMATION REQUIRED BY
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

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SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM –
 FINANCIAL DATA SCHEDULE (RQ020)
 ENTITY WIDE BALANCE SHEET SUMMARY
 JUNE 30, 2014

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF ARECIBO

Submission Type: Audited / A-133	Fiscal Year End: June 30, 2014	
Assets		
	Current Assets - Cash:	
111	Cash - Unrestricted	\$ 488,915
113	Cash - Other Restricted	-
100	Total Cash	488,915
	Receivables:	
124	Accounts Receivable - Other Government	-
128	Fraud Recovery	156,174
128.1	Allowance for Doubtful Accounts - Fraud Recovery	(156,174)
120	Total Receivable, Net of Allowance for Doubtful Accounts	-
150	Total Current Assets	488,915
	Fixed Assets:	
164	Furniture, Equipment & Machinery - Administration	117,041
166	Accumulated Depreciation	(106,773)
160	Total Capital Assets, Net of Accumulated Depreciation	10,268
190	Total Assets	\$ 499,183
Liabilities and Equity		
	Liabilities:	
	Current Liabilities:	
333	Account Payable - Other Government	\$ -
347	Inter Program - Due to	-
310	Total Current Liabilities	-
300	Total Liabilities	-
Equity	Equity	
508.1	Net Investment In Capital Assets	10,268
509.2	Fund Balance Reserved	-
511.1	Restricted Net Position	-
512.1	Unrestricted Net Position	488,915
512.2	Unreserved, Undesignated Fund Balance	-
513	Total Equity / Net Position	499,183
600	Total Liabilities and Equity / Net Position	\$ 499,183

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information

SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM –
 FINANCIAL DATA SCHEDULE (RQ020)
 PROGRAM REVENUES AND EXPENSES SUMMARY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF ARECIBO

<u>Submission Type:</u> <u>Audited / A-133</u>	<u>Fiscal Year End:</u> <u>June 30, 2014</u>
70600 HUD PHA Operating Grants	\$ 4,230,876
71100 Investment Income - Unrestricted	1,524
71400 Fraud Recovery	22,934
71500 Other Revenue	<u>50,698</u>
70000 Total Revenue	<u>4,306,032</u>
Expenses:	
Administrative:	
91100 Administrative Salaries	481,081
91500 Employee Benefit Contributions - Administrative	88,678
91900 Other	<u>193,287</u>
91000 Total Operating - Administrative	<u>763,046</u>
96900 Total Operating Expenses	<u>763,046</u>
97000 Excess of Operating Revenue over Operating Expenses	<u>3,542,986</u>
97300 Housing Assistance Payments	3,974,502
97350 HAP Portability-In	103,988
97400 Depreciation Expense	4,179
97500 Fraud Losses	<u>-</u>
90000 Total Expenses	<u>4,845,715</u>
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	<u>\$ (539,683)</u>
Memo Account Information:	
11030 Beginning Equity	\$ 1,061,366
11040 Prior Period Adjustments, Equity Transfer and Corrections	\$ (22,500)
11170 Administrative Fee Equity	\$ 499,183
11180 Housing Assistance Payments Equity	\$ -
11190 Units Months Available	10,199
11210 Number of Units Months Leased	10,184

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) includes the Section 8 Housing Choice Vouchers Program activities of the Autonomous Municipality of Arecibo (Municipality). The information in the FDS is presented in accordance with the requirements of *HUD's Uniform Financial Reporting Standards for HUD Housing Programs*. Because the FDS presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net assets of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets, Liabilities, Net Position, Revenues and Expenses reported on the FDS, are reported on the full accrual basis of accounting. They are recognized following the *HUD's Uniform Financial Reporting Standards for HUD Housing Programs*.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Assets, Liabilities and Net Position are presented in the Municipality's Statement of Net Position. Revenues and Expenses are reported in the *Statement of Activities*.

END OF NOTES

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PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY GOVERNMENT AUDITING
STANDARDS AND OMB CIRCULAR A-133**

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	CCC-099 / CCC-240	\$ 972,935
Total U. S. Department of Agriculture			<u>972,935</u>
U.S. Department of Housing and Urban Development:			
Direct Program:			
Community Development Block Grant/Entitlement Grants (CDBG)	14.218		1,991,368
Urban Development Action Grant Program	14.221		47,124
Emergency Solutions Grants Program (ESG)	14.231		346,962
Home Investment Partnerships Program (HOME)	14.239		666,054
Section 8 Housing Choice Vouchers Program	14.871		<u>4,858,659</u>
Total U.S. Department of Housing and Urban Development			<u>7,910,167</u>
U. S. Department of Justice:			
Pass-Through Puerto Rico Department of Justice:			
Crime Victim Assistance	16.575	VA-GX-0058	<u>5,977</u>
Total U.S. Department of Justice			<u>5,977</u>
U.S. Department of Health and Human Services:			
Pass-Through Puerto Rico Office for Elderly Affairs:			
Special Programs for the Aging-Title III, Part B – Grants for Supportive Services and Senior Centers (Cluster)	93.044	N/AV	123,527
Special Programs for the Aging-Title III, Part C – Nutrition Service (Cluster)	93.045	N/AV	244,103
Nutrition Services Incentive Program (Cluster)	93.053	N/AV	<u>5,444</u>
Subtotal Special Programs for the Aging (Cluster)			<u>373,074</u>

continue

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Pass-Through Puerto Rico Administration of Families and Children Affairs:			
Promoting Safe and Stable Families	93.556	N/AV	18,734
Domestic Violence Shelter and Supportive Services.....	93.671	N/AV	<u>77,730</u>
Subtotal Pass-Through Puerto Rico Administration of Families and Children Affairs			<u>96,464</u>
Pass-Through Administration for the Childhood Care and Integral Development:			
Child Care and Development Block Grant.....	93.575	G01PRCCDF	632,108
Head Start Program.....	93.600	02-CH-9944	<u>10,294,166</u>
Subtotal Pass-Through Administration for the Childhood Care and Integral Development.....			<u>10,926,274</u>
Total U. S. Department of Health and Human Services			<u>11,434,576</u>
U.S. Department of Homeland Security:			
Pass-Through Puerto Rico Office for Public Security:			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 1919	<u>5,570</u>
Total U. S. Department of Homeland Security.....			<u>5,570</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$20,290,461</u>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the Autonomous Municipality of Arecibo (Municipality). The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net assets of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available.

3. FEDERAL CFDA NUMBER

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

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the Municipality's *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund* as follows: Head Start Fund – \$11,223,426, and Other Governmental Funds – \$9,067,035.

END OF NOTES

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

To the Honorable Mayor and
Members of the Municipal Legislature
Autonomous Municipality of Arecibo
Arecibo, 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 **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise **Municipality's** basic financial statements, and have issued our qualified report thereon dated March 25, 2015. Our report was qualified because the **Municipality** did not provide a subsidiary of capital assets that agreed with the amounts reported in Governmental Activities of the Governmental-Wide Financial Statements and, also, the depreciation expense on those assets is not supported.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the **Municipality's** financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 through 2014-009 to be material weaknesses.

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

To the Honorable Mayor and
Members of the Municipal Legislature
Autonomous Municipality of Arecibo of the
Commonwealth of Puerto Rico
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-003 through 2014-009.

Municipality's Response to Findings

Municipality's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. **Municipality's** response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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 **Municipality's** internal control or on compliance. This report is an integral part of an audit reformed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CPA Diaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
March 25, 2015

Stamp No. E135459 was affixed to
the original report.





INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico (Municipality's)** 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 **Municipality's** major federal programs for the fiscal year ended June 30, 2014. **Municipality's** major federal programs are identified in the Summary of Auditor's Result Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Municipality'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 **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 **Municipality's** compliance.

