

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)



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**TORRES, HERNANDEZ & PUNTER, CPA, CSP**  
Certified Public Accountants

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ARROYO**

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Arroyo of the Commonwealth of Puerto Rico (the Municipality), as of and for the year ended June 30, 2013, which collectively comprise the Municipality's financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

### Basis for Qualified Opinion

#### Capital Assets

Management has not recorded certain capital assets in governmental activities and, accordingly, has not recorded depreciation expenses on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities cannot be reasonably determinable.

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### **Basis for Qualified Opinion (Continued)**

#### **Liability for Closure and Postclosure Care Cost**

Also, as discussed in Note 2.D-11 to the financial statements, the Municipality has not recorded a provision for liability related to the closure and postclosure care costs related to the operation of the landfill. Accounting principles generally accepted in the United States of America require that a provision for liability related to closure and postclosure care costs be recorded to comply with applicable federal and state regulations. The amount by which this departure would affect the liabilities, net assets and expenses of governmental activities cannot be reasonably determinable.

### **Qualified Opinion**

In our opinion, except for the effects of not recording certain capital assets in governmental activities and the related depreciation expense and for the effects of not providing a provision for liability of closure and postclosure care costs related to the operation of the landfill as described in the preceding paragraphs, the financial statements referred to previously present fairly, all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality as of June 30, 2013 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis on pages 4 through 14 and the budgetary comparison schedule of the general fund and related notes on pages 57-59 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards we have also issued our report dated September 11, 2014, on our consideration of the Municipality's internal control over financial reporting and 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 considering the Municipality's internal control over financial reporting and compliance.

*Torres, Hernández & Punter, CPA, PSC*

**Torres, Hernández & Punter, CPA, PSC**  
**Certified Public Accountants**

**Carolina, Puerto Rico**

September 11, 2014

Stamp #E139197 of the  
College of CPA's of  
Puerto Rico is affixed  
to the original.

The following discussion and analysis of the Municipality of Arroyo of the Commonwealth of Puerto Rico (**Municipality**)'s financial performance provides an overview of the **Municipality's** financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements which follow this section.

## FINANCIAL HIGHLIGHTS

### Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the **Municipality** as a whole using the economic resources measurement focus and accrual basis of accounting:

- The assets of the **Municipality**, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2013 by \$18,382,957 (net position).
- Revenues decreased by (\$378,244) (3%) and expenses increased by \$2,099,727 (13%) in comparison with year 2012, as restated.
- Net change in net position amounted to (\$1,832,319), a decrease of (\$2,477,971) with respect to prior year.

### Highlights for Fund Financial Statements

The fund financial statements provide detailed information about the **Municipality's** most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, the **Municipality's** governmental funds reported combined ending fund balances of \$2,059,146, a decrease of (\$825,550) in comparison with the prior year.
- The General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of (\$929,148) and an unassigned (deficit) fund balance of (\$939,638). Net change in fund balance decreased by (\$248,159), when compared with prior year change.

### General Financial Highlights

- The investment in capital assets as of June 30, 2013 was \$28,209,127 (net of related debt).
- Long-term debt general and special obligation bonds decreased to \$10,030,000, approximately (7%) with respect to prior year.
- All other long-term debts increased and net reductions from payments amounted to \$489,041.
- On a budgetary basis, actual expenditures exceeded actual revenues and transfers by \$670,842.
- Revenues increase was mainly in Intergovernmental Revenues of \$856,428.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The **Municipality's** basic financial statements comprise three components: (1) management discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information.



The **Municipality's** basic financial statements consist of two kinds of statements, each with a different view of the **Municipality's** finances. The government-wide financial statements provide both long-term and short-term information about the **Municipality's** overall financial status. The fund financial statements focus on major aspects of the **Municipality's** operations, reporting those operations in more detail than the government-wide statements:

### Basic Financial Statements

#### ◆ *Government-Wide Financial Statements*

The government-wide statements report information about the **Municipality** as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

**Statement of Net Position** –The *Statement of Net Position* presents information on all of the **Municipality's** assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether its financial position is improving or deteriorating. Other non-financial factors, such as the condition of the **Municipality's** roads and other infrastructure may need to be considered to assess the overall financial position of the **Municipality**.

**Statement of Activities** – The *Statement of Activities* presents information showing how the **Municipality's** net position changed during the year. All changes in net position (current year's revenues less expenses) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental and business-type activities). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the **Municipality** that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the **Municipality** include general government, public works and sanitation; public safety, culture and recreation, housing, welfare, and community development and education. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 15-16 of this report.

#### ◆ **Fund Financial Statements**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds 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. Such information may be useful in evaluating the **Municipality's** near-term financing requirements.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the **Municipality's** governmental funds reported combined ending fund balances of \$2,059,146. Approximately (\$2.5) million of this isn't available for spending at the government's discretion [Unassigned Fund Balance (Deficit)]. The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed.

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, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The governmental fund statements focus on major funds. The **Municipality's** major funds are the general fund (which accounts for the main operating activities of the **Municipality**) and funds that comply with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

#### ◆ **Notes to the Financial Statements**

Provide integral information needed to explain the basis for the numbers used within the Basic Financial Statements and provide more detailed data.

#### ◆ **Required Supplementary Information**

Provides additional information to better understand the financial position of the **Municipality** and contains the Budgetary Comparison Schedule for the General Fund.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Statement of Net Position**

Net position (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net position for the year had a decrease of 5% with respect to prior year as restated. The most significant change was an increase of the unrestricted deficit by (\$4,255,652). There was also an increase in capital assets by \$3,218,076 (net of depreciation), and a decrease in long-term liabilities by (\$574,215).

The following Table presents a summary of the Statements of Net Position as of June 30, 2013 and 2012:

<b>Commonwealth of Puerto Rico Municipality of Arroyo Statement of Net Position As of June 30,</b>		
	<b>2013</b>	<b>2012</b>
Current and Non-Current Assets	\$ 4,637,436	\$ 5,119,359
Capital Assets	33,656,517	34,812,853
<b>Total Assets</b>	<b>38,293,953</b>	<b>39,932,212</b>
Current Liabilities	2,480,939	1,703,060
Unearned Revenues	966,228	987,021
Long-Term Liabilities	16,463,829	17,038,044
<b>Total Liabilities</b>	<b>19,910,996</b>	<b>19,728,125</b>
Net Position:		
Net Investment in Capital Assets	28,209,127	24,991,051
Restricted	3,057,937	3,852,680
Unrestricted (Deficit)	(12,884,107)	(8,628,455)
<b>Total Net Position</b>	<b>\$ 18,382,957</b>	<b>\$ 20,215,276</b>

The largest portion of the **Municipality's** net position reflects its net investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$28,209,127; total capital assets (\$53,740,856) less accumulated depreciation (\$20,084,339) and less any related outstanding debt (\$5,447,390) used to acquire those assets. The **Municipality** uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

Restricted net position represents resources that are subject to external restrictions on how they may be used.

Unrestricted net position is the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2013 the **Municipality** presented unrestricted (deficit) net position of (\$12,884,107). This balance was affected by long term obligations such as compensated absences \$1,460,826 and other debts for the amount of \$6,354,674 for which the **Municipality** did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation.

**Statement of Activities**

The following Table compares the revenues and expenses for the current and previous fiscal year.

With respect to prior year, revenues decreased by approximately (\$378,244) or 3%, principally on capital grants and contributions.

Expenses increased 13% or \$2 million in comparison with 2012. The most significant increases were registered on Urban Development and Human Services and Welfare.

<b>Commonwealth of Puerto Rico Municipality of Arroyo Statement of Activities For Fiscal Years Ending June 30,</b>		
	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>		
Program Revenues:		
Changes for Services	\$ -	\$ 40,716
Operating Grants and Contributions	3,029,552	3,167,806
Capital Grants and Contributions	-	713,681
General Revenues:		
Property Taxes	1,850,759	1,901,512
Volume of Business Taxes	1,014,443	1,030,876
Sales and Usage Taxes	1,163,561	983,287
Construction Excise Taxes	244,753	177,741
Intergovernmental	6,457,992	5,601,564
Other General Revenues	201,432	723,553
Donated Capital Assets	-	-
<b>Total Revenues</b>	<b><u>13,962,492</u></b>	<b><u>14,340,736</u></b>
<b>Expenses:</b>		
General Administration	7,223,444	6,589,548
Public Safety	557,684	490,087
Public Works	1,806,792	2,381,628
Public Instruction	-	333,615
Culture and Recreation	993,294	1,004,355
Health and Sanitation	258,169	-
Solid Wasted Disposal	-	-
Human Services and Welfare	2,876,493	2,211,097
Urban Development	1,622,289	546,238
Loss on Disposition of Assets	-	-
Interest Costs	456,646	472,131
<b>Total Expenses</b>	<b><u>15,794,811</u></b>	<b><u>14,028,699</u></b>
<b>Changes in Net Position</b>	<b>(1,832,319)</b>	<b>312,037</b>
Net Position-Beginning, as Restated	20,215,276	19,903,239
<b>Net Position-Ending</b>	<b><u>\$ 18,382,957</u></b>	<b><u>\$ 20,215,276</u></b>

Figure 1 presents revenues comparison by sources of the governmental activities during the past two years:

FIGURE 1

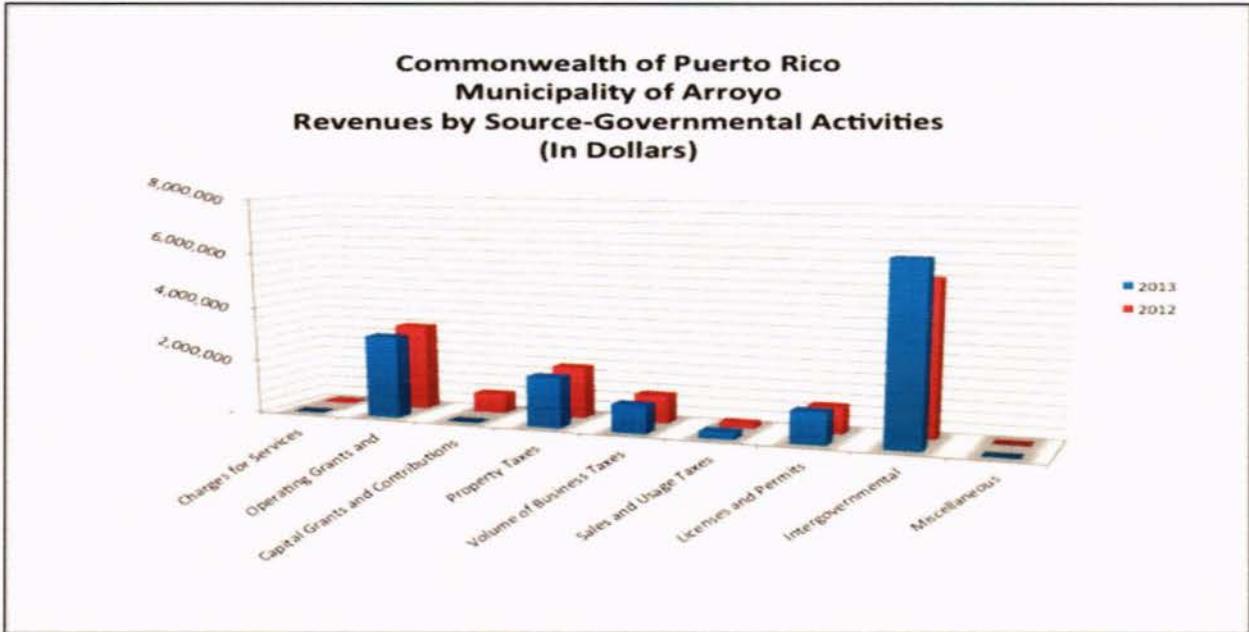
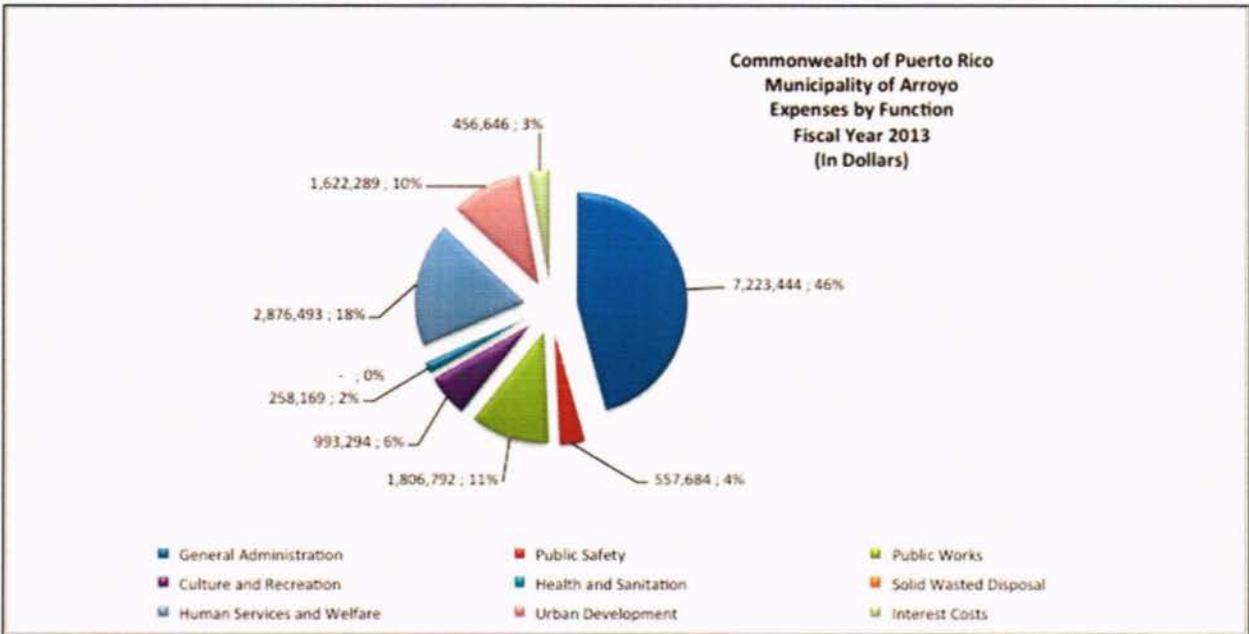


Figure 2 presents expenses by function of the governmental activities during the fiscal year 2012-2013:

FIGURE 2



Approximately 46.9% of the **Municipality's** revenues came from intergovernmental, 13.4% from property taxes, 22% from grants and contributions, and 17.7% from other sources. The **Municipality's** expenses cover a range of services. The largest expenses are General Administration with 45.7%, Human Services and Welfare with 18.2%, Public Works 11.4%, and Urban Development with 10.3%. Program revenues of the **Municipality** covered 19% of total expenses.

The following table focuses on the cost of each of the **Municipality's** largest functions/programs as well as each functions/program's net cost (total cost less fees generated by the programs and program-specific intergovernmental aid):

**Table 3**

**Commonwealth of Puerto Rico  
Municipality of Arroyo  
Net Cost of Municipality's Governmental Activities  
For Fiscal Years Ended June 30,**

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
General Administration	\$ 7,223,444	\$ 6,589,548	\$ 7,223,444	\$ 6,589,548
Public Safety	557,684	490,087	406,637	374,961
Public Works	1,806,792	2,381,628	1,761,825	1,270,977
Public Instruction	-	333,615	-	(1,019)
Culture and Recreation	993,294	1,004,355	993,294	1,004,355
Solid Waste Disposal	-	-	-	-
Human Services and Welfare	2,876,493	2,211,097	1,015,582	703,120
Urban Development	1,622,289	546,238	659,662	(307,577)
Others	714,815	472,131	704,815	472,131
<b>Total</b>	<b>\$ 15,794,811</b>	<b>\$ 14,028,699</b>	<b>\$ 12,765,259</b>	<b>\$ 10,106,496</b>

Some of the cost of governmental activities in 2013 was paid from other governments and organizations that subsidized certain programs with grants and contributions (\$3,029,552). Other general revenues including property, volume of business, sales and usage, construction excise taxes, and intergovernmental revenues substantially covered the \$12,765,259 net cost of services.

## FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

### Governmental Funds

The focus of the **Municipality's** governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the **Municipality's** financing requirements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent. The following table presents a comparison of the 2013 and 2012 fund balances.

**Table 4**

**Commonwealth of Puerto Rico  
Municipality of Arroyo  
Fund Balance  
As of June 30,**

	2013	2012
<b>Fund Balances:</b>		
Nonexpendable	\$ -	\$ -
Restricted	4,562,875	11,974,450
Committed	-	30,516
Assigned	-	-
Unassigned (Deficit)	(2,503,729)	(7,109,829)
<b>Total</b>	<b>\$ 2,059,146</b>	<b>\$ 4,895,137</b>

**Table 5**

**Commonwealth of Puerto Rico  
Municipality of Arroyo  
General Fund  
As of June 30,**

Description	2013	2012
<b>Revenues:</b>		
Property Taxes	\$ 1,386,716	\$ 1,413,917
Volume of Business Taxes	1,014,443	1,030,876
Sales and Usage Taxes	682,949	605,698
Intergovernmental	5,796,875	5,505,424
Construction Excise Taxes	244,753	177,741
Miscellaneous	205,995	723,553
<b>Total Revenues</b>	<b>9,331,731</b>	<b>9,457,209</b>
<b>Expenditures:</b>		
General Government	6,551,028	6,506,919
Public Safety	406,287	438,941
Public Work	1,395,687	2,324,952
Culture and Recreation	687,520	578,087
Health and Sanitation	258,169	-
Solid Waste Disposal	-	-
Human Services and Welfare	638,484	669,763
Urban Development	117,695	-
Miscellaneous	-	-
Capital Outlay	42,257	-
<b>Total Expenditures</b>	<b>10,097,127</b>	<b>10,518,662</b>
Net Transfer In (Out)	(163,752)	380,464
Proceed of Notes	-	-
<b>Net Decrease in Fund Balance</b>	<b>\$ (929,148)</b>	<b>\$ (680,989)</b>

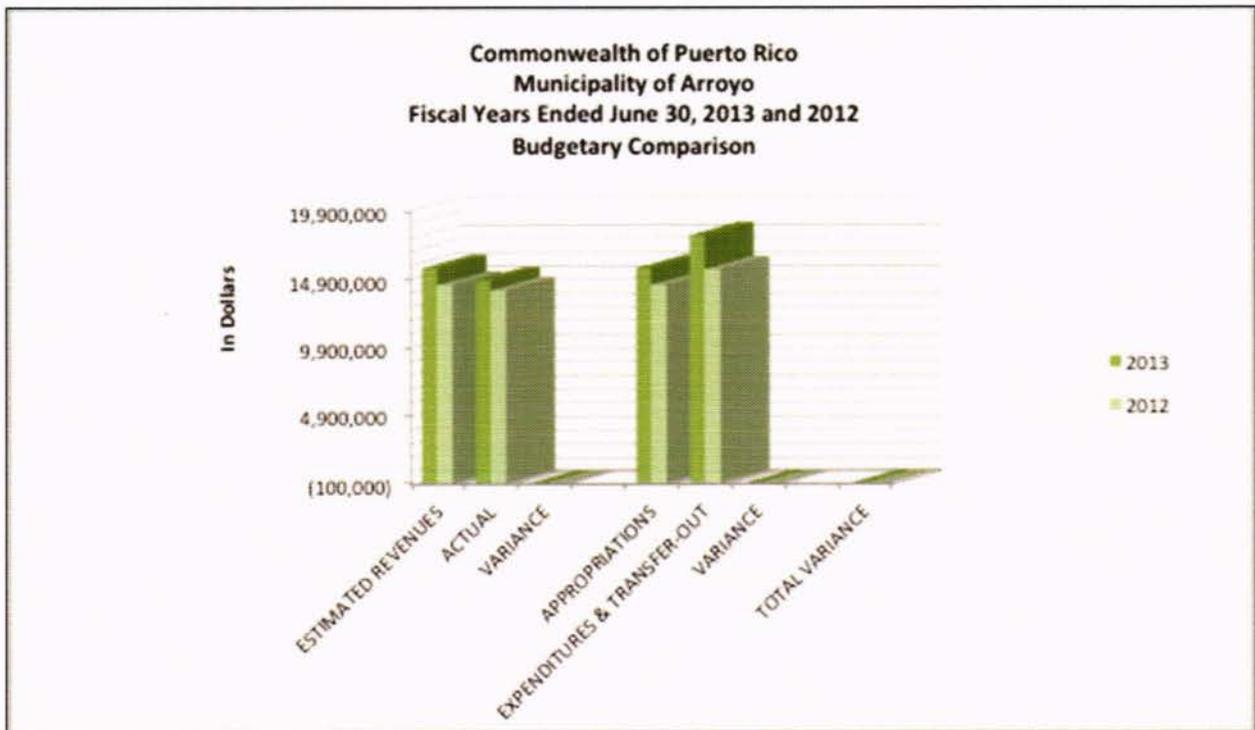
At the end of the current fiscal year, the **Municipality's** governmental funds reported combined ending fund balances of \$2,059,146. Of this amount (\$2,503,709) isn't available for spending at the government's discretion (Unassigned Fund Balance). The remainder of fund balance is restricted, to indicate that is not available for new spending because it has already been committed. For the fiscal year ended June 30, 2013, the governmental funds reported a net decrease of (\$2,835,991) in comparison with the prior year. This decrease was due primarily by a decrease in restricted funds of (\$7,411,575).

**GENERAL FUND  
BUDGETARY HIGHLIGHTS**

The general fund original budget for the fiscal period 2012-2013 presented an immaterial difference with respect to prior year budget with an increase of

\$169,050. The **Municipality** does not include an amendment to the budget the positive and negative changes on other revenues, principally in volume of business taxes (\$230,057), and (\$187,051) from sales and usage taxes. Budget expenditures were amended during the year in accordance with functions estimates (see **Figure 3** below).

FIGURE 3



The negative variance of (\$670,842) between revised budget and actual results was due mainly to a decrease in revenues during the year. The **Municipality** reported more expenditures than appropriations in those functions for payments to purchase of supplies, professional and nonprofessional services.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

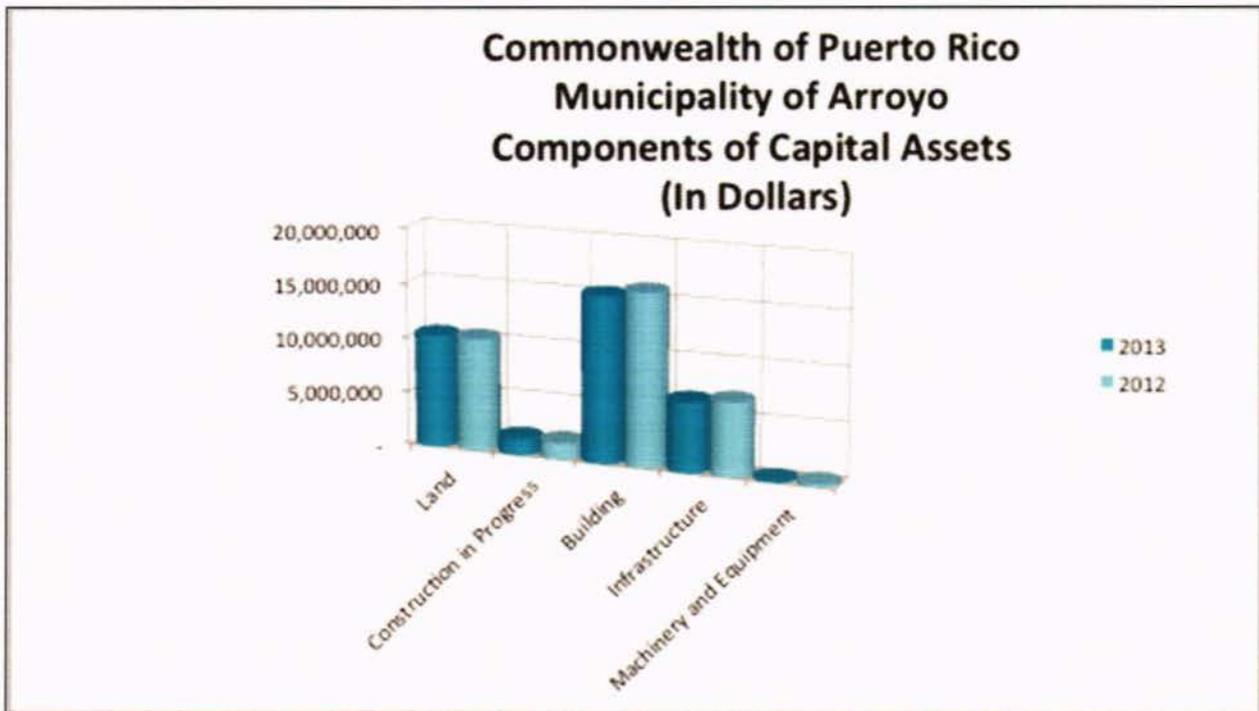
At the end of the fiscal year, the **Municipality** has invested \$33,656,517 (net of accumulated depreciation) in a broad range of capital assets, including buildings, land, infrastructure, construction in progress and equipment. This amount represents a net decrease of (\$1,156,336) or 3% from the prior year. The **Municipality** invested a total of \$103,375 of capital assets during the fiscal year 2012-2013 as follows:

	Governmental Activities	
	2013	2012
<b>Non-depreciable assets:</b>		
Land	\$ 10,300,674	\$ 10,300,674
Construction in Progress	1,518,524	1,518,524
<b>Depreciable assets:</b>		
Buildings	15,245,205	15,888,129
Infrastructure	6,440,452	6,829,055
Machinery, Equipment and Vehicles	148,252	273,061
Work of Art	3,410	3,410
<b>Total</b>	<b>\$ 33,656,517</b>	<b>\$ 34,812,853</b>

- Acquisition of Furniture and Fixtures – \$159,005
- Buildings, Improvements and Equipment – Housing Project - \$61,118

Figures 4 below presents the components of capital assets during the fiscal years 2013 and 2012:

FIGURE 4



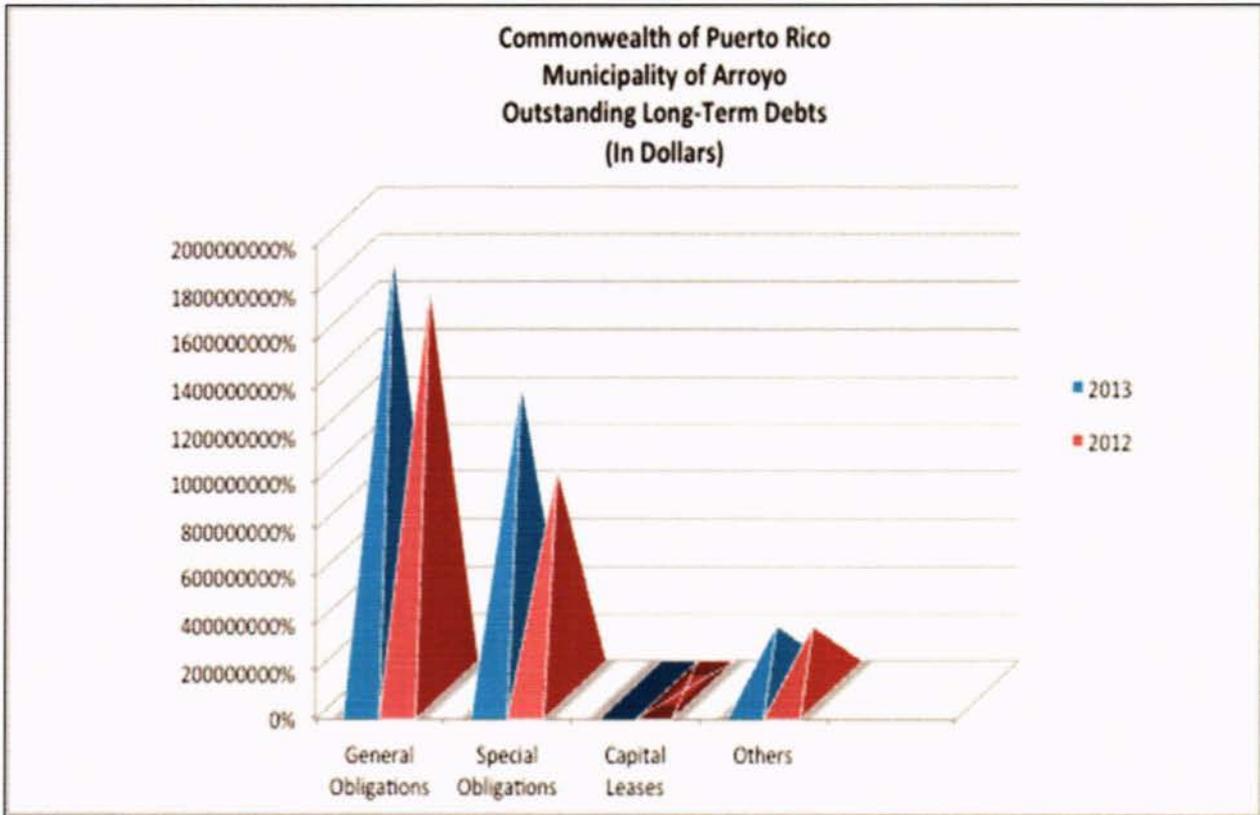
**Long-Term Debts**

At year-end, the **Municipality** had \$10,030,000 in general and special obligations, a decrease of 5% with respect to prior year. The following is a summary of the **Municipality's** outstanding debts as of June 30, 2013 and 2012:

	Governmental Activities	
	2013	2012
General and Special Obligations	\$ 10,030,000	\$ 10,496,000
Law No. 42-MRCC	2,035,554	2,062,329
Law No. 146-MRCC	463,405	487,798
LIMS - MRCC	-	-
Section 515 Rural Rental Housing Loan Program	1,776,998	1,825,802
Landfill Obligation	1,694,062	1,694,062
Employees Retirement Administration	134,623	-
Christmas Bonus	96,610	-
Department of Labor	-	-
Claims and Judgements	153,422	153,422
Compensated Absences	1,460,826	1,103,046
<b>Total</b>	<b>\$ 17,845,500</b>	<b>\$ 17,822,459</b>

Figure 5 presents the components of long-term debts during the fiscal year 2013 and 2012:

FIGURE 5



More detailed information about the **Municipality's** long-term liabilities is presented in Notes 9 and 10 to the financial statements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The **Municipality's** selected and appointed officials considered many factors when setting the fiscal year 2012-2013 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The **Municipality's** unemployment rate now stands at 26%, which compares with the Commonwealth rate of 13.7%.

The **Municipality** applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2014 are \$9.9 million, approximately \$112,120 more than fiscal year 2013. Budgeted expenditures are expected to stabilize accordingly to the projected revenues.

### CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the **Municipality's** finances and to demonstrate the accountability for the money it receives. If you have any questions about this report or need additional information, contact the **Municipality's** Finance Department at (787) 839-3500, or PO Box 477, Arroyo, PR 00714.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO

STATEMENT OF NET POSITION

JUNE 30, 2013

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	<u>GOVERNMENTAL ACTIVITIES</u>
<b>ASSETS:</b>	
Cash	\$ 686,709
Cash with Fiscal Agent	3,123,175
Restricted Cash and Funded Reserves	618,578
Receivables (Net):	
Federal Grants	92,866
Due from Government Units	48,305
Sales and Usage Taxes	52,535
Others	9,783
Other Assets	5,485
Capital Assets:	
Land and Construction in Progress	11,822,608
Other Capital Assets [Net of Accumulated Depreciation]	<u>21,833,909</u>
Total Capital Assets	<u>33,656,517</u>
<b>TOTAL ASSETS</b>	<b><u>38,293,953</u></b>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenses	738,020
Accrued Interest	151,330
Due to Governmental Units	194,578
Deposits and Prepayments Liabilities	15,340
Unearned Revenues - Volume of Business Taxes	966,228
Noncurrent Liabilities:	
Due Within One Year	1,381,671
Due in More than One Year	<u>16,463,829</u>
<b>TOTAL LIABILITIES</b>	<b><u>19,910,996</u></b>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	28,209,127
Restricted for:	
Housing Project	602,905
Debt Service	2,263,385
Other Purposes	191,647
Unrestricted (Deficit)	<u>(12,884,107)</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 18,382,957</u></b>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature	\$ 2,353,459	\$ -	\$ -	\$ -	\$ (2,353,459)
General Government	4,869,985	-	-	-	(4,869,985)
Public Safety	557,684	-	151,047	-	(406,637)
Public Works	1,806,792	-	44,967	-	(1,761,825)
Culture and Recreation	993,294	-	-	-	(993,294)
Health and Sanitation	258,169	-	10,000	-	(248,169)
Human Services and Welfare	2,876,493	-	1,860,911	-	(1,015,582)
Urban Development	1,622,289	-	962,627	-	(659,662)
Interest on Long-Term Debt	456,646	-	-	-	(456,646)
<b>Total Governmental Activities</b>	<b>\$ 15,794,811</b>	<b>\$ -</b>	<b>\$ 3,029,552</b>	<b>\$ -</b>	<b>(12,765,259)</b>
<b>General Revenues:</b>					
Taxes:					
Property Taxes, levied for General Purposes					1,386,716
Property Taxes, levied for Debt Service					464,043
Sales and Usage Taxes					1,163,561
Volume of Business Taxes					1,014,443
Construction Excise Taxes					244,753
Intergovernmental					6,457,992
Rent					64,067
Miscellaneous					137,365
<b>Total General Revenues</b>					<b>10,932,940</b>
<b>CHANGES IN NET POSITION</b>					<b>(1,832,319)</b>
Net Position, As Restated, Beginning of Year					20,215,276
<b>NET POSITION – ENDING OF YEAR</b>					<b>\$ 18,382,957</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2013

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	GENERAL FUND	HOUSING PROJECT BRISAS DE ARROYO FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>					
Cash	\$ 631,423	\$ 19,343	\$ -	\$ 35,943	\$ 686,709
Cash with Fiscal Agent	135,958	-	2,414,715	572,502	3,123,175
Restricted Cash and Funded Reserves	-	618,578	-	-	618,578
Receivables:					
Sales and Usage Taxes	52,535	-	-	-	52,535
Federal Grants	4,502	-	-	88,364	92,866
Due from Other Funds	616,552	-	-	245,742	862,294
Due from Governmental Units	48,305	-	-	-	48,305
Other Receivables	-	9,783	-	-	9,783
Other Assets	-	5,485	-	-	5,485
<b>Total Assets</b>	<b>\$ 1,489,275</b>	<b>\$ 653,189</b>	<b>\$ 2,414,715</b>	<b>\$ 942,551</b>	<b>\$ 5,499,730</b>
<b>LIABILITIES:</b>					
Account Payable	\$ 568,724	\$ 34,944	\$ -	\$ 134,352	\$ 738,020
Bond Payable	-	-	395,000	-	395,000
Accrued Interest	-	-	151,330	-	151,330
Due to Governmental Units	194,578	-	-	-	194,578
Due to Other Funds	245,742	-	-	616,552	862,294
Deposits and Prepayment Liabilities	-	15,340	-	-	15,340
Unearned Revenues - Volume of Business Taxes	966,228	-	-	-	966,228
<b>Total Liabilities</b>	<b>1,975,272</b>	<b>50,284</b>	<b>546,330</b>	<b>750,904</b>	<b>3,322,790</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Unavailable Revenues - Commonwealth of Puerto Rico	48,305	-	-	-	48,305
Unavailable Revenues - Federal Grants	56,736	-	-	12,753	69,489
<b>Total Deferred Inflows of Resources</b>	<b>105,041</b>	<b>-</b>	<b>-</b>	<b>12,753</b>	<b>117,794</b>
<b>FUND BALANCES (DEFICITS):</b>					
Nonexpendable	-	-	-	-	-
Restricted	348,600	602,905	1,868,385	1,742,985	4,562,875
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned (Deficit)	(939,638)	-	-	(1,564,091)	(2,503,729)
<b>Total Fund Balances</b>	<b>(591,038)</b>	<b>602,905</b>	<b>1,868,385</b>	<b>178,894</b>	<b>2,059,146</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)</b>	<b>\$ 1,489,275</b>	<b>\$ 653,189</b>	<b>\$ 2,414,715</b>	<b>\$ 942,551</b>	<b>\$ 5,499,730</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION

JUNE 30, 2013

18

**Total Fund Balances – Government Funds (Page 19)** **\$ 2,059,146**

Amount reported for Governmental Activities in the Statement of Net Position (Page 15)  
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	\$ 11,822,608	
Depreciable Capital Assets	41,918,248	
Accumulated Depreciation	<u>(20,084,339)</u>	
Total Capital Assets		33,656,517

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:

Federal Grants	69,489	
Christmas Bonus Reimbursement	<u>48,305</u>	
Total Unavailable Revenues		117,794

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	(9,635,000)	
Law Number 146 -MRCC	(463,405)	
Law Number 42 - MRCC	(2,035,554)	
Claims and Judgments	(153,422)	
Section 515 direct loan	(1,776,998)	
Landfill Obligation	(1,694,062)	
Employees Retirement Administration	(134,623)	
Christmas Bonus	(96,610)	
Compensated Absenses	<u>(1,460,826)</u>	
Total Noncurrent Liabilities		<u>(17,450,500)</u>

**Total Net Position of Governmental Activities (Page 15)** **\$ 18,382,957**

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-- GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	GENERAL FUND	HOUSING PROJECT BRISAS DE ARROYO FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>					
Property Taxes	\$ 1,386,716	\$ -	\$ 464,043	\$ -	\$ 1,850,759
Volume of Business Taxes	1,014,443	-	-	-	1,014,443
Sales and Usage Taxes	682,949	-	480,612	-	1,163,561
Federal Assistance	-	507,384	-	2,544,256	3,051,640
Intergovernmental	5,796,875	-	-	707,794	6,504,669
Construction Excise Taxes	244,753	-	-	-	244,753
Rent	64,067	-	-	-	64,067
Miscellaneous	141,928	-	-	-	141,928
<b>Total Revenues</b>	<b>9,331,731</b>	<b>507,384</b>	<b>944,655</b>	<b>3,252,050</b>	<b>14,035,820</b>
<b>EXPENDITURES:</b>					
Current:					
Mayor and Municipal Legislature	2,315,668	-	-	-	2,315,668
General Government	4,235,360	-	-	-	4,235,360
Public Safety	406,287	-	-	50,620	456,907
Public Works	1,395,687	-	-	58,386	1,454,073
Culture and Recreation	687,520	-	-	16,040	703,560
Health and Sanitation	258,169	-	-	-	258,169
Human Services and Welfare	638,484	428,606	-	1,582,655	2,649,745
Urban Development	117,695	-	-	1,441,609	1,559,304
Capital Outlay	42,257	61,118	-	-	103,375
Debt Service:					
Principal	-	48,804	619,759	-	668,563
Interest and Other Charges	-	-	456,646	-	456,646
<b>Total Expenditures</b>	<b>10,097,127</b>	<b>538,528</b>	<b>1,076,405</b>	<b>3,149,310</b>	<b>14,861,370</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(765,396)</b>	<b>(31,144)</b>	<b>(131,750)</b>	<b>102,740</b>	<b>(825,550)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers – In	247,467	-	374,327	36,892	658,686
Transfers – Out	(411,219)	-	(240,000)	(7,467)	(658,686)
<b>Total Other Financing Sources (Uses)</b>	<b>(163,752)</b>	<b>-</b>	<b>134,327</b>	<b>29,425</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(929,148)</b>	<b>(31,144)</b>	<b>2,577</b>	<b>132,165</b>	<b>(825,550)</b>
Fund Balances, As Restated, Beginning	338,110	634,049	1,865,808	46,729	2,884,696
<b>FUND BALANCES (DEFICIT) – ENDING</b>	<b>\$ (591,038)</b>	<b>\$ 602,905</b>	<b>\$ 1,868,385</b>	<b>\$ 178,894</b>	<b>\$ 2,059,146</b>

*Handwritten signature and date: 20/09/2013*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO

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, 2013

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**Net Change in Fund Balances – Government Funds (Page 19) \$ (825,550)**

Amount reported for Governmental Activities in the Statement of Activities (Page 16)  
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	\$ 103,375	
Depreciation Expense	<u>(1,259,711)</u>	
Excess of Capital Outlays over Depreciation Expense		(1,156,336)

Revenues in the Statement of Activities that do not provide current financial resources are  
reported as revenues in the funds and vice versa:

Christmas Bonus	(46,677)	
Federal Grants	<u>(26,651)</u>	
Total of Revenues		(73,328)

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

668,563

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	93,354	
Increase in Employees Retirement Administration	(181,242)	
Decrease in Debt to PR Department of Labor	-	
Increase in Compensated Absences	<u>(357,780)</u>	
Total Additional Expenses		<u>(445,668)</u>

**Change in Net Position of Governmental Activities (Page 16) \$ (1,832,319)**

## 1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Municipality of Arroyo 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 1855, and operates as a governmental unit of the Commonwealth of Puerto Rico, under Law Number 81 of August 30, 1991, known as "Autonomous Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 12 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 (blended component units), 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 (discrete component units). 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 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.

The Governmental Accounting Standards Board (GASB) has issued Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*. GASB 61 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. The Municipality adopted this statement effective July 1, 2012.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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, 2013, and the respective changes in financial position, and the cash flows, 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 type.

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. 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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely, to a significant extent, on fees and charges for support.

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the Municipality's governmental activities and business type 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. When both restricted and unrestricted resources are available for use, the Municipality's policy is to use the restricted resources first.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *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. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

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. 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. This presentation deemed most appropriate to (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

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.

Housing Project Brisas de Arroyo Fund – This is the fund used to account for all the transactions of the HUD Housing Project. The primary objectives of this fund is to assist various segments of the general public in obtaining adequate and reasonable priced rental housing. The Project operated under financing from US Department of Agriculture Section 515 Rural Rental Housing Loans Program, and with a Section 8 New Construction and Substantial Rehabilitation Program housing assistance grant agreement with US Housing and Urban Development. For financial reporting purposes, the Housing Project is reported as part of the Municipality's operations because its purpose is to provide low-income housing to citizens of the Municipality.

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

The non-major funds are combined in a single column in the GFFS. As a general rule the effect of interfund activity has been eliminated from the GWFS.

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.

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, 2013 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 Balances* – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2013.

***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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

*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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

*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, 2013, 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). 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). 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 modified accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims 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, 2013, which are recorded as governmental fund liabilities of June 30, 2013 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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 used. 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 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.

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 a reserve of 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, 2013, expenditures exceeded appropriations in the following function (the legal level of budgetary control) of the General Fund: Mayor and Municipal Legislature by \$596,673, Culture and Recreation by \$87,428, Health and Sanitation by \$13,279, and Urban Development by \$96,508. This overspending of appropriation is authorized by law up to 5% if related to cases involving imminent public endangerment (e.g., natural disaster, or fire), which wasn't the case this year, it is considered a budgetary violation. The budgetary variance during the year present a deficiency of revenues of \$435,585, and deficiency in expenditures of \$55,641 for a total decrease in Budgetary Fund Balance of \$491,226.

**D. Assets, Liabilities, and Net Assets**

**1) *Cash and Investment, 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. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

**1) Cash and Investment, and Cash with Fiscal Agent-continuation**

earned on certificates of deposit and interest bearing commercial bank accounts 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 Government, 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." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as "interfund balances".

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, 2013. 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 Government. 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.

**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 government as assets with an initial, individual cost of more than \$500 (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

4) *Capital Assets - continuation*

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government 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 government 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 government 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:

CAPITAL ASSETS	YEARS
Building and Building Improvements	40
Infrastructure	40
Motor Vehicles, Furniture and Fixtures	5
Machinery and Equipments	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.

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, 2013, 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.

In the accompanying GFFS, the lease payments are recorded as expenditures in the governmental fund.

5) *Deferred Outflows/Inflows of Resources*

In addition to assets, the *Statement of Financial 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 Financial 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

5) *Deferred Outflows/Inflows of Resources - continuation*

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 two sources: Christmas Bonus Reimbursement from the Commonwealth 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, unearned 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.

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, 2013. All vacation pay is accrued when incurred in the GWFS and PFFS. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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 18).

11) *Landfill*

State and Federal laws and regulations require that the Municipality place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for the next thirty years. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability should be recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The Municipality hasn't performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations. Accordingly, any provision for liabilities related to closure and post-closure care costs are included in the accompanying GWFS, *Statement of Net Assets*, under the provisions of Section L10 of the GASB Codification *Landfill Closure and Post-Closure Care Costs*.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

12) *Net Position/Fund Balance-continuation*

A) *Net Position*

Net investment in capital assets is comprised of the following:

	<u>Governmental Activities</u>
Capital Assets, Net of Accumulated Depreciation .....	\$33,656,717
Outstanding Balance on Related Debt .....	(10,030,000)
Unspent Capital Debt Proceeds .....	<u>4,582,410</u>
Net Investment in Capital Assets .....	<u>\$28,209,127</u>

- *Restricted Net Position* – These result when constraints placed on net assets 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 assets 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

***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 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.

***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 motion 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 action 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 revenue 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.

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 15% of budgeted expenditures. The Municipality considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces 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 asset 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, 2013.

**Prioritization of Fund Balance Use**

In circumstances where the payment is for a purpose that quantities are available in multiple classifications of funds balance, the order in which 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	HOUSING PROJECT BRISAS DE ARROYO FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonexpendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted For:					
Debt Repayment	-	-	1,868,385	-	1,868,385
Improvement of Streets and Sidewalks	-	-	-	45,184	45,184
Improvement and Construction of Facilities	54,205	-	-	1,414,552	1,468,757
Welfare	6,000	602,905	-	222,719	831,624
Public Safety	3,961	-	-	119,277	123,238
General Government	196,920	-	-	6,080	203,000
Culture and Recreation	87,514	-	-	4,200	91,714
Sanitation	-	-	-	10,000	10,000
Total Restricted	348,600	602,905	1,868,385	1,822,012	4,641,902
Committed	-	-	-	-	-
Assigned to:	-	-	-	-	-
Unassigned	(431,516)	-	-	(1,564,790)	(1,996,306)
Total Fund Balances (Deficit)	\$ (82,916)	\$ 602,905	\$ 1,868,385	\$ 257,222	\$ 2,645,596

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. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. 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.

*Intra-Entity Transactions* – Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

F. Risk Financing

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2013 amounted to approximately \$275,255. The current insurance policies have not been cancelled or terminated. In addition, MRCC deducted approximately \$249,994 for workers compensation insurance covering all municipal employees for the same period.

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, 2013:

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

I. Future Adoption of Accounting Pronouncements - continuation

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (FY 2013-2014). Earlier application is encouraged.

GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

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 provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY 2014-2015). Earlier application is encouraged.

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 provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013 (FY 2014-2015). Earlier application is encouraged.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

I. Future Adoption of Accounting Pronouncements - continuation

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 2013-2014).