Basis for Qualified Opinion (See the following Table)

As described in the accompanying Schedule of Findings and Questioned Costs, **Municipality** did not comply with requirement regarding the following:

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
 Members of the Municipal Legislature
 Autonomous Municipality of Arecibo of the
 Commonwealth of Puerto Rico

Page 2

Finding Number	CFDA Number	Program (or Cluster) Name	Compliance Requirement	Questioned Cost
2014-010	10.558	Child and Adult Care Food Program	Allowable Costs/Cost Principles	\$159,895.43
2014-011	14.871	Section 8 Housing Choice Vouchers Program	Allowable Costs/Cost Principles/ Special Test and Provisions – Housing Assistant Payment	52,915.60
2014-012	93.600	Head Start Program	Allowable Costs/Cost Principles	94,216.28
2014-013	93.600	Head Start Program	Davis Bacon Act	-
2014-014	14.239	Home Investment Partnerships Program (HOME)	Earmarking	-
2014-015	14.239	Home Investment Partnerships Program (HOME)	Earmarking	-
2014-016	93.600	Head Start Program	Earmarking	-
2014-017	10.558	Child and Adult Care Food Program	Eligibility	-
2014-018	14.239	Home Investment Partnerships Program (HOME)	Eligibility	-
2014-019	14.239	Home Investment Partnerships Program (HOME)	Eligibility	-
2014-020	14.871	Section 8 Housing Choice Vouchers Program	Eligibility	-
2014-021	93.600	Head Start Program	Eligibility	-
2014-022	14.218	Community Development Block Grant/Entitlement Grants (CDBG)	Equipment, and Real Property Management	-
2014-023	93.600	Head Start Program	Equipment, and Real Property Management	-
2014-024	14.218	Community Development Block Grant/Entitlement Grants (CDBG)	Program Income	-
2014-025	14.871	Section 8 Housing Choice Vouchers Program	Reporting	-
2014-026	93.600	Head Start Program	Reporting	-
2014-027	14.239	Home Investment Partnerships Program (HOME)	Subrecipient Monitoring	-
2014-028	14.871	Section 8 Housing Choice Vouchers Program	Special Test and Provisions	-
2014-029	14.871	Section 8 Housing Choice Vouchers Program	Special Test and Provisions	-
2014-030	14.871	Section 8 Housing Choice Vouchers Program	Special Test and Provisions	-
2014-031	14.871	Section 8 Housing Choice Vouchers Program	Special Test and Provisions – Rolling Forward Equity Balance	-
2014-032	14.871	Section 8 Housing Choice Vouchers Program	Special Test and Provisions	-
2014-033	93.600	Head Start Program	Special Test and Provisions	-
Total Questioned Costs				\$307,027.31



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the Municipal Legislature
Autonomous Municipality of Arecibo

Page 3

Compliance with such requirements is necessary, in our opinion, for the **Municipality** to comply with the requirements applicable to those programs.

Qualified Opinion (See the above Table)

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, **Municipality** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs described in the above table for the fiscal year ended June 30, 2014.

Other Matters

Municipality's response to the noncompliance finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **Municipality's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of **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 **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 **Municipality's** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-010 through 2014-033 to be material weaknesses.

Municipality's response to the internal control over compliance finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **Municipality's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the Municipal Legislature
Autonomous Municipality of Arecibo
Page 4

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.



CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
March 25, 2015

Stamp No. E135460 was affixed to
the original report.



PART III
FINDINGS AND QUESTIONED COSTS

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SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- Type of auditor's report issued: Unmodified Opinion
 Modified: Qualified Opinion
 Adverse Opinion
 Disclaimer Opinion
- Internal control over financial reporting:
- Material weakness (es) identified? Yes No
 - Significant deficiency (ies) identified? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

- Internal control over major programs:
- Material weakness (es) identified? Yes No
 - Significant deficiency (ies) identified? Yes None Reported
- Type of auditor's report issued on compliance for Major Programs:
- Unmodified Opinion
 Qualified Opinion
 • Child Care and Development Block Grant
 • Child and Adult Care Food Program
 • Community Development Block Grant/ Entitlements Grants
 • Home Investment Partnerships Program (HOME)
 • Section 8 Housing Choice Vouchers Program
 • Head Start Program
 Adverse Opinion Disclaimer Opinion
- Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133? Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grant/ Entitlements Grants
14.239	Home Investment Partnerships Program (HOME)
14.871	Section 8 Housing Choice Vouchers Program
93.575	Child Care and Development Block Grant
93.600	Head Start Program

- Dollar threshold used to distinguish between Type A and Type B Programs: \$608,713
- Auditee qualified as low-risk auditee? Yes No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2014-001
TYPE OF FINDING	MATERIAL WEAKNESS IN PREPARED FINANCIAL STATEMENTS
CRITERIA	Codification of Governmental Accounting and Financial Reporting Standards, Section 1400.101 states that the reporting entities should report general capital assets in governmental activities, proprietary and fiduciary funds. Capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period (AU § 1400.103). The Municipality should have established internal control policies and procedures in order to properly account for capital assets and to maintain adequate and updated inventory records that provide sufficient and competent evidence to support the existence, rights and obligations, completeness, and valuation and allocation, applicable to the capital assets in governmental activities of the Governmental-Wide Financial Statements.
CONDITION	During our audit the Municipality did not provide a subsidiary of capital assets that agreed with the amounts reported in governmental activities of the Governmental-Wide Financial Statements. Capital assets are the most significant assets of the Municipality and therefore, have a significant impact on the Governmental-Wide Financial Statements. <i>This is a prior year deficiency.</i>
CAUSE	The Municipality's internal control system, failed to keep track of the additions of capital assets and to assure that the subsidiaries agree with the amounts presented in the Governmental-Wide Financial Statements.
EFFECT OR POSSIBLE EFFECT	The financial statements prepared by the Municipality presented the capital assets and depreciation expense in the Governmental-Wide Financial Statements that do not agree with the subsidiaries provided. In addition, the Governmental-Wide Financial Statements are misstated for an unknown amount related to construction in progress and infrastructure.
RECOMMENDATION	We recommend that the Municipality review the subsidiaries of capital assets in order to assure that they reconcile with the amounts presented in Governmental-Wide Financial Statements. In addition, review all those construction projects that comply with the capitalization policy of the Municipality , and are in progress, and adjust the subsidiaries and Governmental-Wide Financial Statements accordingly.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Municipality will prepare the financial statements for the year ended on June 30, 2014, reviewing the subsidiaries of capital assets in order to assure that they reconcile with the amounts presented in Governmental-Wide Financial Statements. In addition, finance Department will review of all those construction projects to assure compliance with the capitalization policy of the Municipality , and are in progress, and adjust the subsidiaries and Governmental-Wide Financial Statements accordingly. Completion of this corrective action would take more time than expected due to Municipality's lack of documentation at present time. A special teamwork would be assigned to find the supporting evidence regarding title and ownership of capital assets
IMPLEMENTATION DATE	December 31, 2015
RESPONSIBLE PERSON	Mr. Juan A. Galán Ramirez – Director of Finance

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2014-002
TYPE OF FINDING	MATERIAL WEAKNESS IN PREPARED BANK RECONCILIATIONS
CRITERIA	Chapter VIII, Article 8.010 of Act Number 81 of August 30, 1991, states that the Municipality should maintain an effective and updated accounting system. Section 12 of the Regulations for Municipal Administration states that bank reconciliations for each bank account maintained by the municipality must be performed monthly in the Uniform Municipal Accounting System (UMAS). If for some extraordinary reason, they were prevented from using the UMAS, the bank reconciliations are performed in a model in electronic format provided by the Office of the Commissioner of Municipal Affairs. In addition, municipalities have to prepare a monthly report in which the transactions of receipts and disbursements are reflected the month and the balance of funds duly reconciled with the bank reconciliation.
CONDITION	During Fiscal Year 2013-2014, the Municipality failed to prepare bank conciliations for its local, state and federal accounts on a timely manner. Bank conciliations were prepared by an external accounting firm more than a year overdue. <i>This is a prior year deficiency.</i>
CAUSE	The Municipality did not maintain effective internal control over the transactions recorded on its accounting records and the preparation of its bank conciliations.
EFFECT OR POSSIBLE EFFECT	The Municipality's cash accounting record did not provide updated and complete financial information that presents the correct cash balance in their accounts at the time of authorization of payments.
RECOMMENDATION	We recommend that the Municipality should establish internal control and procedures in order to maintain an accounting system that contains information pertaining to bank reconciliation. The Finance Director will delegate the responsibility to perform the monthly bank reconciliations and reports to an employee or Municipality official under its supervision. These reconciliations should be signed by the employee or officer and must be checked and signed by the Finance Director.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Municipality had established internal control and procedures to maintain the new accounting system with the information pertaining to bank reconciliation. The Director of Finance will delegate the responsibility to perform the monthly bank reconciliations and reports to an employee or Municipality official under its supervision, according to the regulations and legislation, to an external consulting firm or both, according to time schedule and scope of work.
IMPLEMENTATION DATE	July 31, 2015
RESPONSIBLE PERSON	Mr. Juan A. Galán Ramirez – Director of Finance

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2014-003 (See FINDING REFERENCE NUMBER 2014-010)
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) PASS-THROUGH PUERTO RICO DEPARTMENT OF EDUCATION U.S. DEPARTMENT OF AGRICULTURE
AWARD NUMBERS	323619 / 243792 / 244138
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COST PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	Circular A-87, Subpart C (1)(j) states that to be allowable under Federal awards, costs must be adequately documented.
CONDITION	During our audit procedures over Allowable Cost/Cost Principles, we selected a sample of seven (7) checks issued for internal control testing, and four (4) payments were not available for examination. In addition, we selected other seven (7) checks issued for compliance testing and two (2) were not available for evaluation.

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2014-004 (See FINDING REFERENCE NUMBER 2014-011)
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	RQ020
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COST PRINCIPLES / SPECIAL TEST AND PROVISIONS – HOUSING ASSISTANT PAYMENT
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	24 CFR 982.505 (a) states that a payment standard is used to calculate the monthly housing assistance payment for a family. The "payment standard" is the maximum monthly subsidy payment. In addition, Circular A-87, Attachment A, Section C (1)(i) establishes that costs, to be allowable under Federal awards, must be adequately documented.
CONDITION	During our audit procedures we noted difference between the contract rent to owner payment and the monthly payment made. From the ninety (90) payments made on May 2014, related to the HAP payments, we noted unreconciled differences in nine (9) files. The differences noted were from \$25.00 to \$4,825.00.

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2014-005 (See FINDING REFERENCE NUMBER 2014-012)
FEDERAL PROGRAM	HEAD START PROGRAM (93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH PUERTO RICO DEPARTMENT OF FAMILY – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
AWARD NUMBER	241-2012-000192 / 241-2014-000129
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COST PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	Circular A-87, Subpart C (1)(j) states that to be allowable under Federal awards, costs must be adequately documented. In addition, Common Rule codified at the Department of Health and Human Services Part 92, Section 92.20 (a)(6) requires that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc..
CONDITION	<p>During our audit procedures over Allowable Cost/Cost Principles, we selected a sample of sixty (60) checks issued for internal control testing, and five (5) payments were not available for examination. In addition, we selected forty (40) checks issued for compliance testing and eight (8) were not available for evaluation.</p> <p>In addition, during our payroll testing, we selected forty (40) employees to ascertain internal controls and compliance over the documentation regarding payroll, and time and attendance records. The Municipality didn't provide evidence of the hours worked for one (1) employee.</p>

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2014-006 (See FINDING REFERENCE NUMBER 2014-022)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBER	B-11-MC-72-009; B-12-MC-72-009; B-13-MC-72-009
COMPLIANCE REQUIREMENT	EQUIPMENT AND REAL PROPERTY MANAGEMENT
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	<p>24 CFR §85.32 – Property records must be maintained that include a description of the property, a other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.</p> <p>A physical inventory of the property must be taken and the results reconciled with the property records a least once every two years. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. Adequate maintenance procedures must be developed to keep the property in good condition. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.</p>
CONDITION	The Municipality did not provide a property records of all the property and equipment acquired with CDBG.

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2014-007 (See FINDING REFERENCE NUMBER 2014-023)
FEDERAL PROGRAM	HEAD START PROGRAM (93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH PUERTO RICO DEPARTMENT OF FAMILY – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
AWARD NUMBER	241-2012-000192 / 241-2014-000129
COMPLIANCE REQUIREMENT	EQUIPMENT AND REAL PROPERTY MANAGEMENT
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	<p>45 CFR, Subpart C Section 74.34 (f) states the recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following: equipment records shall be maintained accurately and shall include the following information: a description of the equipment; Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number; source of the equipment, including the award number; Whether title vests in the recipient or the federal government; acquisition date (or date received, if the equipment was furnished by the federal government) and cost; information from which one can calculate the percentage of HHS's share in the cost of the equipment (not applicable to equipment furnished by the federal government); location and condition of the equipment and the date the information was reported; unit acquisition cost; and ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the HHS awarding agency for its share. Equipment owned by the Federal Government shall be identified to indicate Federal ownership. The recipient shall take a physical inventory of equipment and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference.</p> <p>The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment. The recipient shall maintain a control system to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the HHS awarding agency. The recipient shall implement adequate maintenance procedures to keep the equipment in good condition.</p>
CONDITION	During our audit procedures over real property and equipment, the Municipality didn't provide evidence of an inventory of equipment owned with Head Start funds.

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2014-008 (See FINDING REFERENCE NUMBER 2014-024)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBER	B-11-MC-72-009; B-12-MC-72-009; B-13-MC-72-009
COMPLIANCE REQUIREMENT	PROGRAM INCOME
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR §570.500 (a)(1)(iii) & (iv) – Program income means gross income received by the recipient or a subrecipient directly generated from the use of CDBG funds, except as provided in paragraph (a)(4) of this Section. Program income includes, but is not limited to, the following: (iii) Gross income from the use or rental of real or personal property acquired by the recipient or by a subrecipient with CDBG funds, less costs incidental to generation of the income; (iv) Gross income from the use or rental of real property, owned by the recipient or by a subrecipient, that was constructed or improved with CDBG funds, less costs incidental to generation of the income.
CONDITION	As part of our audit procedures we noted that the Municipality used CDBG funds for the acquisition or construction of property that generate income. The Municipality didn't provide a detail of property that was constructed with CDBG funds, although, a report from IDIS provides evidence of construction of facilities with CDBG funds.

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2014-009 (See FINDING REFERENCE NUMBER 2014-025)
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	RQ020
COMPLIANCE REQUIREMENT	REPORTING
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR Section 5.801 (c) (1) states that the financial information to be submitted to HUD in accordance with paragraph (b) of this Section, must be submitted to HUD annually, no later than 60 days after the end of the fiscal year of the reporting period, and as otherwise provided by law. In addition, on Section (d) (1) states that audited financial statements will then be required no later than 9 months after the PHA's fiscal year end, in accordance with the Single Audit Act and OMB Circular A-133. Further, it states that PHAs are required to submit timely GAAP-based unaudited and audited financial information electronically to HUD.
CONDITION	The Municipality did not submit the required Unaudited Financial Reports to the US Housing and Urban Development of fiscal year ending June 30, 2014 during the required period. The Unaudited Financial Reports was submitted on February 5, 2015.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-010 (See FINDING REFERENCE NUMBER 2014-003)
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) PASS-THROUGH PUERTO RICO DEPARTMENT OF EDUCATION U.S. DEPARTMENT OF AGRICULTURE
AWARD NUMBERS	323619 / 243792 / 244138
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COST PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	Circular A-87, Subpart C (1)(j) states that to be allowable under Federal awards, costs must be adequately documented.
CONDITION	During our audit procedures over Allowable Cost/Cost Principles, we selected a sample of seven (7) checks issued for internal control testing, and four (4) payments were not available for examination. In addition, we selected other seven (7) checks issued for compliance testing and two (2) were not available for evaluation.
QUESTIONED COSTS	Total checks issued not available for audit, amounting to \$159,895.43.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	From a population of sixty-four (64) checks issued to suppliers, we selected seven (7) payments for internal control testing and seven (7) payments for compliance requirement testing, for which four (4) checks and related supporting documentation related to internal controls were not available, this represents 57% of the sample selected, or \$140,124.83 in total expenditures. For the compliance testing, a total of two (2) checks and related supporting documentation were not available, this represents 29% of the sample selected, or \$19,770.60 in total expenditures. <i>This is a prior year deficiency.</i>
CAUSE	The Municipality did not maintain an adequate filing system for program disbursements for the fiscal year covered by our audit.
EFFECT OR POSSIBLE EFFECT	Lack of supporting documents could result in unallowable cost that must be reimbursed to the federal agency from state funds.
RECOMMENDATION	We recommend management to develop and implement adequate filing system for program disbursement. In addition, should continue the efforts to locate the missing disbursement documentation.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	The Municipality has been implemented internal control over federal program documents to develop and implement adequate filing system for each program disbursement. In addition, we will continue and expand the efforts to locate the missing disbursement documentation.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-011 (See FINDING REFERENCE NUMBER 2014-004)								
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT								
AWARD NUMBERS	RQ020								
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COST PRINCIPLES / SPECIAL TEST AND PROVISIONS – HOUSING ASSISTANT PAYMENT								
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS								
CRITERIA	24 CFR 982.505 (a) states that a payment standard is used to calculate the monthly housing assistance payment for a family. The "payment standard" is the maximum monthly subsidy payment. In addition, Circular A-87, Attachment A, Section C (1)(i) establishes that costs, to be allowable under Federal awards, must be adequately documented.								
CONDITION	During our audit procedures we noted difference between the contract rent to owner payment and the monthly payment made. From the ninety (90) payments made on May 2014, related to the HAP payments, we noted unreconciled differences in nine (9) files. The differences noted were from \$25.00 to \$4,825.00.								
QUESTIONED COSTS	Known \$4,527 / Likely \$52,915.60								
INFORMATION TO PROVIDE PROPER PERSPECTIVE	This is a systemic deficiency. Follow is the projection to the population:								
	<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 25%;">Population</th> <th style="width: 25%;">Sample</th> <th style="width: 25%;">Know Questioned Cost</th> <th style="width: 25%;">Likely Questioned Cost</th> </tr> </thead> <tbody> <tr> <td>1,052</td> <td>90</td> <td>\$ 4,527</td> <td>\$52,915.60</td> </tr> </tbody> </table>	Population	Sample	Know Questioned Cost	Likely Questioned Cost	1,052	90	\$ 4,527	\$52,915.60
Population	Sample	Know Questioned Cost	Likely Questioned Cost						
1,052	90	\$ 4,527	\$52,915.60						
CAUSE	The Municipality doesn't have a detail of all HAP payments made in order to reconcile this information with the approved amount as established in the family report.								
EFFECT OR POSSIBLE EFFECT	The Municipality can't provide evidence that the differences noted in the monthly payments were for allowable costs.								
RECOMMENDATION	We recommend management to monitor the housing payments in order to assure that the payments are made in accordance with the payment schedule.								
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	The Municipality has been implemented internal control over payments according to Circular A-87, to assure that payments under Federal awards must be adequately documented. In addition, management has been developed and implemented adequate internal controls in order to monitor the housing payments in order to assure that the payments are made in accordance with the payment schedule.								
IMPLEMENTATION DATE	April 30, 2015								
RESPONSIBLE PERSON	Director of Federal Programs / Section 8 Coordinator								