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

3. CASH AND INVESTMENTS

*Cash in Banks*

**Municipality's** cash and investments at June 30, 2013 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 \$3 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. **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.

The Municipality follows the practice of pooling cash. At June 30, 2013, the cash are maintained in commercial banks with a balance of \$686,709 of which \$631,423 in the General Fund, \$19,343 in the Housing Project Brisas de Arroyo Fund, and \$35,943 in Other Governmental Funds. The balance in cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in certificates of deposit with commercial banks. Any deficiency in the cash account is assumed by the general fund and covered through future budgetary appropriation.

Under the laws and regulations of the Government, 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 Government's Secretary of the Treasury, but not in the Municipality's name.

Cash with fiscal agent in the debt service fund consists principally of property tax collections amounting to \$2,414,715 that are restricted for the payment of the Municipality's debt service, as required by law, and \$135,958 is a balance of a previous bond issue available for the General Fund. Cash with Fiscal Agent of \$572,502 in other governmental funds consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets and operational purposes. 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, 2013:

### 3. CASH AND INVESTMENTS-continuation

#### *Credit Risk*

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013, the Municipality has invested only in cash in banks of \$686,709 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 or equity securities were made during the Fiscal Year ended June 30, 2013. 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, 2013.

#### *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 Government adopted by GDB, the Municipality may invest in obligations of the Government, 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, 2013, the Municipality has balances deposited in commercial banks amounting to \$686,709 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 \$3.0 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, 2013. 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, 2013, 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, 2013, (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 and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2013, 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, 2013.

### 4. DUE FROM GOVERNMENTAL UNITS

As of June 30, 2013, the amount of \$48,305 corresponds to the Christmas Bonus, amount to be provided by the Puerto Rico Treasury Department.

### 5. ACCOUNTS RECEIVABLE – FEDERAL GRANTS

The due from federal grants of the General Fund for the fiscal year ended June 30, 2013 corresponds to \$4,502 from the COPS Hiring Program, and on the Other Governmental Funds corresponds to \$34,032 from the Community Development Block Grant/States Program (SBGP) (through the Office of the Commissioner of Municipal Affairs).

6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. Interfund Receivable and Payable Balances

Due to/from Other Funds at June 30, 2013 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
Other Governmental Funds	General Fund	\$ 245,742
General Fund	Other Governmental Fund	616,552
TOTAL		<u>\$ 862,294</u>

B. Interfund Transfers

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS			
Sources	Transfer to	Amount	Purpose
General Fund	Debt Service Fund	\$ 374,327	Debt Payment
General Fund	Other Governmental Funds	36,892	Residual Equity Transfer
Other Governmental Funds	General Fund	7,467	Residual Equity Transfer
Debt Service Fund	General Fund	240,000	Residual Equity Transfer
TOTAL		<u>\$ 658,686</u>	

7. 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 available to liquidate liabilities of the current period for Volume of Business Taxes for the amount of \$966,228.

8. 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). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. 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	\$ 48,305
Federal Grants:	
General Fund	56,736
Other Governmental Funds	12,753
Total Deferred Inflows of Resources	<u>\$ 117,794</u>

9. DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2013, balance due to other governmental units of the General Fund for services rendered to the Municipality for the Puerto Rico Retirement Administration (\$194,578).

10. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2013 was as follows:

DESCRIPTION	BALANCE JULY 1, 2012	INCREASES	DECREASES	BALANCE JUNE 30, 2013
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 9,705,674	\$ -	\$ -	\$ 9,705,674
Land - Housing Project	595,000	-	-	595,000
Work of Art	3,410	-	-	3,410
Construction in Progress	1,518,524	-	-	1,518,524
<b>Total Non-Depreciable Capital Assets</b>	<b>11,822,608</b>	<b>-</b>	<b>-</b>	<b>11,822,608</b>
<b>Depreciable Capital Assets:</b>				
Buildings and Buildings Improvements	24,189,608	-	-	24,189,608
Equipment and Vehicles	2,256,606	-	-	2,256,606
Furniture and Fixtures	1,422,430	42,257	-	1,464,687
Infrastructure	10,238,564	-	-	10,238,564
Buildings, improvements and equipment - Housing Project	3,707,665	61,118	-	3,768,783
<b>Total Depreciable Capital Assets</b>	<b>41,814,873</b>	<b>103,375</b>	<b>-</b>	<b>41,918,248</b>
<b>Less Accumulated Depreciation:</b>				
Buildings and Buildings Improvements	(8,974,545)	(603,366)	-	(9,577,911)
Equipment and Vehicles	(2,186,615)	(69,991)	-	(2,256,606)
Furniture and Fixtures	(1,219,360)	(97,075)	-	(1,316,435)
Infrastructure	(3,409,509)	(388,603)	-	(3,798,112)
Buildings, improvements and equipment - Housing Project	(3,034,599)	(100,676)	-	(3,135,275)
<b>Total Accumulated Depreciation</b>	<b>(18,824,628)</b>	<b>(1,259,711)</b>	<b>-</b>	<b>(20,084,339)</b>
<b>Total Depreciable Capital Assets (Net)</b>	<b>22,990,245</b>	<b>(1,156,336)</b>	<b>-</b>	<b>21,833,909</b>
<b>CAPITAL ASSETS, NET</b>	<b>\$ 34,812,853</b>	<b>\$ (1,156,336)</b>	<b>\$ -</b>	<b>\$ 33,656,517</b>

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

	AMOUNT
General Government	\$ 188,957
Mayor and Municipal Legislature	37,791
Public Safety	100,777
Public Works and Transportation	352,719
Culture and Recreation	289,734
Human Services and Welfare	226,748
Urban Development	62,985
<b>Total Depreciation Expenses</b>	<b>\$ 1,259,711</b>

11. GENERAL LONG-TERM DEBTS

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. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 12).

General and special obligations bonds as of June 30, 2013, are comprised of the following individual issues:

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
<b>General Obligation Bonds:</b>					
<b>Property Taxes Income:</b>					
General Construction	2002	\$ 1,410,000	2026	2.70% to 5.60%	\$ 1,090,000
Operational Purpose	2002	940,000	2026	1.30% to 7.50%	725,000
General Construction	2007	1,250,000	2031	1.50% to 7.00%	1,105,000
General Construction	2010	1,355,000	2024	3.00% to 7.00%	1,180,000
Operational Purpose	2010	515,000	2014	6.00%	225,000
<b>Total General Obligation Bonds</b>					<b><u>4,325,000</u></b>
<b>Special Obligation Bonds:</b>					
<b>General Revenues:</b>					
Operational Purpose	2010	135,000	2015	3.00% to 7.00%	60,000
<b>Subtotal</b>					<b><u>60,000</u></b>
<b>Sales and Use Taxes:</b>					
General Construction	2003	4,640,000	2033	1.50% to 7.50%	4,330,000
Operational Purpose	2011	1,345,000	2035	3.00% to 7.50%	1,315,000
<b>Subtotal</b>					<b><u>5,645,000</u></b>
<b>Total Special Obligation Bonds</b>					<b><u>5,705,000</u></b>
<b>Total General and Special Obligation Bonds</b>					<b><u>\$ 10,030,000</u></b>

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, and (2) 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, 2013, 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.

11. GENERAL LONG-TERM DEBTS – continuation

C. Other Long-Term Debts

Borrowing from MRCC

On July 1, 2002, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the excess of property taxes advances from fiscal years up to 2001. The repayment agreement is payable in semiannual aggregate principals installments from \$49,360 plus annual interest of 6.1876%. The original amount of debt is \$2,457,244 under the enacted Law Number 42 to be paid during 30 years.

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 \$609,748 to be paid during 25 years plus annual interest of 2,504%.

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.

Section 515 Rural Rental Housing Loan Program

Two mortgage notes, collateralized with land and buildings of Housing Project Brisas de Arroyo, payable to Rural Development of the U.S. Department of Agriculture, in monthly installments of \$12,892 and \$1,994, including interest at an annual rate of 8% (reduced to 7%) and 10% (reduced to 9%) through December 2029.

Landfill Obligation

According to the regulations set forth by the U.S. Environment Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991, the Municipality is required to place a final cover on the Municipality's landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with GASB No. 18, the Municipality has to perform a study of the activities that need available space and to comply with applicable state and federal regulations. The Municipality has recorded an estimate liability of \$1,694,062 in the accompanying GWFS, using estimated current costs allocated, based on an estimate of the actual landfill capacity used at June 30, 2012. Actual costs may be different to the recorded estimated liability due to inflation, changes in technology, or changes in Acts and regulations. At June 30, 2013 the Municipality's has not perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities and has not adjusted and estimated liability in accordance with that study.

Employee Retirement Administration

On March 4, 2013, the Municipality entered into a repayment agreement with the Employee Retirement Administration to repay the unemployment benefit as of June 30, 2011. The repayment agreement is payable in monthly installments of \$7,085.43 with the first payment on April 20, 2013 in the amount of \$21,256.29 to cover the first three months. The original amount of debt is \$170,050.24 under the agreement to be paid during 24 months collected by the Municipal Revenue Collection Center.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2013 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2013.

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.

11. GENERAL LONG-TERM DEBTS – continuation

Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE JULY 1, 2012	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2013	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
Law Number 42 – MRCC	\$ 2,062,329	\$ -	\$ (26,775)	\$ 2,035,554	\$ 56,060	\$ 1,979,494
Law Number 146 – MRCC	487,798	-	(24,393)	463,405	24,387	439,018
Property Taxes-MRCC	-	11,192	(11,192)	-	-	-
Claims and Judgments	153,422	-	-	153,422	-	153,422
Section 515 Rural Rental Housing Loan Program	1,825,802	-	(48,804)	1,776,998	52,958	1,724,040
Landfill Obligation	1,694,062	-	-	1,694,062	-	1,694,062
Employees Retirement Administration	-	170,050	(35,427)	134,623	85,025	49,598
Christmas Bonus	-	96,610	-	96,610	96,610	-
Compensated Absences	1,103,046	470,592	(112,812)	1,460,826	641,631	819,195
<b>TOTAL</b>	<b>\$ 7,326,459</b>	<b>\$ 748,444</b>	<b>\$ (259,403)</b>	<b>\$ 7,815,500</b>	<b>\$ 956,671</b>	<b>\$ 6,858,829</b>

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2013:

DESCRIPTION	BALANCE JULY 1, 2012	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2013	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General Obligation Bonds	\$ 4,590,000	\$ -	\$ (265,000)	\$ 4,325,000	\$ 280,000	\$ 4,045,000
Special Obligation Bonds	5,906,000	-	(201,000)	5,705,000	145,000	5,560,000
Other Obligations	7,326,459	748,444	(259,403)	7,815,500	956,671	6,858,829
<b>TOTAL</b>	<b>\$ 17,822,459</b>	<b>\$ 748,444</b>	<b>\$ (725,403)</b>	<b>\$ 17,845,500</b>	<b>\$ 1,381,671</b>	<b>\$ 16,463,829</b>

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 general long-term debts outstanding as of June 30, 2013 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
<b>Governmental Funds:</b>								
2014	\$ 280,000	\$ 168,142	\$ 145,000	\$ 159,063	\$ 956,671	\$ 136,698	\$ 1,381,671	\$ 463,903
2015	300,000	258,793	155,000	412,163	4,524,287	132,566	4,979,287	803,522
2016	195,000	242,986	130,000	400,500	87,714	128,212	412,714	771,698
2017	210,000	229,748	145,000	390,188	91,693	123,621	446,693	743,557
2018	225,000	215,495	150,000	379,125	95,922	118,782	470,922	713,402
2019-2023	1,415,000	820,235	955,000	1,698,938	552,952	511,406	2,922,952	3,030,579
2024-2028	1,335,000	305,705	1,365,000	1,268,813	706,478	342,613	3,406,478	1,917,131
2029-2033	365,000	53,375	1,965,000	649,688	799,783	119,132	3,129,783	822,195
2034-2038	-	-	695,000	50,438	-	-	695,000	50,438
<b>TOTAL</b>	<b>\$ 4,325,000</b>	<b>\$ 2,294,479</b>	<b>\$ 5,705,000</b>	<b>\$ 5,408,916</b>	<b>\$ 7,815,500</b>	<b>\$ 1,613,030</b>	<b>\$ 17,845,500</b>	<b>\$ 9,316,425</b>

## 12. 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 to the Municipality (See Note 13).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 11). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

## 13. PROPERTY TAXES

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1<sup>st</sup> of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business, or (2) owns residential real property with a value in excess of \$15,000 (at 1957 market price).

The MRCC is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Real property tax is assessed by the MRCC on each piece of real estate and on each building or residence. The property tax contribution is levied each year over the appraised value of the real property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957.

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30.

The tax rate for fiscal year 2013 is 8.83% for real property and 6.83% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 7.80% and 5.80%, respectively, belongs to the Municipality. The Commonwealth of Puerto Rico also contributes an annual tax rate of 0.20% of the property tax collected. The remaining percentage is distributed as follows: (a) 5.80% and 3.80%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. The remaining portion belonging to the Municipality of 2.00% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 10). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

As previously mentioned, on March 9, 2009, the Commonwealth of Puerto Rico approves Act Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The effect of this Law was an increase in the valuation of the real properties and in the exemption granted for the residential units occupied by their owners by multiply both amount by ten. Accordingly, the residential units occupied by their owners are exempt from real property taxes on the first \$150,000 assessed value. For such exempted amounts, the Puerto Rico Secretary of the Treasury assumes payment of the basic tax to the Municipality (6.00%), except for residential units assessed at less than \$35,000 on which a complete exemption is granted. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

### 13. PROPERTY TAXES – continuation

In addition, the law grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with an annual net sales volume of less than \$150,000. The MRCC advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the MRCC from taxpayers. The MRCC periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from MRCC. Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

The fiscal impact for the future years has not been determined by the Municipality's management.

### 14. VOLUME OF BUSINESS TAXES

The volume of business taxes is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of \$3 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2013, the tax rates were as follows:

- a. Financial institutions and savings and loan associations – 1.50%
- b. Other organizations – 0.50%

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as unearned revenues in the General Fund.

### 15. SALES AND USAGE TAXES

Municipality imposes a Sales and Usage Taxes of 1.5% (1.0% collected and belong to the Municipality and 0.5% collected by the Puerto Rico Secretary of the Treasury) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Tax Return Form, no later than the 10<sup>th</sup> of the following month from the month being reported. The Act also provides for restrictions on the use of the resources (including the 0.5% collected by the Puerto Rico Secretary of Treasury) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

- a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;
- b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and
- c. 0.1% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth's Legislature.

Sales tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2013, but pertaining to the current year period.

On February 1, 2014 was enacted the Act Numbers 18 to create the "Law of Municipal Administration Fund (MAF)" and 19 that creates the Municipal Financing Corporation (COFIM by Spanish acronyms). These Acts amend the composition of the SUT effective February 1, 2014 and thereafter. See Note 21 for the changes contemplated by these Acts.

## 16. CONSTRUCTION EXCISE TAXES

Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings, and any structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, existing buildings and improvements, project design and other engineering fees, licenses and permits, consulting and legal fees. The tax is paid by the taxpayer before the beginning of the construction project. The activities covers by this tax and the exemption granted are as follows:

- a. Total exemption are granted to residence of \$40,000 or less of costs. Major repairs, additions or demolitions at \$5,000 or more of this residence should paid \$7.00 for each \$1,000 of costs (0.7%).
- b. Residence projects should paid \$5.00 for each \$1,000 of costs (0.5%). Major repairs, additions or demolitions at \$5,000 or more of this residence should paid \$7.00 for each \$1,000 of costs (0.7%).
- c. Commercial, industrial or agricultural projects of \$50,000 or less of costs, should paid \$8.00 for each \$1,000 of costs (0.8%). Total exemption are granted for construction of \$5,000 or less.
- d. Total exemption are granted to projects self-administering by federal government, state government (including public corporation), and the municipalities of Puerto Rico.
- e. Projects of expansion of buildings and plants that promote employments by state incentives concession are exempt in accordance with the approved decree.
- f. Non-for-profit organization that provide rental residence to low income families or person of 62 years old that qualified by the following statutes: Sections 221 (d) and 236 of National Housing Act (Public Law 83-479, Stat. 476, 498) as certified by Puerto Rico Housing Department; Section 202 of National Housing Act, as amended by Public Law 86-372, 72 Stat. 654) as certified by Puerto Rico Housing Department; and Act No. 47-1987; Act No. 130-1993.
- g. All other projects should paid 5.00% of total cost.