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-012 (See FINDING REFERENCE NUMBER 2014-005)
FEDERAL PROGRAM	HEAD START PROGRAM (93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH PUERTO RICO DEPARTMENT OF FAMILY – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
AWARD NUMBER	241-2012-000192 / 241-2014-000129
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COST PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	Circular A-87, Subpart C (1)(j) states that to be allowable under Federal awards, costs must be adequately documented. In addition, Common Rule codified at the Department of Health and Human Services Part 92, Section 92.20 (a)(6) requires that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.
CONDITION	During our audit procedures over Allowable Cost/Cost Principles, we selected a sample of sixty (60) checks issued for internal control testing, and five (5) payments were not available for examination. In addition, we selected forty (40) checks issued for compliance testing and eight (8) were not available for evaluation.
QUESTIONED COSTS	Total checks issued not available amounting to \$94,216.28.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	From a population of 1,164 checks issued, we selected sixty (60) payments for internal control testing and forty (40) payments for compliance requirement testing, for which five (5) checks and related supporting documentation related to internal controls were not available, this represents 8% of the sample selected, or \$28,678.99 in total expenditures. For the compliance testing, a total of eight (8) checks and related supporting documentation were not available, this represents 20% of the sample selected, or \$65,537.29 in total expenditures. <i>This is a prior year deficiency.</i>
CAUSE	The Municipality did not maintain an adequate filing system for program disbursements for the fiscal year covered by our audit.
EFFECT OR POSSIBLE EFFECT	Lack of supporting documents could result in unallowable cost that must be reimbursed to the federal agency from state funds.
RECOMMENDATION	We recommend management to develop and implement adequate filing system for program disbursement. In addition, should continue the efforts to locate the missing disbursement documentation.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to provide adequate trainings in order to the personnel in charge of the determination of eligibility and to establish and monitor appropriate internal controls in order to properly document and maintain evidence of inclusion of participants in the waiting list, preferences and subsequent selection in the program.
IMPLEMENTATION DATE	April 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-013
FEDERAL PROGRAM	HEAD START PROGRAM (93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH PUERTO RICO DEPARTMENT OF FAMILY – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
AWARD NUMBER	241-2012-000192 / 241-2014-000129
COMPLIANCE REQUIREMENT	DAVIS BACON ACT
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	45 CFR Section 1309.54 states that Construction and renovation projects and subcontracts financed with funds awarded under the Head Start program are subject to the Davis-Bacon Act (40 U.S.C. 276a et seq.) and the Regulations of the Department of Labor, 29 CFR Part 5. The grantee must provide an assurance that all laborers and mechanics employed by contractors or subcontractors in the construction or renovation of affected Head Start facilities shall be paid wages at not less than those prevailing on similar construction in the locality, as determined by the Secretary of Labor.
CONDITION	The Municipality didn't provide evidence of compliance with the Davis-Bacon Act.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The Municipality didn't provide a detail of construction and/or renovation projects financed with Head Start Program funds in order to ascertain compliance with the requirements of the Davis-Bacon Act. <i>This is a repeat finding.</i>
CAUSE	The Municipality did not have a detail of construction and/or renovation projects financed with the Head Start Program.
EFFECT OR POSSIBLE EFFECT	The Municipality can't provide evidence of compliance with payment of prevailing wages rates of construction and/or renovation projects.
RECOMMENDATION	We recommend management to develop and implement internal controls in order to be able to provide details and evidence of compliance of all projects in which Davis-Bacon Act provisions apply.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to develop and implement internal controls in order to be able to provide details and evidence of compliance of all projects in which Davis-Bacon Act provisions apply.
IMPLEMENTATION DATE	April 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-014
FEDERAL PROGRAM	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA NO. 14.239) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	M-10-MC-720201
COMPLIANCE REQUIREMENT	EARMARKING
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR, Section 92.216 (4)(1) establishes that not less than 90 percent of the families receiving such rental assistance are families whose incomes do not exceed 60 percent of the median family income for the area, as determined and made available by HUD with adjustments for smaller and larger families.
CONDITION	As part of our audit procedures over the HOME Program, we solicited evidence of compliance with the earmarking requirement over the tenant-based rent related to income targeting. No evidence was provided in order to ascertain compliance with this requirement.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	From a population of seventy-two (72) tenants for the fiscal year 2013-2014, we selected nine participants. From our audit procedures, we noted that two participants were over the sixty percent (60%) of the median family income. No evidence of a detail of participant's median family income was provided, therefore, we are unable to determine compliance with this requirement.
CAUSE	The HOME Program Coordinator was unaware of this requirement.
EFFECT OR POSSIBLE EFFECT	The Municipality can't assure that ninety percent (90%) of the families who benefits from the tenant-based rent were below the sixty percent (60%) of median family income for the area.
RECOMMENDATION	We recommend management to provide adequate trainings to all persons that will be responsible of monitoring compliance with the earmarking requirements.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to provide adequate trainings to all persons that will be responsible of monitoring compliance with the earmarking requirements of HOME Program.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Mr. Esdras Velez – Secretary of the Municipality

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-015
FEDERAL PROGRAM	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA NO. 14.239) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	M-10-MC-720201
COMPLIANCE REQUIREMENT	EARMARKING
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR, Section 92.300 (a)(1) establishes that within 24 months after HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnerships Agreement, the participating jurisdiction must reserve not less than 15 percent of the HOME allocation for investment only in housing to be developed, sponsored, or owned by community housing development organizations. The funds are reserved when a participating jurisdiction enters into a written agreement with the community housing development organization. In addition, Section (b) indicates that each participating jurisdiction must make reasonable efforts to identify community housing development organizations that are capable, or can reasonably be expected to become capable, of carrying out elements of the jurisdiction's approved consolidated plan and to encourage such community housing development organizations to do so. If during the first 24 months of its participation in the HOME Program a participating jurisdiction cannot identify a sufficient number of capable community housing development organizations, up to 20 percent of the minimum community housing development organization set-aside of 15 percent specified in paragraph (a) of this section, above, (but not more than \$150,000 during the 24 month period) may be committed to develop the capacity of community housing development organizations in the jurisdiction.
CONDITION	As part of our audit procedures over the HOME Program, we solicited evidence of compliance with the earmarking requirement set – aside for community housing development organizations (CHDO). No payments were made to CHDO. In addition, no evidence was provided that demonstrated reasonable efforts to identify any CHDO.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The Municipality indicated in their CAPER PY 2013, that a total of \$53,219 were set aside for CHDO. No payments were made during the year. No evidence was provided that document reasonable efforts to identify CHDO.
CAUSE	Management from the HOME Program indicated that they were unable to identify community housing development organizations in the jurisdiction; and annually they reserve and unreserved the funds for this activity.
EFFECT OR POSSIBLE EFFECT	The Municipality was unable to identify any CHDO in order to provide funds assigned to this activity. Therefore, this jurisdiction didn't benefit from this activity.
RECOMMENDATION	We recommend management to document any efforts to identify CHDO, and if none are identified, develop a program to capacitate CHDO in the jurisdiction.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-015 – continuation
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to document any efforts to identify CHDO, and if none are identified, develop a program to capacitate CHDO entities in the jurisdiction of Arecibo.
IMPLEMENTATION DATE	September 30, 2015
RESPONSIBLE PERSON	Mr. Esdras Velez – Secretary of the Municipality

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-016
FEDERAL PROGRAM	HEAD START PROGRAM (93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH PUERTO RICO DEPARTMENT OF FAMILY – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
AWARD NUMBER	241-2012-000192 / 241-2014-000129
COMPLIANCE REQUIREMENT	EARMARKING
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	45 CFR, Subpart C, Section 74.53 (b) states that financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report.
CONDITION	During our audit procedures over the earmarking requirement, the Municipality didn't provide evidence of the administrative expenditure reported; and no detail was provided in order to ascertain the percentage of children with disabilities and high income.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The Municipality didn't document an adequate process of transfer of documentation and activities performed when the transition process between them and the new delegated agency took place.
CAUSE	The Municipality , effective March 2014, was no longer the delegated agency to administer the Head Start Program funds, and transferred the documentation to the new delegated agency, and didn't keep proper evidence of the administrative expenditure reported in the close out at February 28, 2014. In addition, the personnel that was in charge of the program, didn't provide evidence of the children who participated of the program that had disabilities or were high income.
EFFECT OR POSSIBLE EFFECT	Lack of supporting documents could result in unallowable cost that must be reimbursed to the federal agency from state funds.
RECOMMENDATION	We recommend management to continue the efforts to locate the missing documentation, and properly document the closeout.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to continue and expand the efforts to locate the missing documentation, and properly document the closeout of Head Start Program.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs and/or Mr. Juan A. Galán Ramírez – Director of Finance

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-017
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) PASS-TROUGH PUERTO RICO DEPARTMENT OF EDUCACION U.S. DEPARTMENT OF AGRICULTURE
AWARD NUMBERS	323619 / 243792 / 244138
COMPLIANCE REQUIREMENT	ELIGIBILITY
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	7 CFR, Subpart D Section 226.10 (d) states that all records to support the claim shall be retained for a period of three years after the date of submission of the final claim for the fiscal year to which they pertain, except that if audit findings have not been resolved, the records shall be retained beyond the end of the three year period as long as may be required for the resolution of the issues raised by the audit. All accounts and records pertaining to the Program shall be made available, upon request, to representatives of the State agency, of the Department, and of the U.S. Government Accountability Office for audit or review, at a reasonable time and place.
CONDITION	During our audit procedures over eligibility of individuals, we selected a sample of sixty (60) participants for internal control testing, and one (1) participant's file was not available for examination. In addition, we selected forty (40) participant's files for compliance testing and one (1) was not available for evaluation.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The Municipality didn't document an adequate process of transfer of documentation and activities performed when the transition process between them and the new delegated agency took place.
CAUSE	The Municipality, effective March 2014, was no longer the delegated agency to administer the Child and Adult Care Food Program funds, and transferred the documentation to the new delegated agency, and didn't keep proper evidence of participants who benefit from the funds.
EFFECT OR POSSIBLE EFFECT	Lack of supporting documents could result in unallowable cost that must be reimbursed to the federal agency from state funds.
RECOMMENDATION	We recommend management to continue the efforts to locate the missing participant's files.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management is implementing an adequate procedure to handle and preserve participant's files. Assigned personnel will continue and expand the efforts to locate the missing participant's files as soon as possible.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs and/or Mr. Esdras Velez – Secretary of the Municipality

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-018
FEDERAL PROGRAM	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA NO. 14.239) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	M-10-MC-720201
COMPLIANCE REQUIREMENT	ELIGIBILITY
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR, Subpart B, Section 5.210 requires applicants for and participants in covered HUD programs to disclose, and submit documentation to verify, their Social Security Numbers (SSNs). In 24 CFR Subpart B, Section 5.230 (a) requires that each member of the family of an assistance applicant or participant who is at least 18 years of age, and each family head and spouse regardless of age, shall sign one or more consent forms. In addition, according to the Administrative Plan from October 27, 2008, a family to be admitted in the "Waiting List", should complete the Form HOME-TBRA 01.
CONDITION	As part of our audit procedures over the HOME Program, we selected a sample of nine (9) participants for the tenant – based rent assistance (TBRA), which had a population of seventy-two (72) participants during fiscal year 2013-2014. We noted that in eight (8) participants, the required release forms were not signed. In addition, we noted that a participant received the benefits from the TBRA since June 10, 2013 (date in which the contract was signed), but the evidence of solicitation (TBRA) was signed on September 17, 2014. Accordingly, no evidence of eligibility determination as of June 2013, was provided for our evaluation.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	In the evaluation of the tenant's files, we observed that the documentation included is not consistent in all files and no review of the determinations of eligibility are made.
CAUSE	The coordinator of the program doesn't have the required trainings in order to properly document the selection and determination of eligible tenants. No monitoring of the activities of the coordinator are performed by other personnel in the Municipality.
EFFECT OR POSSIBLE EFFECT	The Municipality doesn't have written consent from tenants in order to assure that required income is included and provided to the Municipality to determine eligibility. In addition, the documentation in one tenant's file doesn't provide adequate evidence of how the procedures to select the participants are made.
RECOMMENDATION	We recommend management to provide adequate trainings to the personnel in charge of the determination of eligibility and to establish and monitor appropriate internal controls in order to assure consistency in the application of eligibility criteria on every tenant selected.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management had been implemented the corrective measures and internal controls to provide adequate trainings to the personnel in charge of the determination of eligibility and to establish and monitor appropriate internal controls in order to assure consistency in the application of eligibility criteria on every tenant selected.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2014-016 – continuation

IMPLEMENTATION DATE April 30, 2015

RESPONSIBLE PERSON Director of Federal Programs and/or
Mr. Esdras Velez – Secretary of the Municipality

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-019
FEDERAL PROGRAM	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA NO. 14.239) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	M-10-MC-720201
COMPLIANCE REQUIREMENT	ELIGIBILITY
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR, Subpart E, Section 92.209 (c) requires that participating jurisdiction must select families in accordance with written tenant selection policies and criteria that are consistent with the following:(1) Low-income families. Tenant-based rental assistance may only be provided to very low- and low-income families. The participating jurisdiction must determine that the family is very low- or low-income before the assistance is provided. During the period of assistance, the participating jurisdiction must annually determine that the family continues to be low-income. (2) Preferences for individuals with Special Needs.(i) The participating jurisdiction may establish a preference for individuals with special needs. The participating jurisdiction may offer, in conjunction with a tenant-based rental assistance program, particular types of non-mandatory services that may be most appropriate for persons with a special need or a particular disability. Generally, tenant-based rental assistance and the related services should be made available to all persons with special needs or disabilities who can benefit from such services; (ii) the participating jurisdiction may also provide a preference for a specific category of individuals with disabilities (e.g., persons with HIV/AIDS or chronic mental illness) if the specific category is identified in the participating jurisdiction's consolidated plan as having unmet need and the preference is needed to narrow the gap in benefits and services received by such persons; (iii) Preferences cannot be administered in a manner that limits the opportunities of persons on any basis prohibited by the laws listed under 24 CFR 5.105(a). For example, a participating jurisdiction may not determine that persons given a preference under the program are therefore prohibited from applying for or participating in other programs or forms of assistance.
CONDITION	As part of our audit procedures over the HOME Program, we verified the methodology to select participants of the tenant - based rent assistance (TBRA). The program coordinator, provided a waiting list that began on July 2013. No evidence was provided for the selection of tenants which determination of eligibility was made before July 2013. Furthermore, the waiting list didn't include information of preferences, as established in the Municipality's Administrative Plan.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The waiting list observed doesn't provide assurance of the procedures performed to include a participant in the list and if a preference applies for a tenant.
CAUSE	The coordinator of the program doesn't have the required trainings in order to properly document the selection and determination of eligible tenants. No monitoring of the activities of the coordinator are performed by other personnel in the Municipality.
EFFECT OR POSSIBLE EFFECT	The Municipality is unable to provide evidence that the tenant selection is made according to the federal requirements and the Administrative Plan.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-019 – continuation
RECOMMENDATION	We recommend management to provide adequate trainings to the personnel in charge of the determination of eligibility and to establish and monitor appropriate internal controls in order to properly document and maintain evidence of inclusion of participants in the waiting list, preferences and subsequent selection in the program.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to provide adequate trainings to all persons that will be responsible of monitoring compliance with the earmarking requirements of HOME Program.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs and/or Mr. Esdras Velez – Secretary of the Municipality

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-020
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	RQ020
COMPLIANCE REQUIREMENT	ELIGIBILITY
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR, Section 5.230 (b)(1) state that the assistance applicant shall submit the signed consent forms to the processing entity when eligibility under a covered program is being determined. A participant shall sign and submit consent forms at the next regularly scheduled income reexamination. Assistance applicants and participants shall be responsible for the signing and submitting of consent forms by each applicable family member.
CONDITION	As part of our audit procedures over eligibility requirement for the Section 8 Program we didn't find a signed Release Forms in five (5) participants' files.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	This is a systemic deficiency.
CAUSE	The Municipality program staff failed to perform the required procedures regarding necessary information and documentation to verify income eligibility.
EFFECT OR POSSIBLE EFFECT	The Municipality did not have evidence of the written consent to allow them obtain information from third parties, about employment information and privacy notice to verify income eligibility.
RECOMMENDATION	We recommend management to establish adequate internal controls over the documentation that should be included as part of the eligibility determination.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls over the documentation that should be included as part of the eligibility determination.
IMPLEMENTATION DATE	April 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs / Section 8 Coordinator