## 17. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

## 18. PENSION PLAN

### *Description of the Plan*

Employees of the Municipality participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

18. PENSION PLAN – continuation

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. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the system to Chapter 5 of the ERS. The System 2000 applied to employees joining the ERS on or after January 1, 2000.

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

- (a) General Rule – The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.
- (b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)
- (c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

Retirement age for participants who joined public service after June 30, 2013. The retirement age shall be 67 years, except in the case of Public Officers in High-Risk Positions, for whom it shall be fifty eight (58) years.

***Participant of the Program***

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

As of July 1, 2013, every employee who is a participant of the System, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the System, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars (\$10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars (\$10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in

18. PENSION PLAN – continuation

*Participant of the Program*

Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from it.

*Annuity for Years of Service*

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars (\$500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars (\$500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars (\$500).

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised. Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service. The maximum retirement annuity for the participants shall be seventy-five percent (75%) of the average compensation.

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

- (1) For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus

18. PENSION PLAN – continuation

*Annuity for Years of Service-continuation*

- (2) For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

- (1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.
- (2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.
- (3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

As per Act No. 447 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

- (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.

18. PENSION PLAN – continuation

*Annuity for Years of Service-continuation*

- (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.
- (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.

18. PENSION PLAN – continuation

*Pension Computation-continuation*

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.

**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:

Complete supplementation plan between ERS and the Federal Social Security	
Hired on or before March 31, 1990	8.275% of gross salary
Coordination plan between ERS and the Federal Social Security	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Mayors and members of the Police Corps	8.275% of gross 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:

18. PENSION PLAN – continuation

**Contributions of Participants of Hybrid Program-continuation**

- (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.

- (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)**

Every employer shall mandatorily contribute to the System the following:

July 1, 2011	Ten point two hundred seventy-five percent (10.275%) of the salary of each participant
July 1, 2012	Eleven point two hundred seventy-five percent (11.275%) of the salary of each participant

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.

18. 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;
- (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.

**18. PENSION PLAN – continuation**

***Additional Benefits Program-continuation***

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 the fiscal year ended June 30, 2013 are recognized as total pension expenditures/expenses in the category of administration as follow: Defined Benefit \$176,768 and Hybrid Program \$54,914. Total employee contributions to the above-mentioned plans during this fiscal year amounted to approximately \$206,704.

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.

**19. 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 subsidy 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 \$367,214 for the fiscal year ended June 30, 2013.

**20. 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 that on opinion cannot be formed as to the probable outcome, with the exception of various uninsured lawsuits for which our legal counsel estimate in \$153,422 the probable unfavorable 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 cannot determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

20. CONTINGENCIES-continuation

B. Federal Grants

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. 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 requirements, the Municipality may be required to reimburse the grantor or pass-through agencies. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

21. COMMITMENTS

A. Operating Leases

The Municipality leases 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, 2013, amounted to approximately \$35,000. Management believes that the summary of the future minimum rental commitments under noncancelable equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

B. Solid Waste Disposal Contract

The Municipality has a solid waste disposal contract with LM Waste Service Corporation until September 30, 2013 and with ARB Inc. from October 9, 2013 through October 9, 2014, to provide the service for the recollection and disposal of solid waste. In the contract it was established that the Municipality is committed to pay LM Waste Service Corporation \$5.61 per unit served applied to 7,676 units. In the contract it was established that the Municipality is committed to pay ARB Inc. \$5.60 per unit served applied to 7,676 units. Expenditure for the year ended June 30, 2013 for this service amounts to \$1,458,100.

In addition, the Municipality is committed to pay an additional cost for recollection of such solid wastes for special activities such as festivals promoted by the Municipality. Future commitments are the scheduled as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 516,057
2015	<u>128,955</u>
Total	<u>\$ 645,012</u>

Also, the Municipality has a solid waste maintenance contract with Arroyo Equipment Rental & Construction Services, Inc. to provide for the landfill cover of the solid waste disposal during the period of October 2, 2013 to October 1, 2014. In the contract it was established that the Municipality is committed to pay the monthly amount of \$32,300.

C. Other Commitments

At June 30, 2013, the general fund had a deficit of \$82,916 which will be covered with future budgetary appropriations of the general fund. The deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement-based (expenditure-driven) grants on GFFS when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary

21. NET POSITION / FUND BALANCES RESTATEMENTS

A. Net Position

The following reconciles the June 30, 2012 Net Position, as previously reported to Beginning Net Position, as restated, July 1, 2012 for the various funds:

Net Position, as Previously Reported, At June 30, 2012	\$ 20,204,087
Adjustments (Fund Accounting)	(494,714)
Adjustment to Law 42	(25,972)
Adjustment to Long Term Debt	530,717
Adjustment to Christmas Bonus	(94,982)
Adjustment to Unavailable Revenues	96,140
Beginning Net Position, as Restated, At July 1, 2012	<u>\$ 20,215,276</u>

B. Fund Balance

The following reconciles the June 30, 2012 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2012 for the various funds:

	GENERAL FUND	HOUSING PROJECT BRISAS DE ARROYO FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
Fund Balance (Deficit), as Previously Reported, At June 30, 2012	\$ (390,219)	\$ -	\$ 2,396,525	\$ 1,373,104	\$ 3,379,410
Reclassified Fund Balance to implement GASB 54	728,329	-	-	(728,329)	-
Adjustment to Account Payable	-	-	(530,717)	-	(530,717)
Reclassified Fund Balance due to major fund	-	634,049	-	(634,049)	-
Adjustment to expenditures	-	-	-	36,003	36,003
Beginning Fund Balance (Deficit), As Restated, At July 1, 2012	<u>\$ 338,110</u>	<u>\$ 634,049</u>	<u>\$ 1,865,808</u>	<u>\$ 46,729</u>	<u>\$ 2,884,696</u>

22. NEW ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2013:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

## 22. NEW ACCOUNTING STANDARDS-continuation

GASB 62 does not have any impact on the Municipality's financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 64 ("GASB 64") *Derivative Instruments: Application of Hedge Accounting Termination Provisions* – an amendment of GASB Statement No. 53 was issued in June 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of Statement No. 64 are effective for financial statements for periods beginning after June 15, 2011 and were adopted the Municipality effective July 1, 2013 with no significant impact on the financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as revenues and expenses. The adoption of this statement require that debt issuance costs be recognized as an expenses in the period incurred.

## 23. SUBSEQUENT EVENT

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.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through August 6, 2014, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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	Budget Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note A)	Final Budget
<b>BUDGETARY FUND BALANCE (DEFICIT), JULY 1, 2012</b>	<b>\$ (1,310,779)</b>	<b>\$ (1,310,779)</b>	<b>\$ (1,310,779)</b>	<b>\$ -</b>
Resources (Inflows):				
Property Taxes	1,386,716	1,386,716	1,386,716	-
Volume of Business Taxes	1,244,500	1,244,500	1,014,443	(230,057)
Intergovernmental Revenues	5,736,398	5,736,398	5,796,875	60,477
Construction Excise Taxes	426,000	426,000	244,753	(181,247)
Sales and Usage Taxes	870,000	870,000	682,949	(187,051)
Miscellaneous	191,100	191,100	132,146	(58,954)
Rent	142,820	142,820	64,067	(78,753)
Transfer-In	-	-	240,000	240,000
<b>Total Resources (Inflows)</b>	<b>9,997,534</b>	<b>9,997,534</b>	<b>9,561,949</b>	<b>(435,585)</b>
Amounts Available for Appropriation	8,686,755	8,686,755	8,251,170	(435,585)
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	1,711,889	1,803,613	2,400,286	(596,673)
General Government	3,961,014	3,727,316	3,807,014	(79,698)
Public Safety	424,840	425,541	406,693	18,848
Public Works	2,145,866	2,056,192	1,460,609	595,583
Culture and Recreation	616,711	617,798	705,226	(87,428)
Health and Sanitation	146,993	146,993	258,673	(111,680)
Human Services and Welfare	739,651	739,451	639,547	99,904
Urban Development	50,000	31,341	127,849	(96,508)
Capital Outlays	90,200	74,962	52,567	22,395
Transfer to Other Funds	110,370	374,327	374,327	-
<b>Total Charges to Appropriations</b>	<b>9,997,534</b>	<b>9,997,534</b>	<b>10,232,791</b>	<b>(235,257)</b>
<b>BUDGETARY FUND BALANCE (DEFICIT), JUNE 30, 2013</b>	<b>\$ (1,310,779)</b>	<b>\$ (1,310,779)</b>	<b>\$ (1,981,621)</b>	<b>\$ (670,842)</b>

The accompanying Notes to Budgetary Comparison Schedule - General Fund are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

1. Budgetary Reporting

The Budgetary Comparison Schedule - General Fund is presented as Required Supplementary Information in accordance with GASB Accounting Standards Codification Section 1700, *The Budget and Budgetary Accounting*. Formal and legal budgetary control is based upon major classes of expenditures known as functions. All inflows, except volume of business taxes and transfer-in were less than expected. The Municipality's expenditures in Mayor and Municipal Legislature, Culture and Recreation, Health and Sanitation, and Urban Development functions exceeded the budgetary amount by \$596,673, \$87,428, \$13,279, and \$96,508, respectively, due to far greater than expected increased for irregular employees and costs of material and services.

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

	<u>General Fund</u>
<b>Sources/Inflows of Resources:</b>	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 57)	\$ 8,251,170
Difference – Budget to GAAP:	
GASB 54 Reclassification of Revenue	9,782
The Fund Balance (Deficit) at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	1,310,779
Transfers from other funds are inflows for financial reporting purpose but are not resources for budgetary purposes	<u>(240,000)</u>
<b>Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 19)</b>	<b><u>\$ 9,331,731</u></b>
<b>Uses/Outflows of Resources:</b>	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 57)	\$ 10,232,791
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	(216,460)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	63,885
GASB 54 Reclassification of Expenditures	391,238
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(374,327)</u>
<b>Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 19)</b>	<b><u>\$ 10,097,127</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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3. Explanation of Differences Between Budgetary Fund Balance and GAAP Fund Balance

Budgetary Fund Balance (Deficit), June 30, 2013	\$ (1,981,621)
Timing Differences:	
Change in Encumbrances	152,575
Cancelation of Prior Year Encumbrances	-
Non-budgetary Fund Balances	-
Revenues that are not Budgetary Uses	240,000
Restatement to Fund Balance	-
Transfer in - Non Budgetary	-
Non budgetary Items	381,456
Perspective Differences:	
Due from Other Funds not Available	<u>616,552</u>
Fund Balance (Deficit), June 30, 2013	<u>\$ (591,038)</u>

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	N/A	\$ <u>20,114</u>
U.S. Department of Housing and Urban Development:			
Pass-Through State – Office of the Commissioner Of Municipal Affairs			
Community Development Block Grant/States Program (SBGP) And Non Entitlements Grants in Hawaii (Stated Administered Small Cities Program)	14.228	N/A	892,590
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856	N/A	690,739
Section 8 Housing Choice Voucher.....	14.871	N/A	490,479
Homeless Prevention Rapid Re-Housing Program (HPRP) Recovery ACT Funded.....	14.257	N/A	<u>40,909</u>
Total U.S. Department of Housing and Urban Development..			<u>2,114,717</u>
U. S. Department of Energy:			
Pass-Through Puerto Rico Energy Affairs Administration:			
Energy Efficiency and Conservation Block Grant Program (EECBG) – Recovery ACT Funded.....	81.128	N/A	<u>55,536</u>
U. S. Department of Health and Human Services:			
Pass-Through Puerto Rico Administration of Families and Children Affairs:			
Child Care and Development Grant .....	93.575	N/A	<u>279,027</u>
U.S. Department of Homeland Security:			
Pass- Through Office of the Public Security Affairs:			
Disaster Grants – Public Assistance .....	97.036	FEMA 1798/4017	<u>14,055</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS .....</b>			<b><u>\$2,483,449</u></b>

## 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the **Municipality of Arroyo, Puerto Rico (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: Other Governmental Funds \$2,483,449.


**TORRES, HERNANDEZ & PUNTER, CPA, PSC**
**Certified Public Accountants**

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

**INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
Municipal Legislature  
Municipality of Arroyo

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Arroyo of the Commonwealth of Puerto Rico, (from now on the Municipality) as of and for the year ended June 30, 2013, and the relate notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated September 11, 2014.

**Internal Control Over Financial Reporting**

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

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 weaknesses 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 over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items #13-01 through #13-15 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items #13-01 through #13-15, to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 #13-01 through #13-15.

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### The Municipality's Response to Findings

The Municipality's response to findings identified in our audit are described in the accompanying schedule of findings and questioned costs, on pages 67 to 85. The Municipality's responses were not subjected to the auditing procedures applied in the audit of the financial statements 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 performed in accordance with Government Auditing Standards in considering Municipality's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Torres, Hernández & Punter, CPA, PSC*  
Torres, Hernández & Punter, CPA, PSC  
Certified Public Accountants

Carolina, Puerto Rico

September 11, 2014

Stamp #E139198 of the  
College of CPA's of  
Puerto Rico is affixed  
to the original.



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

**INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
Municipal Legislature  
Municipality of Arroyo

**Report on Compliance for Each Major Federal Program**

We have audited the Municipality of Arroyo of the Commonwealth of Puerto Rico, (from now on the Municipality) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2013. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Basis for Qualified Opinion on Section 8 Housing Choice Voucher Program, Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation and the Community Development Block Grant/States Program (SBGP)**

As described in the accompanying schedule of findings and questioned costs as items #13-5 through #13-15, the Municipality did not comply with requirements regarding Davis-Bacon Act, Program Income, Equipment and Real Property Management and Reporting that are applicable to the Community Development Block Grant/States Program (SBGP). Also, the Municipality did not comply with requirements regarding Activities Allowed, Eligibility, Equipment and Real Property Management and Reporting that are applicable to Section 8 Housing Choice Voucher Program, and did not comply with requirements regarding Eligibility, Reporting and Special Test that are applicable to Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation. Compliance with such requirements are necessary, in our opinion, for the Municipality to comply with the requirements applicable to those programs.

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**Basis for Qualified Opinion on Section 8 Housing Choice Voucher Program, Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation and the Community Development Block Grant/States Program (SBGP)**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion Paragraph, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**Report on Internal Control Over Compliance**

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

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 and significant deficiencies.

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 #13-5 through #13-15 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items #13-4 through #13-15 to be significant deficiencies.

The Municipality's responses to the internal control over compliance findings identified are described in a separate document (Corrective Action Plan) prepared by the Municipality. The Municipality's was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**Report on Internal Control Over Compliance (Continued)**

The Municipality's responses to the internal control over compliance findings identified are described in a separate document (Corrective Action Plan) prepared by the Municipality. The Municipality's was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

*Torres, Hernández & Punter, CPA, PSC*

**Torres, Hernández & Punter, CPA, PSC**  
**Certified Public Accountants**

**Carolina, Puerto Rico**

September 11, 2014

Stamp #E139199 of the  
College of CPA's of  
Puerto Rico is affixed  
to the original.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF Arroyo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

**Part I - Summary of Audit Results:**

**Financial Statements**

The independent auditor's report on the financial statements expressed a qualified opinion.