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-021
FEDERAL PROGRAM	HEAD START PROGRAM (93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH PUERTO RICO DEPARTMENT OF FAMILY – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
AWARD NUMBER	241-2012-000192 / 241-2014-000129
COMPLIANCE REQUIREMENT	ELIGIBILITY
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	45 CFR, Subpart C Section 74.53 (b) states that financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report.
CONDITION	During our audit procedures over eligibility of individuals, we selected a sample of sixty (60) participants for internal control testing, and one (1) participant's file was not available for examination. In addition, we selected forty (40) participant's files for compliance testing and one (1) was not available for evaluation.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The Municipality didn't document an adequate process of transfer of documentation and activities performed when the transition process between them and the new delegated agency took place.
CAUSE	The Municipality, effective March 2014, was no longer the delegated agency to administer the Head Start Program funds, and transferred the documentation to the new delegated agency, and didn't keep proper evidence of participants who benefit from the funds.
EFFECT OR POSSIBLE EFFECT	Lack of supporting documents could result in unallowable cost that must be reimbursed to the federal agency from state funds.
RECOMMENDATION	We recommend management to continue the efforts to locate the missing participant's files.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management is implementing an adequate procedure to handle and preserve participant's files. Assigned personnel will continue and expand the efforts to locate the missing participant's files as soon as possible.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-022 (See FINDING REFERENCE NUMBER 2014-006)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBER	B-11-MC-72-009; B-12-MC-72-009; B-13-MC-72-009
COMPLIANCE REQUIREMENT	EQUIPMENT AND REAL PROPERTY MANAGEMENT
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	<p>24 CFR §85.32 – Property records must be maintained that include a description of the property, a other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.</p> <p>A physical inventory of the property must be taken and the results reconciled with the property records a least once every two years. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. Adequate maintenance procedures must be developed to keep the property in good condition. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.</p>
CONDITION	The Municipality did not provide a property records of all the property and equipment acquired with CDBG.
QUESTIONED COSTS	None
INFORMATION TO PROVIDE PROPER PERSPECTIVE	Municipality was unable to provide evidence of the property and equipment management. This is a systemic deficiency.
CAUSE	Municipality doesn't have accurate records to properly trace the property and equipment activities that should be reported to HUD.
EFFECT OR POSSIBLE EFFECT	Municipality is unable to assure that property acquired or constructed with CDBG funds are properly accounted and the usage is according to Federal requirements.
RECOMMENDATION	We recommend Municipality to identify all properties acquired with CDBG funds and maintain adequate accounting records in accordance with Federal regulation.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management had been implemented the corrective measures and internal controls to identify all properties acquired with CDBG funds and maintain adequate accounting records in accordance with Federal regulation and report any program income according to regulation.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs and/or Mr. Juan A. Galán Ramirez – Director of Finance

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-023 (See FINDING REFERENCE NUMBER 2014-007)
FEDERAL PROGRAM	HEAD START PROGRAM (93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH PUERTO RICO DEPARTMENT OF FAMILY – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
AWARD NUMBER	241-2012-000192 / 241-2014-000129
COMPLIANCE REQUIREMENT	EQUIPMENT AND REAL PROPERTY MANAGEMENT
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	<p>45 CFR, Subpart C Section 74.34 (f) states the recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following: equipment records shall be maintained accurately and shall include the following information: a description of the equipment; Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number; source of the equipment, including the award number; Whether title vests in the recipient or the federal government; acquisition date (or date received, if the equipment was furnished by the federal government) and cost; information from which one can calculate the percentage of HHS's share in the cost of the equipment (not applicable to equipment furnished by the federal government); location and condition of the equipment and the date the information was reported; unit acquisition cost; and ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the HHS awarding agency for its share. Equipment owned by the Federal Government shall be identified to indicate Federal ownership. The recipient shall take a physical inventory of equipment and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference.</p> <p>The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment. The recipient shall maintain a control system to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the HHS awarding agency. The recipient shall implement adequate maintenance procedures to keep the equipment in good condition.</p>
CONDITION	During our audit procedures over real property and equipment, the Municipality didn't provide evidence of an inventory of equipment owned with Head Start funds.
QUESTIONED COSTS	None
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The Municipality didn't document an adequate process of transfer of documentation and activities performed when the transition process between them and the new delegated agency took place.
CAUSE	The Municipality , effective March 2014, was no longer the delegated agency to administer the Head Start Program funds, and transferred the documentation to the new delegated agency, and didn't keep proper evidence of property transferred to the new delegated agency.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-023 (See FINDING REFERENCE NUMBER 2014-007)
EFFECT OR POSSIBLE EFFECT	Lack of appropriate property records could result in unallowable cost that must be reimbursed to the federal agency from state funds.
RECOMMENDATION	We recommend Municipality to make an inventory of all the property from Head Start funds transferred to the new delegated agency, and properly document the closeout.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management had been implemented the corrective measures and internal controls to make an inventory of all the property from Head Start funds transferrad to the new delegated agency, and properly document the closeout of the Program.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs and/or Mr. Juan A. Galán Ramirez – Director of Finance

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-024 (See FINDING REFERENCE NUMBER 2014-008)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBER	B-11-MC-72-009; B-12-MC-72-009; B-13-MC-72-009
COMPLIANCE REQUIREMENT	PROGRAM INCOME
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR §570.500 (a)(1)(iii) & (iv) – Program income means gross income received by the recipient or a subrecipient directly generated from the use of CDBG funds, except as provided in paragraph (a)(4) of this Section. Program income includes, but is not limited to, the following: (iii) Gross income from the use or rental of real or personal property acquired by the recipient or by a subrecipient with CDBG funds, less costs incidental to generation of the income; (iv) Gross income from the use or rental of real property, owned by the recipient or by a subrecipient, that was constructed or improved with CDBG funds, less costs incidental to generation of the income.
CONDITION	As part of our audit procedures we noted that the Municipality used CDBG funds for the acquisition or construction of property that generate income. The Municipality didn't provide a detail of property that was constructed with CDBG funds, although, a report from IDIS provides evidence of construction of facilities with CDBG funds.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	Municipality was unable to provide evidence of the source for the program income. This is a systemic deficiency.
CAUSE	Municipality doesn't have accurate records to properly trace the program income activities that should be reported to HUD.
EFFECT OR POSSIBLE EFFECT	Municipality could have additional resources to provide additional assistance or perform additional activities, and because no accurate records exists related to program income these resources cannot be quantified.
RECOMMENDATION	We recommend Municipality to identify all properties acquired with CDBG funds in order to establish all program income and properly reported to HUD.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to identify all properties acquired with CDBG funds in order to establish all program income and properly reported to HUD; in addition, to maintain accurate records to properly trace the program income activities that should be reported to HUD.
IMPLEMENTATION DATE	September 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs and/or Mr. Juan A. Galán Ramírez – Director of Finance

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-025 (See FINDING REFERENCE NUMBER 2014-009)
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	RQ020
COMPLIANCE REQUIREMENT	REPORTING
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR Section 5.801 (c) (1) states that the financial information to be submitted to HUD in accordance with paragraph (b) of this section, must be submitted to HUD annually, no later than 60 days after the end of the fiscal year of the reporting period, and as otherwise provided by law. In addition, on Section (d) (1) states that audited financial statements will then be required no later than 9 months after the PHA's fiscal year end, in accordance with the Single Audit Act and OMB Circular A-133. Further, it states that PHAs are required to submit timely GAAP-based unaudited and audited financial information electronically to HUD.
CONDITION	The Municipality did not submit the required Unaudited Financial Reports to the US Housing and Urban Development of fiscal year ending June 30, 2014 during the required period. The Unaudited Financial Reports was submitted on February 5, 2015.
QUESTIONED COSTS	None Noted.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The Municipality submitted the audited submission of the fiscal year ended June 30, 2013 in January 21, 2015. Due to the delay in submitting this report, they submitted the unaudited report on February 5, 2015.
CAUSE	The Municipality accounting records were not available timely in order to comply with the required submission dates.
EFFECT OR POSSIBLE EFFECT	The Municipality did not comply with the submission date required for the Financial Reports to the US Housing and Urban Development. This situation may cause a reduction of a 10% of the Administrative portion of the award.
RECOMMENDATION	We recommend management to implement adequate internal control procedures in order to assure that accounting records and supporting documentation is available on a timely manner.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to assure that accounting records and supporting documentation is available on a timely manner. In addition, the Municipality submitted the audited financial statements for the year ended on June 30, 2014 on March 31, 2015, no later than 9 months after the PHA's fiscal year end, in accordance with the Single Audit Act and OMB Circular A-133.
IMPLEMENTATION DATE	April 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs and/or Mr. Juan A. Galán Ramirez – Director of Finance