**Internal Control Over Financial Reporting:**

Material weaknesses identified?	<u> X </u> yes	_____ no
Significant deficiencies identified?	<u> X </u> yes	_____ none reported
Noncompliance material to the Statement noted?	<u> X </u> yes	_____ no

**Federal Awards**

**Internal control over major programs:**

Material weaknesses identified?	<u> X </u> yes	_____ no
Significant deficiencies identified?	<u> X </u> yes	_____ none reported

The independent auditor's report on compliance with requirements applicable to major federal awards program expressed a qualified opinion.

The audit disclosed findings to be reported in accordance with OMB Circular A-133, Section 510(a).

<u> X </u> yes	_____ no
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Municipality's major awards during the year ended June 30, 2013 were:

- CFDA #14.228 - Community Development Block Grant/States Program (SBGP),
- CFDA #14.871 - Section 8 Housing Choice Voucher Program
- CFDA #14.856 - Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation

A threshold of \$300,000 was used to distinguish between type A and type B programs, as those terms are defined in OMB Circular A-133, Section 520 (a).

Municipality qualify as a low risk auditee?	_____ yes	<u> X </u> no
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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ARROYO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**Part II - Findings Related to the Financial Statements:**

**FINDING NUMBER 13-01: DISBURSEMENT ORDERS WITHOUT THE SIGNATURE OF MUNICIPAL OFFICIALS**

**CONDITION:** Of a sample of twenty-five (25) disbursements examined,

- ✓ Four (4) disbursements did not have the signature of the Pre-intervention Officer, and
- ✓ Two (2) disbursements did not have the signature of the Finance Director.

**CRITERIA:** As an appropriate internal control procedure, all supporting documents of disbursement transactions should be authorized by Mayor, Disbursing Officer, Finance Director and Pre-intervention Officer. To comply with Chapter 4, section 2(b) of OCAM Ruling for Municipal Administration, which states municipal officials, are responsible for the legality, correctness, completeness and propriety of all disbursements authorized for payment.

**CAUSE:** The Municipality's internal control procedure to assure that all disbursements prepared have the appropriate authorizations from municipal officials was not effective enough during this fiscal year 2012 - 2013.

**EFFECT:** The Municipality is not in compliance with:

- ✓ Chapter 4, section 2(b) of the OCAM Ruling for Municipal Administration

**RECOMMENDATION:** To strengthen control procedures to assure all disbursements are properly authorized by municipal officials and filed with all required supporting documents.

**MANAGEMENT RESPONSE:** See corrective action plan.

**FINDING NUMBER 13-02: SUPPORTING DOCUMENTS FOR PURCHASES MADE WERE NOT AVAILABLE**

**CONDITION:** Of a sample of twenty-five (25) disbursements examined,

- ✓ One (1) disbursement made for a purchase over \$10,000 did not have the minimum of three (3) written quotations as evidence of price solicitation to suppliers and
- ✓ Two (2) disbursements made did not have a certification that merchandise received agrees in terms and quantities with the one specified in the purchase order.

**CRITERIA:** As an appropriate internal control procedure, quotations should be requested as evidence of protecting municipal interests. Also the official receiver should carefully check the merchandise and certify in the report that the goods received are consistent with the provisions of the purchase order.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ARROYO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**Part II - Findings Related to the Financial Statements: (Continued)**

**FINDING NUMBER 13-02: SUPPORTING DOCUMENTS FOR PURCHASES MADE WERE NOT AVAILABLE (CONTINUED)**

**CAUSE:** The Municipality's internal control procedure to assure that all disbursements prepared have the quotations required by law, original vendor invoice and receiving reports was not effective enough during this fiscal year. Purchases were not properly verified by the municipal employees preparing them to assure this information was available before the actual purchase is made.

**EFFECT:** The Municipality is not in compliance with:

- ✓ Chapter 4, section 2(a) and Chapter 8, Part III, section 1 of the OCAM Ruling for Municipal Administration,
- ✓ Informative Bulletin for the "Purchase Process of the Government of Puerto Rico" published by OCPR.

**RECOMMENDATION:** To strengthen control procedures to assure all purchases and the ultimate disbursements are reviewed in terms of supporting evidence and filed with all required supporting documents, including the written quotations, vendor invoices and receiving reports.

**MANAGEMENT RESPONSE:** See corrective action plan.

**FINDING NUMBER 13-03: BIDS FILES UNAVAILABLE**

**CONDITION:** For two (2) bid files examined, we found one (1) bid file was unavailable.

**CRITERIA:** To comply with Chapter VIII, part I, section 4 Regulations for Municipal Administration (OCAM) and Chapter 10 of Law No. 81 of August 30, 1991, as amended.

**CAUSE:** The Municipality does not have adequate control procedures to assure that bids files have all necessary documents required by law.

**EFFECT:** Bids are not properly documented and municipal could be liable if a bidder claims that the bid was not awarded properly.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ARROYO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**Part II - Findings Related to the Financial Statements: (Continued)**

**FINDING NUMBER 13-03: BIDS FILES UNAVAILABLE (CONTINUED)**

**RECOMMENDATION:** To implement review procedures to assure that all the bid files includes all documents required by applicable laws and regulations. An employee independent of the Finance Department and the Bid Board should be designated to oversee this procedure.

**MANAGEMENT RESPONSE:** See corrective action plan.

**FINDING NUMBER: 13-04: LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS NOT ACCUMULATED**

**CONDITION:** The Municipality has not recorded an expense provision and related liability based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. This expense provision and related liability must be determined based on a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations, and on the amount of the landfill used during the year.

**CRITERIA:** To comply with the provisions of Section L10 of the Governmental Accounting Standards Board (GASB) Codification related to Landfill Closure and Post-Closure Care Costs.

**CAUSE:** The Municipality has not scheduled or considered contracting the study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations.

**EFFECT:** The Statement of Net Assets is understated because the required debt related to closure and post-closure care costs has not being recognized in the financial statements.

**RECOMMENDATION:** As recommended for audit of fiscal year ended June 30, 2013, to consider the feasibility of including on next budget an amount for contracting the study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations.

**MANAGEMENT RESPONSE:** See corrective action plan.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards:

Presentation follows compliance requirements included in the Compliance Supplement of OMB Circular A-133 "Audits of States, Local Governments, and Non-profit Organizations".

A - Activities Allowed or Unallowed

FINDING NUMBER 13-05: DISBURSEMENT ORDER WITHOUT SIGNATURE OF MUNICIPAL OFFICIALS

**FEDERAL PROGRAM: CFDA #14.871 - Section 8 Housing Choice Voucher Program**

**CONDITION:** Of a sample of ten (10) disbursements examined, two (2) disbursement orders did not have the signature of the Pre-intervention Officer.

**CRITERIA:** As an appropriate internal control procedure, all supporting documents of disbursement transactions should be authorized by Mayor, Disbursing Officer, Finance Director and Pre-intervention In-charge. Also, to comply with OMB A-87, which states that municipal officials are responsible for the legality, correctness, completeness and propriety of all disbursements authorized for payment.

**CONTEXT:** We select ten (10) disbursements made during the fiscal year 2012-2013 and verified the supporting documents for the disbursements selected.

**CAUSE:** The Municipality's internal control procedure to assure that all disbursements prepared have the appropriate authorizations from municipal officials was not effective enough during this fiscal year.

**EFFECT:** The Municipality is not in compliance with OMB-Circular A-87 and could result in questioned costs.

**ECOMMENDATION:** To strengthen control procedures to assure all disbursements are properly authorized by municipal officials and filed with all required supporting documents.

**QUESTIONED COSTS:** None

**MANAGEMENT RESPONSE:** See corrective action plan.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

A - Activities Allowed or Unallowed

FINDING NUMBER 13-06: QUOTATIONS NOT AVAILABLE FOR PURCHASES MADE

FEDERAL PROGRAM: CFDA #14.871 - Section 8 Housing Choice Voucher Program

**CONDITION:** Two (2) disbursements made for purchases under \$10,000, from a sample of ten (10) disbursements examined, did not include as part of the supporting documents written quotations as evidence of price solicitation to suppliers.

**CRITERIA:** As an appropriate internal control procedure written quotations should be requested as evidence of protecting municipal interests and documenting price solicitation under federal awards. Also, to comply with OMB Circular A-87 "Cost Principles for State, Local and Indian Tribal Governments", which states that officials managing federal awards are responsible for the legality, correctness, completeness and propriety of all disbursements authorized for payment.

Also, Title 24 - Housing and Urban Development, Volume 1 of the Code of Federal Regulations, Part 85, "Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule), Subpart C - "Changes, Property, and Sub awards", Section 20 (b)(6) requires that disbursements under federal awards be supported by appropriate documentation, including written quotations.

**CONTEXT:** We selected ten (10) disbursements made under Housing Choice Vouchers funds during the fiscal year 2012-2013 and verified their related supporting documents available. Conditions represents twenty 20% of the sample selected.

**CAUSE:** The internal control procedures implemented by the Federal Awards Department of the Municipality to assure that all disbursements prepared have the quotations required by laws and regulations, was not effective enough during this fiscal year. Purchases were not properly verified by the Federal Awards Department employees preparing them to assure this information was available before the actual purchase is made.

**EFFECT:** Price solicitation under federal awards is not properly documented and disbursements under federal awards are not properly supported by appropriate documentation, representing a noncompliance with OMB-Circular A-87 and with Title 24 - Housing and Urban Development, as described above.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

A - Activities Allowed or Unallowed

FINDING NUMBER 13-06: QUOTATIONS NOT AVAILABLE FOR PURCHASES MADE (CONTINUED)

**RECOMMENDATION:** To strengthen control procedures to assure all disbursements are reviewed in terms of supporting evidence and filed with all required supporting documents, including the written quotations. If quotations are solicited and not received, or if only one supplier is available, we recommend documenting request in a memorandum and attach it together with other supporting documents.

**QUESTIONED COSTS:** None

**MANAGEMENT RESPONSE:** See corrective action plan.

FINDING NUMBER 13-07: SUPPORTING DOCUMENTS OF DISBURSEMENT TRANSACTIONS INCOMPLETE OR UNAVAILABLE

**FEDERAL PROGRAMS:** CFDA #14.871 - Section 8 Housing Choice Voucher Program

**CONDITION:** Of a sample of ten (10) disbursements examined of Housing Choice Vouchers program and ten (10) disbursements examined of Section 8 Moderate Rehabilitation program,

- ✓ One (1) disbursement belonging to the Housing Choice Vouchers program, made for a purchase under \$10,000, does not include a written certification stating that merchandise was received and agrees in quantities and specifications to the purchase order, and
- ✓ Six (6) disbursements belonging to the Housing Choice Vouchers program and eight (8) disbursements belonging to the Moderate Rehabilitation program, made for HAP payments, did not have a list or schedule supporting the amount paid.
- ✓ One (1) disbursement belonging to the Housing Choice Vouchers program, made for a transaction over \$10,000, did not have a list or schedule supporting the amount paid and

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings Related to the Financial Statements: (Continued)

A - Activities Allowed or Unallowed

FINDING NUMBER 13-07: SUPPORTING DOCUMENTS OF DISBURSEMENT TRANSACTIONS INCOMPLETE OR UNAVAILABLE (CONTINUED)

- ✓ One (1) disbursement belonging to the Moderate Rehabilitation program, made for a transaction over \$10,000, the disbursement order and its supporting documents was not available.

**CRITERIA:** As an appropriate internal control procedure written receiving reports should be requested as evidence that merchandise was received. Also, schedules of monthly HAP payments that support amounts paid should be requested at all times. Doing so helps protect municipal interests. Also, to comply with OMB Circular A-87 "Cost Principles for State, Local and Indian Tribal Governments", which states that officials managing federal awards are responsible for the legality, correctness, completeness and propriety of all disbursements authorized for payment.

Also, Title 24 - Housing and Urban Development, Volume 1 of the Code of Federal Regulations, Part 85, "Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule), Subpart C - "Changes, Property, and Subawards", Section 20 (b)(6) requires that disbursements under federal awards be supported by appropriate documentation.

**CONTEXT:** We selected ten (10) disbursements made under Housing Choice Vouchers funds and ten (10) disbursements made under Moderate Rehabilitation funds during the fiscal year 2012-2013 and verified their related supporting documents available.

**CAUSE:** The internal control procedures implemented by the Municipality to assure that all disbursements prepared have the receiving reports and supporting documents, as required by laws and regulations, was not effective enough during this fiscal year. Purchases were not properly verified by the employees preparing them to assure this information was available before the actual disbursement is made.

**EFFECT:** Purchase of merchandise is not properly documented and disbursements under federal awards are not properly supported by appropriate documentation, representing a noncompliance with OMB-Circular A-87 and with Title 24 - Housing and Urban Development, as described above.

**RECOMMENDATION:** To strengthen control procedures to assure all disbursements are reviewed in terms of supporting evidence and filed with all required supporting documents. We recommend that the Official Payer return back any disbursement order that lacks any of the required supporting documents before making actual disbursement.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings Related to the Financial Statements: (Continued)

A - Activities Allowed or Unallowed

FINDING NUMBER 13-07: SUPPORTING DOCUMENTS OF DISBURSEMENT TRANSACTIONS INCOMPLETE OR UNAVAILABLE (CONTINUED)

QUESTIONED COSTS: None.

MANAGEMENT RESPONSE: See corrective action plan.

B - Allowable Costs/Costs Principles

None.

C - Cash Management

None.

D - Davis - Bacon Act

FINDING NUMBER 13-08: CONTRACTOR'S PAYROLL NOT AVAILABLE FOR VERIFICATION

FEDERAL PROGRAM: CFDA #14.228 - Community Development Block Grant/States Program (SBGP)

**CONDITION:** For a sample of two (2) contractor contracts selected, in one (1) the Municipality did not required to its contractors the submission of payrolls, to ascertain that laborers and mechanics were paid the prevailing wages rates established by the Department of Labor at the time of the construction payroll.

**CRITERIA:** The United States Code (USC) Title 40, Sections 276 a to 276 a-7, states that "for every contract in excess of \$ 2,000, for construction, alteration, and/or repair, including painting and decorating, of public buildings, and which requires or involves the employment of mechanics and/or laborers, the contractor shall pay all mechanics and laborers employed directly upon the site of the work, the full amounts accrued at time of payment, computed at wage rates not less than those stated in the advertised specifications, regardless of any contractual relationship which may be alleged to exist between the contractor or subcontractor and such laborers and mechanics".

Therefore, the municipality is responsible to ensure that contractors and subcontractors comply with these requirements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

D - Davis - Bacon Act

FINDING NUMBER 13-08: CONTRACTOR'S PAYROLL NOT AVAILABLE FOR VERIFICATION (CONTINUED)

**CONTEXT:** We requested two (2) contractor's payroll in order to verify the wage rates paid by the contractor and if laborers and mechanics were paid full amounts accrued at time of payment, computed at wage rates not less than those stated in the advertised specifications. For one contract the Federal Awards Department of the Municipality did not perform the procedure.

**EFFECT:** The municipality is not in compliance with The United States Code (USC) Title 40, Sections 276 a to 276 a-7, and in the event that any laborer or mechanic employed by the contractor or subcontractor directly on the site of the work covered by the contract has been paid or is being paid a rate of wages less than the rate of wages required by the contract to be paid as aforesaid, the government may, by written notice to the contractor or subcontractor, terminate his right to proceed with the work or such part of the work as to which there has been a failure to pay said required wages and to prosecute the work to completion by contract or otherwise.

**RECOMMENDATION:** To strengthen control procedures to assure that contractors paid with federal funds submit payrolls for all employees of contractors and/or subcontractors working at project sites, to ensure prevailing wages are paid throughout the contract. Also to instruct a person to monitor payment of prevailing wage rates in those contracts. This includes requiring contractors and/or subcontractors to submit payroll reports and rates paid to employees by their job classifications, to permit verification of compliance.