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-026
FEDERAL PROGRAM	HEAD START PROGRAM (93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH PUERTO RICO DEPARTMENT OF FAMILY – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
AWARD NUMBER	241-2012-000192 / 241-2014-000129
COMPLIANCE REQUIREMENT	REPORTING
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	45 CFR, Subpart C Section 74.53 (b) states that financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report.
CONDITION	During our audit procedures over reporting, we obtain a copy of the close out report submitted timely to the pass-through agency, although, no accounting records were provided that reconciled with the close out report.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The Municipality didn't document an adequate process of transfer of documentation and activities performed when the transition process between them and the new delegated agency took place.
CAUSE	The Municipality, effective March 2014, was no longer the delegated agency to administer the Head Start Program funds, and transferred the documentation to the new delegated agency, and didn't keep proper evidence of the expenditures reported in the close out at February 28, 2014.
EFFECT OR POSSIBLE EFFECT	Lack of supporting documents could result in unallowable cost that must be reimbursed to the federal agency from state funds.
RECOMMENDATION	We recommend management to continue the efforts to locate the missing documentation, and properly document the closeout.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to continue the efforts to locate the missing documentation, and properly document the closeout of the Program.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs and/or Mr. Esdras Velez – Secretary of the Municipality

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-027
FEDERAL PROGRAM	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA NO. 14.239) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	M-10-MC-720201
COMPLIANCE REQUIREMENT	SUBRECIPIENT MONITORING
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR Section 92.254 (a) (3) requires that the housing must be acquired by a homebuyer whose family qualifies as a low-income family and the housing must be the principal residence of the family throughout the period described in paragraph (a)(4) of this Section. Section 92.254 (a)(4) establishes that the HOME-assisted housing must meet the affordability requirements for not less than the applicable period specified in the following table, beginning after project completion. The per unit amount of HOME funds and the affordability period that they trigger are described more fully in paragraphs (a)(5)(i) (resale) and (ii) (recapture) of this section. In addition, 24 CFR, Subpart K Section 92.504 (a) states that the participating jurisdiction is responsible for managing the day to day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise.
CONDITION	As part of our audit procedures over the HOME Program, we verified the two activities related to homeownership assistance. We didn't find in the participants files evidence of the principal residency requirement. In addition, no evidence in writing was included in the files, related to the requirement of continuing affordability.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	This is a systemic deficiency.
CAUSE	The coordinator of the program doesn't have the required trainings in order to properly document this provisions.
EFFECT OR POSSIBLE EFFECT	The Municipality can't provide evidence indicating that they evaluated and required the participant of the homeownership assistance to comply with the principal residency requirement. In addition, if the house does not continue to be the principal residency, the Municipality doesn't have a written agreement requiring compliance with provisions from federal regulations.
RECOMMENDATION	We recommend management to provide adequate trainings to the personnel in charge of the determination and documentation of eligibility for the homeownership assistance.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to provide adequate trainings to the personnel in charge of the determination and documentation of eligibility for the homeownership assistance.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs and/or Mr. Esdras Velez – Secretary of the Municipality

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-028
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	RQ020
COMPLIANCE REQUIREMENT	SPECIAL TEST AND PROVISIONS
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR Section 982.405 (a) states that the PHA must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the HQS.
CONDITION	During our HQS Inspection Test, we noted that thirteen (13) units were not inspected annually. The lapse of time between the last two periods of inspections fluctuated from a half month to two months over the required period for the performance of the annual inspection.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	A total of ninety (90) participant files were examined; on thirteen (13) files examined (14%) we noted that the inspections were made after the required period. <i>This is a repeat finding.</i>
CAUSE	The Municipality didn't have a plan to assure that the visits for the revision of the Housing Quality Standards were made within the required period established by HUD.
EFFECT OR POSSIBLE EFFECT	The Municipality failed to visit the units within the annually time frame required by the regulation. The Municipality did not obtain reasonable assurance that the housing units meet Housing Quality Standards (HQS) established by HUD.
RECOMMENDATION	We recommend management to monitor the performance of the inspections when required, and prepare a schedule of the dates for the visit, in order to assure compliance with this requirement.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to monitor the performance of the inspections when required, and prepare a schedule of the dates for the visit, in order to assure compliance with this requirement.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs / Section 8 Coordinator

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-029
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	RQ020
COMPLIANCE REQUIREMENT	SPECIAL TEST AND PROVISIONS
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR Section 982.405 (b) state that the PHA must conduct supervisory quality control HQS inspections.
CONDITION	During our HQS Inspection Test, we were unable to obtain evidence that the PHA conducted supervisory quality control inspection.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	This is a systemic deficiency.
CAUSE	The Municipality didn't prepare a plan in order to document compliance with this requirement.
EFFECT OR POSSIBLE EFFECT	The Municipality failed to conducted supervisory quality control HQS inspections required by the regulation. The Municipality did not obtain reasonable assurance that the housing units meet Housing Quality Standards (HQS) established by HUD.
RECOMMENDATION	We recommend management to implement adequate internal control procedures in order to assure that the inspections are made according to the HQS.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls in order to assure that the inspections are made according to the HQS and to assure the personnel assigned conduct the appropriate supervisory quality control inspection.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs / Section 8 Coordinator

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-030
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	RQ020
COMPLIANCE REQUIREMENT	SPECIAL TEST AND PROVISIONS – HOUSING ASSISTANT PAYMENT
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR Section 982.451(b)(2) states that the monthly housing assistance payment by the PHA is credited toward the monthly rent to owner under the family's lease.(3) The total of rent paid by the tenant plus the PHA housing assistance payment to the owner may not be more than the rent to owner. The owner must immediately return any excess payment to the PHA. Notice PIH 2011-67 state that Disbursements will continue to be scheduled to arrive at the PHAs' banks on the first of the month, which is the date on which PHAs issue their Housing Assistance Payments checks to property owners. Schedule ensures that PHAs do not receive advances from HUD for more than each PHA's immediate disbursement.
CONDITION	During our audit we noted that Municipality didn't schedule the monthly payments checks to fourteen (14) property owners on May 2014. The lapse of time fluctuated from eight (8) days to three (3) months after the first five (5) days of the month.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	A total of ninety (90) participant files were examined; on fourteen (14) files examined (16%) we noted that the housing payments were made after the required period.
CAUSE	In our sample we found that fourteen (14) owners didn't receive their monthly Housing Assistant Payment in accordance with regulation.
EFFECT OR POSSIBLE EFFECT	The Municipality failed to pay the rent to owners within the monthly time frame required by the regulation. The Municipality did not obtain reasonable assurance that the unit's payments meet Housing Assistant Payment established by HUD.
RECOMMENDATION	We recommend management to monitor the performance of the housing payments when required, and prepare a payment schedule in order to assure compliance with this requirement.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to monitor the performance of the housing payments when required, and prepare a payment schedule in order to assure compliance with this requirement.
IMPLEMENTATION DATE	April 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs / Section 8 Coordinator

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-031
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	RQ020
COMPLIANCE REQUIREMENT	SPECIAL TEST AND PROVISIONS – ROLLING FORWARD EQUITY BALANCES
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR 982.158 (a) states that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The must comply with the financial reporting requirements in 24 CFR part 5, subpart H.
CONDITION	As part of our audit procedures over the monthly submitted reports, Voucher Management System (VMS), we required evidence of how the Administrative Fee Equity and HAP Equity were calculated. The accountant didn't provide a monthly detail that reconciled with the information submitted in the VMS. In addition, the amounts presented in the VMS at June 30, 2014, do not reconcile with the amounts presented in the Financial Data Schedule (FDS).
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The bank reconciliations were not prepared timely, therefore, the reconciliations and roll forward of the HAP and Administrative Fee Equity was not reconciled monthly.
CAUSE	The program accountant do not reconcile the HAP and Administrative Fee Equity balances monthly.
EFFECT OR POSSIBLE EFFECT	The Municipality did not have proper accounting records to allow them maintain complete and accurate to detect and correct accounting errors in a timely manner.
RECOMMENDATION	We recommend management to prepare the bank conciliations timely, and reconcile on a monthly basis the HAP and Administrative Fee equity balances and document it.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls, work schedules and instruction to administrative personnel to prepare the bank reconciliations timely, and reconcile on a monthly basis the HAP and Administrative Fee equity balances and document it.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Section 8 Coordinator / Mr. Juan A. Galán Ramirez – Director of Finance

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-032
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBERS	RQ020
COMPLIANCE REQUIREMENT	SPECIAL TEST AND PROVISIONS
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
CRITERIA	24 CFR Section 982.404 (a)(3) states that the PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any PHA-approved extension).
CONDITION	During our HQS Enforcement Test we selected a sample of forty (40) units that didn't pass the inspection and for which an enforcement period was assigned. We noted that the time granted for three (3) tenants to correct a deficiency was monitored within one (1) month and three and half (3 1/2) months after the thirty (30) calendar days period established by the regulation. In other inspection, the evidence of the enforcement nor the participants file was provided for our evaluation.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	This is a systemic problem.
CAUSE	The Municipality didn't have a plan to assure that the visits for the enforcement were made within the required established period.
EFFECT OR POSSIBLE EFFECT	The Municipality failed to visit the units for which enforcement was required within the thirty (30) calendar days required by the regulation, which leads to housing assistance payments that are not allowed as established by the regulation.
RECOMMENDATION	We recommend management to monitor the enforcement inspections when required, and prepare a schedule of the dates for the visit, in order to assure compliance.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to monitor the enforcement inspections when required, and prepare a schedule of the dates for the visit, in order to assure compliance with program requirements.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Mr. Esdras Velez – Secretary of the Municipality and Section 8 Coordinator