**QUESTIONED COSTS:** None.

**MANAGEMENT RESPONSE:** See corrective action plan.

E - Eligibility

FINDING NUMBER 13-09: TENANTS'S FILES UNAVAILABLE

**FEDERAL PROGRAM:** CFDA #14.856 – Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation

**CONDITION:** Of a sample of nine (9) tenants files selected for our test, we found the following:

- Tenant file was not available, 1 instance, representing 11% of sample.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

E - Eligibility

FINDING NUMBER 13-09: TENANTS'S FILES UNAVAILABLE (CONTINUED)

**CRITERIA:** Title 24 Housing and Urban Development, Code of Federal Regulations, Section 882.514 requires Public Housing Agencies (PHA) to verify the eligibility of applicants, conducting verifications of family income, document inspections and tenant certifications and determine that tenant income did not exceed the maximum limit set by HUD. Records on applicants should be maintained by the PHA to document proper verification and determination of eligibility of tenants.

**CONTEXT:** We selected nine (9) tenant's files and verify the documents available on files. Percentage relation of conditions to findings is included above in the condition section.

**CAUSE:** The internal control procedures implemented by the Municipality to assure that tenant files were properly safeguarded was not effective enough during this fiscal year. Also, the Federal Awards Department of the Municipality does not has available a checklist with all the necessary forms required to document eligibility verification on tenant's files and to assure that all documentation is available and provided by tenants.

**EFFECT:** Public Housing Administration could require the reimbursement of all disbursement made to a unqualified tenant because of lack of evidence.

**RECOMMENDATION:** The Municipality should strengthen verification to assure tenants files are properly safeguarded.

**QUESTIONED COSTS:** None

**MANAGEMENT RESPONSE:** See corrective action plan.

FINDING NUMBER 13-10: TENANT INCOME NOT ACCURATE

**FEDERAL PROGRAM:** CFDA #14.856 – Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ARROYO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)**

**E - Eligibility**

**FINDING NUMBER 13-10: TENANT INCOME NOT ACCURATE (CONTINUED)**

**CONDITION:** Of a sample of nine (9) tenants files selected for our test, we found the following:

- Tenant income for Temporary Assistance for Needy Families was not accurately recorded in form HUD-50058, 1 instance, representing 11% of sample,

**CRITERIA:** Title 24 Housing and Urban Development, Code of Federal Regulations, Section 882.514 requires Public Housing Agencies (PHA) to verify the eligibility of applicants, conducting verifications of family income, document inspections and tenant certifications and determine that tenant income did not exceed the maximum limit set by HUD..

**CONTEXT:** We selected nine (9) tenant's files and verify the documents available on files. Percentage relation of conditions to findings is included above in the condition section.

**CAUSE:** The internal control procedures implemented by the Municipality to assure that tenant income was accurately recorded was not effective enough during this fiscal year..

**EFFECT:** Public Housing Administration may be qualifying tenants by not accurately recording applicant's income.

**RECOMMENDATION:** The Municipality should made during the year a tenant's files verification by other employees from the Federal Department in order to review tenant payment calculation sheet with the evidence provided by the participants.

**QUESTIONED COSTS:** None

**MANAGEMENT RESPONSE:** See corrective action plan.

**FINDING NUMBER 13-11: SELECTION FROM THE SECTION 8 WAITING LIST**

**FEDERAL PROGRAM:** Rehabilitation and CFDA #14.871 – Section 8 Housing Choice Voucher Program

**CONDITION:** The Municipality did not have written policies in its Housing Choice Voucher Program (HCVP) administrative plan for selecting applicants from the waiting list.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

E - Eligibility

FINDING NUMBER 13-11: SELECTION FROM THE SECTION 8 WAITING LIST (CONTINUED)

**CRITERIA:** Title 24 Housing and Urban Development, Code of Federal Regulations, Section 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the Public Housing Agencies (PHA) notifies a family, whose names reaches the top of the waiting list, to come in to verify eligibility for admission.

**CONTEXT:** We required the written policies in its HCVP administrative plan approved but the Municipality does not has it available.

**CAUSE:** The Municipality internal control procedures to assure that the waiting list include all information required by Federal Regulation and the procedures implemented by the Municipality is not in operation during this fiscal year..

**EFFECT:** The Municipality is not in compliance with the Code of Federal Regulations 24, Section 982.201 through 982.

**RECOMMENDATION:** The Municipality should prepare and approve a written policy with the procedures required to manage the waiting list selection based on the Code of Federal Regulations 24, Section 982.201 through 982.

**QUESTIONED COSTS:** None

**MANAGEMENT RESPONSE:** See corrective action plan.

F - Equipment and Real Property Management

FINDING NUMBER 13-12: PROPERTY RECORDS OF ALL FEDERAL AWARDS (Finding Also Applies to the Financial Statements)

**FEDERAL PROGRAMS:** CFDA # 14.228 - Community Development Block Grant/States Program (SBGP), CFDA # 14.871 Section 8 Housing Choice Voucher Program and CFDA #14.856 – Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation

*Inv. actualizados*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

F - Equipment and Real Property Management

FINDING NUMBER 13-12: PROPERTY RECORDS OF ALL FEDERAL AWARDS (Finding Also Applies to the Financial Statements) (CONTINUED)

**CONDITION:** According to Code of Federal Regulations (CFR), Title 24, Housing and Urban Development, Part 85, Subpart C, Section 85.32, (d)(1); (2):

1. Property records must be maintained that include a description of the property, a serial number or 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, and
2. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

The Municipality does not have available complete property records, based on a physical inventory counts. At present, records are maintained by the property office, by dependency, with a description of the property items, amount of items, property number assigned, cost, the property items acquired during the year, items retired from property records, and final balance. The records do not provide information as to acquisition dates, disbursement order number, property transfer, and if property was acquired with state or federal funds. Also, property records lack information on Municipal building and facilities, land lots acquired, and the amount of construction in progress for the buildings and facilities in construction stages is not accurately maintained as of June 30, 2013. Therefore, there is no reasonable assurance that property records includes all property physically in existence and owned by the Municipality, and excludes all property not in existence or damaged, as of June 30, 2013.

**CRITERIA:** As an appropriate internal control procedure, and to comply with CFR 24, Title 85, Subpart C, Section 85.32, which states that a complete set of records should be maintained in order to assure all balances are correct and properly recorded.

**CAUSE OF CONDITION:** There is no uniform control procedure requiring a standard and complete set of property records, as required by Common Rule.

**EFFECT:** Accurate and complete financial information of property is not available.

**RECOMMENDATION:** The Municipality should perform a physical inventory and reconcile it with the present accounting records, adjust any differences found and identify if property item as are acquired with state or federal awards. Also, to implement a procedure that includes the recording of every property items purchased or constructed in the subsidiary records before use it.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

F - Equipment and Real Property Management

FINDING NUMBER 13-12: PROPERTY RECORDS OF ALL FEDERAL AWARDS (Finding Also Applies to the Financial Statements) (CONTINUED)

QUESTIONED COSTS: None

MANAGEMENT RESPONSE: See corrective action plan.

G - Matching, Level of Effort and Earmarking

No Conditions Detected.

H - Period of Availability of Federal Funds

No Conditions Detected.

I - Procurement and Suspension and Debarment

No Conditions Detected.

J - Program Income

No Conditions Detected.

K - Real Property Acquisition and Relocation Assistance

No Conditions Detected.

L - Reporting

FINDING NUMBER 13-13: LATE SUBMISSION OF SINGLE AUDIT REPORT PACKAGE

FEDERAL PROGRAMS: CFDA # 14.228 - Community Development Block Grant/States Program (SBGP), CFDA # 14.871 Section 8 Housing Choice Voucher Program and CFDA #14.856 – Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

FINDING NUMBER 13-13: LATE SUBMISSION OF SINGLE AUDIT REPORT PACKAGE (CONTINUED)

**CONDITION:** The Municipality did not submitted the single audit reports and reporting package for the year ended June 30, 2013, to the Federal Clearinghouse during the required period.

**CRITERIA:** OMB Circular A-133, Subpart C "Auditees", Section 320 (a), (c) " Report Submission", states that the audit shall be completed and the Data Collection Form and reporting package shall be submitted to the Federal Clearinghouse designated by OMB within the earlier of 30 days after receipt of the auditor's reports, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

**CONTEXT:** We verified the reporting date of last year financial statements and reporting package, and reporting date of current year financial statements to determine compliance with OMB Circular A-133 report submission requirements. Also, we verified last year reporting package date and was not in compliance with the requirement of submission within 30 days after receipt of the auditor's report or nine months after the end of the audit period.

**CAUSE:** The Municipality do not have in place a strict policy to formalize auditor contract before the fiscal year end so management can coordinate with auditors to commence audit procedures to allow the necessary time to complete the audit during the required period.

**EFFECT:** The Municipality may be subject to sanctions, as described in OMB Circular A-133. According to OMB Circular A-133, section 225 named "Sanctions", in cases of continued inability to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate action using sanctions such as:

1. Withholding a percentage of federal awards until the audit is completed satisfactorily,
2. Withholding or disallowing overhead costs,
3. Suspending federal awards until the audit is conducted, or
4. Terminating the federal award.

**RECOMMENDATION:** As recommended in prior years audits, we recommend management to formalize independent external auditor's single audit contract before the fiscal year end and to coordinate with auditors to commence audit procedures to allow the necessary time to complete the audit during the required period.

**QUESTIONED COSTS:** None

**MANAGEMENT RESPONSE:** See corrective action plan.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

M - Sub recipient Monitoring

No Conditions Detected.

N - Special Tests and Provisions

FINDING NUMBER 13-14: ESTABLISHMENT AND MAINTENANCE OF A REPLACEMENT RESERVE ACCOUNT

**FEDERAL PROGRAMS:** CFDA #14.856 – Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation

**CONDITION:** The Municipality did not provide a reserve for replacement account and could not provide evidence of the required monthly deposit to the account.

**CRITERIA:** Title 24 Housing and Urban Development, Code of Federal Regulations, Section 880.602 (a) states that a replacement reserve must be established and maintained in an interest-bearing account to aid in funding extraordinary maintenance and repair and replacement of capital items.

**CONTEXT:** We verified the banks accounts used by the Municipality to manage the Lower Income Housing Assistance Program and there is no Reserve for Replacement Account. Also, This condition has been noted and reported in audits of previous years.

**CAUSE:** The Municipality does not has established an internal control procedure to establish a reserve for replacement bank account with an interest-bearing as required by Federal Regulation.

**EFFECT:** The Municipality is not in compliance with Code of Federal Regulations 24, Section 880.602(a).

**RECOMMENDATION:** We recommended management to improve monitoring procedures to assure that owner of the project establish and maintain a replacement reserve, make the required deposits to the reserve as iin prior years audits, we recommend management to formalize independent external auditor's single audit contract before the fiscal year end and to coordinate with auditors to commence audit procedures to allow the necessary time to complete the audit during the required period.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

N - Special Tests and Provisions

FINDING NUMBER 13-14: ESTABLISHMENT AND MAINTENANCE OF A REPLACEMENT RESERVE ACCOUNT(CONTINUED)

**QUESTIONED COSTS:** None

**MANAGEMENT RESPONSE:** See corrective action plan.

FINDING NUMBER 13-15: DEPOSITARY AGREEMENTS

**FEDERAL PROGRAMS: CFDA # 14.871 Section 8 Housing Choice Voucher Program**

**CONDITION:** The Municipality did not comply with the compliance requirement of Depositary Agreements. The Public Housing Agencies (PHA) is required to enter into depositary agreement with their financial institutions in the form required by HUD. (Form HUD-51999)

**CRITERIA:** Title 24 Housing and Urban Development, Code of Federal Regulations, Subpart D, 982.156 states that the PHA must enter into an agreement with the depositary in the form required by HUD. If required under a written notice from HUD to the depositary:

- The depositary may not permit any withdrawal by the PHA of funds held under the depositary agreement under expressly authorized by written notice from HUD to the depositary.
- The depositary must permit withdrawals of such funds by HUD.
- HUD must send the PHA a copy of the freeze notice from HUD to the depositary.

**CONTEXT:** We verified the banks accounts used by the Municipality to manage Section 8 Housing Choice Voucher Program and required the form HUD-51999 and could not be provided.

**CAUSE:** The Municipality is not performing an effective review of compliance requirement established by Federal Regulation.

**EFFECT:** The Municipality is not in compliance with Code of Federal Regulations 24, Subpart D, 982.156.

**RECOMMENDATION:** We recommended management to implement the procedures to ascertain that the PHA complies with the established Federal Regulation required by HUD.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ARROYO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

N - Special Tests and Provisions

FINDING NUMBER 13-15: DEPOSITARY AGREEMENTS (CONTINUED)

QUESTIONED COSTS: None

MANAGEMENT RESPONSE: See corrective action plan.

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2012

Finding Number	12-10	<b>Reporting Financial - Administration</b> Municipality did not maintain adequate accounting records for the Child Care and Development Grant Program.
CFDA Numbers	93.575 / 93.713	
Questioned Cost	None	
Status	Corrected	

FISCAL YEAR 2010

Finding Number	10-07	<b>Reporting Financial - Administration</b> Municipality did not maintain adequate accounting records for the Child Care and Development Grant Program.
CFDA Numbers	93.575 / 93.713	
Questioned Cost	None	
Status	Corrected	

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2012

Finding Number	12-05	<b>Establishment and Maintenance of a Replacement Reserve</b> Replacement Reserve Bank Account not established by the Municipality.
CFDA Number	14.856	
Questioned Cost	None	
Auditee Comments	Pending of final determination of the US Department of Housing and Urban Development.	
Finding Number	12-06	<b>Selection from the Section 8 Waiting List</b> PHA did not have written policy in its Housing Choice Voucher Program administrative plan for selecting applicants from the waiting list.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	Pending of final determination of the US Department of Housing and Urban Development.	

(2) Audit Findings not Corrected or Partially Corrected (Continued):

**Finding Number** 12-07 **Depositary Agreements**  
The Municipality did not comply with the compliance requirements of Depositary Agreements.

**CFDA Number** 14.871

**Questioned Cost** None

**Auditee Comments** Pending of final determination of the US Department of Housing and Urban Development.

**Finding Number** 12-08 **Davis Bacon Act**  
Contractor did not submit the weekly certified payrolls and the Municipality did not perform the required on-site visits to monitor the classifications of workers and wage rates paid.

**CFDA Number** 14.228

**Questioned Cost** None

**Auditee Comments** Pending of final determination of the US Department of Housing and Urban Development.

**Finding Number** 12-09 **Program Income**  
The Municipality did not maintain internal controls to assure the proper determination, accounting and use of program income.

**CFDA Number** 14.228

**Questioned Cost** None

**Auditee Comments** Pending of final determination of the US Department of Housing and Urban Development.

FISCAL YEAR 2011

**Finding Number** 11-03 **Establishment and Maintenance of a Replacment Reserve**  
Replacement Reserve Bank Account mot established by the Municipality.

**CFDA Number** 14.856

**Questioned Cost** None

**Auditee Comments** Pending of final determination of the US Department of Housing and Urban Development

(2) Audit Findings not Corrected or Partially Corrected (Continued):

**Finding Number** 11-04 **Selection from the Section 8 Waiting List**  
PHA did not have written policy in its Housing Choice Voucher Program administrative plan for selecting applicants from the waiting list.

**CFDA Number** 14.871

**Questioned Cost** None

**Auditee Comments** Pending of final determination of the US Department of Housing and Urban Development.

**Finding Number** 11-05 **Depositary Agreements**  
The Municipality did not comply with the compliance requirements of Depositary Agreements.

**CFDA Number** 14.871

**Questioned Cost** None

**Auditee Comments** Pending of final determination of the US Department of Housing and Urban Development.

**Finding Number** 11-06 **Davis Bacon Act**  
Contractor did not submit the weekly certified payrolls and the Municipality did not perform the required on-site visits to monitor the classifications of workers and wage rates paid.

**CFDA Number** 14.228

**Questioned Cost** None

**Auditee Comments** Pending of final determination of the US Department of Housing and Urban Development.

FISCAL YEAR 2010

**Finding Number** 10-03 **Establishment and Maintenance of a Replacment Reserve**  
Replacement Reserve Bank Account mot established by the Municipality.

**CFDA Number** 14.856

**Questioned Cost** None

**Auditee Comments** The audit finding does not warrant further action because two year have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

(2) Audit Findings not Corrected or Partially Corrected (Continued):

**Finding Number**                      10-04                      **Selection from the Section 8 Waiting List**  
PHA did not have written policy in its Housing Choice Voucher Program administrative plan for selecting applicants from the waiting list.

**CFDA Number**                              14.871

**Questioned Cost**                              None

**Auditee Comments**                              The audit finding does not warrant further action because two year have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse

**Finding Number**                      10-05                      **Depository Agreements**  
The Municipality did not comply with the compliance requirements of Depository Agreements.

**CFDA Number**                              14.871

**Questioned Cost**                              None

**Auditee Comments**                              The audit finding does not warrant further action because two year have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse



**TORRES, HERNANDEZ & PUNTER, CPA, PSC**  
Certified Public Accountants

To the clients and users of the financial statements  
Reported upon by Torres, Hernández & Punter, CPA, PSC  
Certified Public Accountants

The partners and staff of Torres, Hernández & Punter, CPA, PSC are pleased to announce the successful completion of the 2012 independent peer review of our accounting and auditing practice. This review was undertaken as a condition of membership in the American Institute of Certified Public Accountants (AICPA), the national organization of CPA's in public practice, industry, government and education. Our participation in the Peer Review Program demonstrates our firm's commitment and desire of maintaining and improving the quality of our practice.

After thorough study of our policies and procedures, the team conducting the review concluded our firm complies with the quality control standards established by the AICPA and the Puerto Rico Society of CPA's (PRSCPA). Our firm is committed to periodic peer review to foster quality performance.

Bankers, bonding agents, investors, suppliers, legal advisors and others use the financial statements our firm audits, reviews, or compiles. We think those people, our clients, and our own staff, deserve independent quality assurance that our firm provides quality services. We are proud of our peer review results and would be happy to answer any questions you might have.

Sincerely,

*Torres, Hernández & Punter, CPA, PSC*

Torres, Hernández & Punter, CPA, PSC

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## System Review Report

To the Partners of  
Torres, Hernandez & Punter, CPA, PSC  
And Colegio de Contadores Publicos Autorizados  
de Puerto Rico

We have reviewed the system of quality control for the accounting and auditing practice of Torres, Hernandez & Punter, CPA, PSC (the firm) in effect for the year ended December 31, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under Governmental Auditing Standards and an audit of Employee Benefit Plan.

In our opinion, the system of quality control for the accounting and auditing practice of Torres, Hernandez & Punter, CPA, PSC in effect for the year ended December 31, 2012 has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency (ies) or fail. Torres, Hernandez & Punter, CPA, PSC has received a peer review rating of pass.

*Vizcaino, Gitlin & Zomerfeld, LLP*

June 12, 2013

VIZCAINO, GITLIN AND ZOMERFELD, LLP

MEMBERS OF:  
American Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants  
National Association of Certified Valuation Analysts

From red to black



Estado Libre Asociado de Puerto Rico  
**Gobierno Municipal de Arroyo**

Hon. Eric Bachier Román - Alcalde

26 de septiembre de 2014

HOJA DE TRÁMITE

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES (OCAM)

Documentos entregados:

Municipio de Arroyo:

Informe con sello del Colegio de Contadores Públicos Autorizado

"Single Audit for the Fiscal Year ended June 30, 2013"

Recibido por:

Fecha:

*(787) 839-3088 Prog. Fed  
Director Héctor Carballo  
(787) 326-7547*

**OCAM  
DIV. SERVICIOS GENERALES  
14 SEP 26 AM 11:51**

*10/24/14*

*9:55 AM*

*De lo dejó mensaje al auditor interno con la secretaría Sra. Lissette, de está solicitando el PAC.*

*11/5/14  
Sr. Anwar Salem,  
Auditor Interno se comunicó ya que tenían duda con lo que iba a someter se le explicó que el PAC.*

*10/31/14 Seguimiento en el cuadro telefonico de información al auditor interno a contador de Prog. Fed para q se comuniquen*



DEPARTAMENTO DE FINANZAS

Tels. (787) 839-3500



*10/24/14  
24/14*

**Vilmarie Albertorio**

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**From:** Idel Cora <iacora@hotmail.com>  
**Sent:** Tuesday, November 18, 2014 4:05 PM  
**To:** anwarsalem82@gmail.com; Vilmarie Albertorio  
**Subject:** Plan de Accion Correctiva 2013 - Municipio de Arroyo  
**Attachments:** Plan de Accion Correctiva - SA 2013.doc

**MUNICIPIO DE ARROYO  
SINGLE AUDIT 2012-2013**

**CORRECTIVE ACTION PLAN**

NUMBER	FINDING	MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	IMPLEMENTATION DATE	RESPONSIBLE PERSON
13-01	<p>Of a sample of twenty-five (25) disbursements examined,</p> <ul style="list-style-type: none"> <li>▪ Four (4) disbursements did not have the signature of the Pre-intervention Officer, and</li> <li>▪ Two (2) disbursements did not have the signature of the Finance Director.</li> </ul>	<p>Our administration will improve the purchases and expenditures procedures in order to correct the conditions reported in this finding by the external auditors, providing technical training to the Finance Department Staff and increasing supervision on such procedures. These procedures will include not make any payment, until all supporting documentation and signatures are collected.</p>	Immediately	Ms. Mariet Rodriguez Finance Director
13-02	<p>Of a sample of twenty-five (25) disbursements examined,</p> <ul style="list-style-type: none"> <li>▪ One (1) disbursement made for a purchase over \$10,000 did not have the minimum of three (3) written quotations as evidence of price solicitation to suppliers and</li> <li>▪ Two (2) disbursements made did not have a certification that merchandise received agrees in terms and quantities with the one specified in the purchase order.</li> </ul>	<p>Our administration will improve the purchases and expenditures procedures in order to correct the conditions reported in this finding by the external auditors, providing technical training to the Finance Department Staff and increasing supervision on such procedures. These procedures will include;</p> <ul style="list-style-type: none"> <li>▪ Not make any payment, until assures that the procurement process (bid or quotation acquisition process) is performed according federal and state government regulations;</li> <li>▪ Not make any payment, until assures that a functionary or employee certified that the merchandise are received according terms.</li> </ul>	Immediately	Ms. Mariet Rodriguez Finance Director

**MUNICIPIO DE ARROYO  
SINGLE AUDIT 2012-2013**

**CORRECTIVE ACTION PLAN**

NUMBER	FINDING	MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	IMPLEMENTATION DATE	RESPONSIBLE PERSON
13-5	Of a sample of ten (10) disbursements examined, two (2) disbursement orders did not have the signature of the Pre-intervention Officer.	Our administration will improve the purchases and expenditures procedures in order to correct the conditions reported in this finding by the external auditors, providing technical training to the Finance Department Staff and increasing supervision on such procedures. These procedures will include not make any payment, until all supporting documentation and signatures are collected.	Immediately	Ms. Mariet Rodriguez Finance Director
13-6	Two (2) disbursements made for purchases under \$10,000, from a sample of ten (10) disbursements examined, did not include as part of the supporting documents written quotations as evidence of price solicitation to suppliers.	Our administration will improve the purchases and expenditures procedures in order to correct the conditions reported in this finding by the external auditors, providing technical training to the Finance Department Staff and increasing supervision on such procedures. These procedures will include not make any payment, until assures that the procurement process (bid or quotation acquisition process) is performed according federal and state government regulations.	Immediately	Ms. Mariet Rodriguez Finance Director

MUNICIPIO DE ARROYO  
SINGLE AUDIT 2012-2013

CORRECTIVE ACTION PLAN

NUMBER	FINDING	MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	IMPLEMENTATION DATE	RESPONSIBLE PERSON
	<ul style="list-style-type: none"> <li>▪ One (1) disbursement belonging to the Moderate Rehabilitation program, made for a transaction over \$10,000, the disbursement order and its supporting documents was not available.</li> </ul>			
13-08	<p>For a sample of two (2) contractor contracts selected, in one (1) the Municipality did not required to its contractors the submission of payrolls, to ascertain that laborers and mechanics were paid the prevailing wages rates established by the Department of Labor at the time of the construction payroll.</p>	<p>Our administration will give instructions to the responsible employee to collect from the contractors the weekly payrolls and assure that the wages paid are in accordance with the rates established by the Department of Labor.</p>	Immediately	Mr. Carlos Meléndez Federal Programs Director
13-09	<p>Of a sample of nine (9) tenants files selected for our test, we found the following:</p> <ul style="list-style-type: none"> <li>▪ Tenant file was not available, 1 instance, representing 11% of sample.</li> </ul>	<p>Our administration does not agree with the dispositions established in this finding. According our Section 8 Program Department's employees, this file is available for your examination.</p>	N/A	N/A

MUNICIPIO DE ARROYO  
 SINGLE AUDIT 2012-2013

CORRECTIVE ACTION PLAN

NUMBER	FINDING	MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	IMPLEMENTATION DATE	RESPONSIBLE PERSON
	<ul style="list-style-type: none"> <li>▪ Property records must be maintained that include a description of the property, a serial number or 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, and</li> <li>▪ A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.</li> </ul>			

**MUNICIPIO DE ARROYO  
SINGLE AUDIT 2012-2013**

**CORRECTIVE ACTION PLAN**

NUMBER	FINDING	MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	IMPLEMENTATION DATE	RESPONSIBLE PERSON
13-13	The Municipality did not submitted the single audit reports and reporting package for the year ended June 30, 2013, to the Federal Clearinghouse during the required period.	Our administration will gave instruction to the Finance Department to submit, in a timely manner, all the required financial information, to our external auditors, in order to comply with the datelines for the submission of the Single Audit Report for the fiscal year 2013-2014, which is March 31, 2015.	March 31, 2015	Ms. Mariet Rodriguez Finance Director
13-14	The Municipality did not provide a reserve for replacement account and could not provide evidence of the required monthly deposit to the account.	We will contact the Moderate Rehabilitation Housing Project's owner, in order to establish and maintain a replacement reserve, as required by the federal regulation.	Immediately	Mr. Juan A. Alicea Section 8 Program Director
13-15	The Municipality did not comply with the compliance requirement of Depository Agreements. The Public Housing Agencies (PHA) is required to enter into depository agreement with their financial institutions in the form required by HUD. (Form HUD-51999).	Our administration is in the process to enter into a depository agreement, in the form required by HUD, with the financial institution in where Program's funds are deposited.	Immediately	Mr. Juan A. Alicea Section 8 Program Director



**MUNICIPIO DE ARROYO  
SINGLE AUDIT 2012-2013**

**CORRECTIVE ACTION PLAN**

NUMBER	FINDING	MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	IMPLEMENTATION DATE	RESPONSIBLE PERSON
	<p>The Municipality does not have available complete property records, based on a physical inventory counts. At present, records are maintained by the property office, by dependency, with a description of the property items, amount of items, property number assigned, cost, the property items acquired during the year, items retired from property records, and final balance. The records do not provide information as to acquisition dates, disbursement order number, property transfer, and if property was acquired with state or federal funds. Also, property records lack information on Municipal building and facilities, land lots acquired, and the amount of construction in progress for the buildings and facilities in construction stages is not accurately maintained as of June 30, 2013. Therefore, there is no reasonable assurance that property records includes all property physically in existence and owned by the Municipality, and excludes all property not in existence or damaged, as of June 30, 2013.</p>			

MUNICIPIO DE ARROYO  
SINGLE AUDIT 2012-2013

CORRECTIVE ACTION PLAN

NUMBER	FINDING	MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	IMPLEMENTATION DATE	RESPONSIBLE PERSON
13-10	<p>Of a sample of nine (9) tenants files selected for our test, we found the following:</p> <ul style="list-style-type: none"> <li>▪ Tenant income for Temporary Assistance for Needy Families was not accurately recorded in form HUD-50058, 1 instance, representing 11% of sample.</li> </ul>	<p>Our administration will give instruction to the Program Coordinator to ensure that annual reexaminations were calculated using the information obtain from third parties, according dispositions established in the federal regulation.</p>	Immediately	Mr. Juan A. Alicea Section 8 Program Director
13-11	<p>The Municipality did not have written policies in its Housing Choice Voucher Program (HCVP) administrative plan for selecting applicants from the waiting list.</p>	<p>Our administration will perform the corresponding processes to amend the administrative plan, in order to assure that the participants are admitted to the program or are provided the opportunity to be admitted to the program according with the federal regulation.</p>	January 31, 2015	Mr. Juan A. Alicea Section 8 Program Director
13-12	<p>According to Code of Federal Regulations (CFR), Title 24, Housing and Urban Development, Part 85, Subpart C, Section 85.32, (d)(1); (2):</p>	<p>The Municipality's Finance Department will update the capital assets subsidiary ledger in order to comply with the GASB No. 34 capital assets requirements for the fiscal year ended on June 30, 2014. Therefore, we will request to the Property Division staff to take into considerations the requirements established in the Federal regulation.</p>	December 1, 2014	Mr. Carlos Meléndez Federal Programs Director

MUNICIPIO DE ARROYO  
SINGLE AUDIT 2012-2013

CORRECTIVE ACTION PLAN

NUMBER	FINDING	MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	IMPLEMENTATION DATE	RESPONSIBLE PERSON
13-7	<p>Of a sample of ten (10) disbursements examined of Housing Choice Vouchers program and ten (10) disbursements examined of Section 8 Moderate Rehabilitation program,</p> <ul style="list-style-type: none"> <li>▪ One (1) disbursement belonging to the Housing Choice Vouchers program, made for a purchase under \$10,000, does not include a written certification stating that merchandise was received and agrees in quantities and specifications to the purchase order;</li> <li>▪ Six (6) disbursements belonging to the Housing Choice Vouchers program and eight (8) disbursements belonging to the Moderate Rehabilitation program, made for HAP payments, did not have a list or schedule supporting the amount paid;</li> <li>▪ One (1) disbursement belonging to the Housing Choice Vouchers program, made for a transaction over \$10,000, did not have a list or schedule supporting the amount paid and;</li> </ul>	<p>Our administration will improve the purchases and expenditures procedures in order to correct the conditions reported in this finding by the external auditors, providing technical training to the Finance Department Staff and increasing supervision on such procedures. These procedures will include not make any payment, until all supporting documentation are collected.</p>	Immediately	Ms. Mariet Rodriguez Finance Director

MUNICIPIO DE ARROYO  
SINGLE AUDIT 2012-2013

CORRECTIVE ACTION PLAN

NUMBER	FINDING	MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	IMPLEMENTATION DATE	RESPONSIBLE PERSON
13-3	For two (2) bid files examined, we found one (1) bid file was unavailable.	Our administration does not agree with the dispositions established in this finding. According our Municipal Secretary Unit's employees, this file is available for your examination.	N/A	N/A
13-4	The Municipality has not recorded an expense provision and related liability based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. This expense provision and related liability must be determined based on a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations, and on the amount of the landfill used during the year.	The Municipality will request a confirmation from the consultant of the Municipality's solid waste landfill about the maximum yield of available space. Once we obtain that information we will calculate the liability of the closure and post closure at June 30, 2014.	June 30, 2014	Ms. Mariet Rodriguez Finance Director