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2014-033
FEDERAL PROGRAM	HEAD START PROGRAM (93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH PUERTO RICO DEPARTMENT OF FAMILY – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
AWARD NUMBER	241-2012-000192 / 241-2014-000129
COMPLIANCE REQUIREMENT	SPECIAL TEST AND PROVISIONS
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	45 CFR Subpart C, Section 74.53 (b) states that financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report.
CONDITION	During our audit procedures over special test and provisions, no evidence of the licenses required by the pass-through agency were provided for the selected centers.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The Municipality didn't document an adequate process of transfer of documentation and activities performed when the transition process between them and the new delegated agency took place.
CAUSE	The Municipality , effective March 2014, was no longer the delegated agency to administer the Head Start Program funds, and transferred the documentation to the new delegated agency, and didn't keep proper evidence of licenses of the centers.
EFFECT OR POSSIBLE EFFECT	We were unable to ascertain that the centers are in compliance with all the required licenses.
RECOMMENDATION	We recommend management to continue the efforts to locate the missing documentation, and properly document the closeout.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Management has been developed and implemented adequate internal controls to continue and expand the efforts to locate the missing documentation, and properly document the closeout of the Program.
IMPLEMENTATION DATE	June 30, 2015
RESPONSIBLE PERSON	Director of Federal Programs

END OF SCHEDULE

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(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2013

Finding Number	2013-008	Allowable Costs/Cost Principles Missing supporting payments documentation.
CFDA Number	93.600	
Questioned Cost	\$92,996	
Auditee Comments	Pending of final determination of Pass-Through Entity Puerto Rico Department of Education.	

Finding Number	2013-009	Allowable Costs/Cost Principles Transfer of \$200,000 from Head Start Program; \$200,000 from Section 8 Housing Choice Vouchers Program, and \$50,000 from Child and Adult Care Food Program for not authorized purposes.
CFDA Number	10.558 14.871 93.600	
Questioned Cost	\$450,000	
Auditee Comments	Pending of final determination of Pass-Through Entity Puerto Rico Department of Education, U.S. Department of Housing and Urban Development, and Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	

Finding Number	2013-010	Cash Management Delay to disburse requested fund since the date they were received.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	2013-011	Davis-Bacon Act The Municipality didn't provide evidence of compliance with the Davis-Bacon Act.
CFDA Number	93.600	
Questioned Cost	Not Determined	
Auditee Comments	Pending of final determination of Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	

continue

(2) Audit Findings not Corrected or Partially Corrected: -- continuation

Finding Number	2013-012	Eligibility A new participant was admitted to the program even though that their income exceeded the income guideline established by HUD for a family composition of 4.
CFDA Number	14.871	
Questioned Cost	\$1,290	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	2013-013	Matching, Level of Effort, and Earmarking Expenditures related to public services exceeded the amount established by formula by HUD.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	2013-014	Reporting The SEFA prepared by the Municipality presented material misstatements related to the expenditures of all Federal programs.
CFDA Number	All	
Questioned Cost	None	
Auditee Comments	Pending of final determination of cognizant agency.	
Finding Number	2013-015	Reporting The Municipality did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2013 during the required period.
CFDA Number	All	
Questioned Cost	None	
Auditee Comments	Pending of final determination of cognizant agency.	
Finding Number	2013-016	Reporting The Municipality accounting records did not reconciled with the audited financial statements of prior year. Furthermore, during fiscal year 2012-2013, the Municipality did not have adequate accounting records in order to produce the financial statements with supporting documentation timely.
CFDA Number	14.871	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Questioned Cost	None
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.
Finding Number	2013-017 Reporting The Municipality submitted the Close-Out Report on April 12, 2013, almost thirty-three (33) days after the close of the program year.
CFDA Number	93.600
Questioned Cost	None
Auditee Comments	Pending of final determination of Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.
Finding Number	2013-018 Reporting The Consolidated Annual Performance and Evaluation Report (CAPER) on October 1, 2013, ninety-three (93) days after the end of fiscal year.
CFDA Number	14.218
Questioned Cost	None
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.
Finding Number	2013-019 Special Test and Provisions Delay in performance of the annual inspection.
CFDA Number	14.871
Questioned Cost	None
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.
Finding Number	2013-020 Special Test and Provisions The Municipality don't have a signed Depository Agreement form, as required by HUD, with the financial institution.
CFDA Number	14.871
Questioned Cost	None
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.

(2) Audit Findings not Corrected or Partially Corrected: – continuation

FISCAL YEAR 2012

Finding Number	12-07	Allowable Costs/Cost Principles Transfer of funds to the Head Start Program.
CFDA Number	10.558	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Puerto Rico Department of Education.	
Finding Number	12-09	Cash Management Delay to disburse requested fund since the date they were received.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	12-10	Reporting Federal Financial Report for the quarter ended March 31, 2012 were not available for examination.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	12-11	Matching, Level of Effort, and Earmarking Municipality has not complied with the use of 70% of funds over a period of up to three years.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	12-12	Special Test and Provisions Missing documentation and delay in final inspections relating to Housing Rehabilitation.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	12-15	Cash Management Delay to disburse requested fund since the date they were received.
CFDA Number	14.257	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	12-17	Special Test and Provisions Transfer of funds to the Head Start Program to cover matching funds. Also, transfer of funds to the operating account of the General Fund.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	12-18	Reporting Audited Financial Statement was not submitted to HUD through the REAC in the stipulated date (March 31, 2013).
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	12-20	Cash Management Delay to disburse requested fund since the date they were received.
CFDA Number	93.575	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	
Finding Number	12-21	Reporting Could not trace the amounts presented in Financial Reports to the accounting records.
CFDA Number	93.575	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

(2) Audit Findings not Corrected or Partially Corrected: -- continuation

Finding Number	12-22	Allowable Costs/Cost Principles Count not verify the intended use of transfer of funds to the operating account of the General Fund.
CFDA Number	93.600	
Questioned Cost	\$210,000	
Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	
Finding Number	12-23	Cash Management Delay to disburse requested fund since the date they were received.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	
Finding Number	12-24	Allowable Costs/Cost Principles Transfer of funds from the Section 8 Housing Voucher Program to the Head Start Program and from Child and Adult Care Food Program to the Head Start Program.
CFDA Number	10.558 14.871 93.575 93.600	
Questioned Cost	Not Determinable	
Auditee Comments	Pending of final determination of Pass-Through Entity PR Administration for Children and Families of the Department of Families, the US Department of Housing and Urban Development, and the Pass-Through Entity Puerto Rico Department of Education.	
Finding Number	12-25	Procurement, Suspension, and Debarment Missing contract clauses.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	12-26	Reporting The Municipality did not complete the single audit for the Fiscal Year 2011-2012 during the period established by the Single Audit Act Amendments of 1996
CFDA Number	ALL	
Questioned Cost	None	
Auditee Comments	Pending of final determination of the overseeing agency.	
FISCAL YEAR 2011		
Finding Number	11-05	Cash Management Delay to disburse requested fund since the date they were received.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	11-07	Special Test and Provisions Missing documentation and delay in final inspections relating to Housing Rehabilitation.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	11-08	Real Property Acquisition and Relocation Assistance Land acquisition of protected wilderness area that could be preserved in its natural state and could not be developed.
CFDA Number	14.239	
Questioned Cost	\$52,000	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	11-10	Cash Management Delay to disburse requested fund since the date they were received.
CFDA Number	93.575	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number 11-11 **Cash Management**
 Delay to disburse requested fund since the date they were received.

CFDA Number 93.600

Questioned Cost None

Auditee Comments Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.

Finding Number 11-13 **Matching, Level of Effort, and Earmarking**
 The Municipality does not maintain proper documentation to ensure compliance with the program required contribution.

CFDA Number 93.600

Questioned Cost None

Auditee Comments Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.

Finding Number 11-14 **Procurement, Suspension, and Debarment**
 Missing contract clauses.

CFDA Number 93.600

Questioned Cost None

Auditee Comments Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.

FISCAL YEAR 2010

Finding Number 10-15 **Cash Management**
 Delay to disburse requested fund since the date they were received.

CFDA Number 93.575

Questioned Cost None

Auditee Comments Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.

Finding Number 10-18 **Cash Management**
 Delay to disburse requested fund since the date they were received.

CFDA Number 93.600

Questioned Cost None

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.
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(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE