

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

**MUNICIPIO DE CABO ROJO
AUDITORÍA 2012-2013
30 DE JUNIO DE 2013**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

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**BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS AND
INFORMATION REQUIRED BY THE SINGLE AUDIT ACT**
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
 BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS AND INFORMATION
 REQUIRED BY THE SINGLE AUDIT ACT
 FISCAL YEAR ENDED JUNE 30, 2013**

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REQUIRED BY THE SINGLE AUDIT ACT
FISCAL YEAR ENDED JUNE 30, 2013**

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PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Cabo Rojo, Puerto Rico**

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of **Cabo Rojo**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 risk 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Basis for Disclaimer of Opinion on Governmental Activities

The Municipality did not provide me in a timely manner a complete, updated and accurate capital assets subsidiary ledger, in order to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying statement of net position for \$88,796,598, net of accumulated depreciation of \$32,304,564. The Municipality's records do not permit the application of other auditing procedures to the capital assets.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Government Activities" paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities. Accordingly, I do not express, an opinion on the financial position of the governmental activities of the Municipality at June 30, 2013, or the changes in financial position, thereof for the year then ended.

Unmodified Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 1 to the financial statements, during the fiscal year the Municipality adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 61 through 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

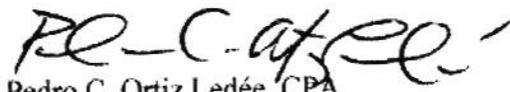
INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, it is inappropriate to and I do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 30, 2014, on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 Municipality's internal control over financial reporting and compliance.


Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 30, 2014



**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

Within this section of the Municipality of Cabo Rojo's financial statements, the Municipality provides a narrative discussion and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2013. The Municipality's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Municipality's primary government.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality of Cabo Rojo exceeded deferred inflows and liabilities, at the close of the most recent fiscal year, by \$59,950,306 (Net position).
- The capital assets increased by \$2,119,695 as compared to prior year, mainly due to additions and improvements of municipal properties.
- The Municipality's governmental funds reported total ending fund balance of \$10,111,219 this year. This amount represents a decrease of \$9,374,036 during the current year as compared to the prior year ending fund balance of \$19,485,255, as restated. The unassigned fund balance of the General Fund for fiscal year 2013 amounts to (\$8,058,624).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013**

Fund Financial Statements

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

ANALYSIS OF GOVERNMENT WIDE FINANCIAL STATEMENTS

Net Position - The condensed statement of net position of the Municipality as of June 30, 2013 and 2012 is presented below:

Table 1

	2013	2012 As restated	Change	% Change
Current and other assets, net of accumulated amortization	\$ 25,550,037	\$ 31,033,561	(\$5,483,524)	
Capital assets, net of accumulated depreciation	88,796,598	86,676,903	2,119,695	
Total assets	\$ 114,346,635	\$ 117,710,464	\$ (3,363,829)	(2.86%)
Long term liabilities	45,077,193	46,401,924	(1,324,731)	
Other liabilities	9,319,136	8,380,019	939,117	
Total liabilities	\$ 54,396,329	\$ 54,781,943	\$ (\$385,614)	(.70%)
Deferred inflows of resources	\$ -	\$ -	\$ -	0.00%
Net position:				
Invested in capital assets, net of related debt	72,454,217	59,141,903	13,312,314	
Restricted	14,740,109	19,894,514	(5,154,405)	
Unrestricted	(27,244,020)	(16,107,896)	(11,136,124)	
Total net position	\$ 59,950,306	\$ 62,928,521	\$ (2,978,215)	(4.73%)

As noted above, the Municipality total assets decreased by \$3,363,829 while the total liabilities decreased by \$385,614 mainly due by the disbursement of restricted cash and the decrease of noncurrent liabilities. As a result, the net position decreased by \$2,978,215.

Net position may serve over time as a useful indicator of a government's financial position. The Municipality's net position still strong in the amount of \$59,950,306 as of June 30, 2013, as compared to the net position of \$62,928,521 of the previous fiscal year, as restated.

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

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

An additional portion of the Municipality's net position is the unrestricted deficit. This is the consequence of previous budgets, which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post-closure care costs, claims and judgments and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013**

their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operation.

Activities

The condensed statement of activities of the Municipality for the years ended June 30, 2013 and 2012 is presented below. As noted therein, the Municipality's net position decreased by approximately 2,978,215.

The Municipality's expenses cover a range of services. The largest expenses during fiscal year 2013 were for activities related to urban and economic development \$9,788,712, general government \$10,292,553, and health and sanitation \$5,753,013. During the fiscal year 2012-2013 the Municipality decided to change various functions of the expenses presented in the financial statements of prior years.

Table 2

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>% Change</u>
Program revenues:				
Charges for services	\$ 439,746	\$ 223,828	\$ 215,918	
Operating grants and contributions	1,124,414	2,013,934	(889,520)	
Capital grants and contributions	4,303,032	4,683,490	(380,458)	
General revenues:				
Property taxes	\$ 14,900,365	\$ 11,326,088	\$ 3,574,277	
Municipal license taxes	2,432,871	2,443,230	(10,359)	
Construction excise taxes	675,973	1,666,947	(990,974)	
Sale tax	2,662,864	2,648,355	14,509	
Grants & contributions	5,145,058	4,378,489	766,569	
Miscellaneous	1,193,549	1,570,200	(376,651)	
Total revenues:	<u>\$ 32,877,872</u>	<u>\$ 30,954,561</u>	<u>\$ 1,923,311</u>	<u>6.21%</u>
Expenses:				
General government	\$ 10,292,553	\$ 10,002,165	\$ 290,388	
Urban and economic development	9,788,712	14,425,446	(4,636,734)	
Public safety	2,727,908	2,743,216	(15,308)	
Health and sanitation	5,753,013	5,099,087	653,926	
Culture, recreation and education	2,385,881	333,870	2,052,011	
Public housing and welfare	3,039,792	1,940,458	1,099,334	
Interest on long-term obligations	1,868,228	1,530,114	338,114	
Total expenses:	<u>\$ 35,856,087</u>	<u>\$ 36,074,356</u>	<u>\$ (218,269)</u>	<u>(0.61%)</u>
Change in net position	\$ (2,978,215)	\$ (5,119,795)	\$ 2,141,580	
Net position at beginning of fiscal year, as restated	<u>62,928,521</u>	<u>68,048,316</u>	<u>(5,119,795)</u>	
Net position at end of year	<u>\$ 59,950,306</u>	<u>\$ 62,928,521</u>	<u>\$ (2,978,215)</u>	<u>(4.73%)</u>

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds

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

At the end of the current fiscal year, the Municipality's governmental funds reported ending fund balances of \$10,111,219, which represents a decrease of approximately \$9.4 million in comparison with prior fiscal year balance of \$19,485,255. For the end of fiscal year 2013 the Municipality of Cabo Rojo presents an unassigned fund balance of (\$8,058,624). The remainder of the fund balance is classified as restricted to indicate that it is not available for new spending because it has already been reserved to: a) capital projects \$1,595,972; b) debt service \$6,800,680 and c) other specified purposes \$9,773,191.

<u>Table 3</u> <u>Balance Sheet</u>	<u>2013</u>	<u>2012</u> <u>as restated</u>
Assets:		
Total assets – Major Funds	\$ 18,438,113	\$ 25,568,861
Total assets – Other Funds	<u>6,937,730</u>	<u>6,773,847</u>
Combined total assets	<u>\$ 25,375,843</u>	<u>\$ 32,342,708</u>
Liabilities:		
Total liabilities – Major Funds	\$ 13,362,549	\$ 11,789,337
Total liabilities – Other Funds	<u>1,325,878</u>	<u>893,869</u>
Combined total liabilities	<u>14,688,427</u>	<u>12,683,206</u>
Deferred Inflows of Resources:		
Total inflows – Major Funds	576,197	174,247
Total Inflows – Other Funds	<u>-</u>	<u>-</u>
Combined total deferred inflows of resources	<u>576,197</u>	<u>174,247</u>
Fund Balances (as restated):		
Restricted– Major Funds	12,557,991	14,869,702
Restricted– Other Funds	5,611,852	5,879,978
Unassigned	<u>(8,058,624)</u>	<u>(1,264,425)</u>
Combined total fund balances	<u>10,111,219</u>	<u>19,485,255</u>
Total liabilities and fund balances	<u>\$ 25,375,843</u>	<u>\$ 32,342,708</u>

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013**

Table 4
Changes in Fund Balances

	<u>2013</u>	<u>2012</u>
Revenues:		
Total revenues – Major Funds	\$ 26,521,983	\$ 29,439,730
Total revenues – Other Funds	<u>2,763,310</u>	<u>1,684,935</u>
Combined total revenues	<u>29,285,293</u>	<u>31,124,665</u>
Expenditures:		
Total expenditures – Major Funds	34,204,326	41,013,077
Total expenditures – Other Funds	<u>4,455,003</u>	<u>3,983,292</u>
Combined total expenditures	<u>38,659,329</u>	<u>44,996,369</u>
Other financing sources (uses) :		
Other financing sources – Major Funds	1,098,813	7,115,369
Other financing uses – Other Funds	<u>(1,098,813)</u>	<u>3,642,255</u>
Combined other financing sources, net	<u>-</u>	<u>10,757,624</u>
Net changes in fund balance	(9,374,036)	(3,114,080)
Fund Balance – beginning, as restated	<u>19,485,255</u>	<u>22,599,335</u>
Fund Balance – ending	<u>\$ 10,111,219</u>	<u>\$ 19,485,255</u>

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds. **Table 5** summarizes the results of the General Fund's Budgetary Comparison Schedule:

Table 5	Final Budget	Actual Amounts	Variance
Total revenues	\$ 23,885,289	\$ 18,260,727	(5,624,562)
Total expenditures, encumbrances and other financing uses	<u>23,885,289</u>	<u>24,703,289</u>	<u>(818,000)</u>
Excess or deficiency	<u>\$ -</u>	<u>\$ (6,442,562)</u>	<u>\$ (6,442,562)</u>

The original and the final budget of the General Fund for the fiscal year ended June 30, 2013 amounted to \$23,566,578 and \$23,885,289, respectively. Over the course of the fiscal year, the Municipality revised the General Fund's budget in order to include increases and decreases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. The laws and regulations of the Commonwealth mandate a balanced budget.

The total actual revenues (budgetary basis) of the General fund for the fiscal year ended June 30, 2013 were \$18,260,727, which is \$5,624,562 less than the budgeted revenues. In addition, the total actual expenditures, encumbrances and other financing uses (budgetary basis) of the General Fund for the fiscal year ended June 30, 2013 were \$24,703,289, which is \$818,000 more than the budgeted expenditures.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013**

CAPITAL ASSETS

The Municipality's investment in capital assets for its governmental activities as of June 30, 2013 amounted to approximately \$72,454,217 (net of related debt). This investment in capital assets includes land, building, equipment, improvements, vehicles, infrastructure and construction in progress.

Actual expenditures to purchase or construct capital assets for the fiscal year ended June 30, 2013 was \$5,317,948 while depreciation charges amounted to \$3,198,253 for the fiscal year. The ending balance reported on capital assets amounted to \$121,101,162 by the end of year, with depreciation amounting to \$32,304,564.

Table 6

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

	Cost Basis of Capital Assets at 06/30/2013	Accumulated Depreciation at 06/30/2013
Non-depreciable assets		
Land	\$ 10,381,090	
Construction in progress	30,109,203	
Depreciable assets		
Land improvements	4,670,365	2,279,556
Buildings, structures and improvements	36,189,492	10,310,235
Infrastructure	26,192,541	11,952,236
Machinery and equipment	3,709,147	6,880,303
Licensed vehicles	9,849,324	882,234
Total:	\$ 121,101,162	\$ 32,304,564

LONG-TERM DEBT

At June 30, 2013, the Municipality had total of \$45,077,193 in general obligations and others outstanding debts, as shown in **Table 7**. Of this amount, \$33,223,000 comprises debt backed by the full faith and credit of the government and \$11,854,193 is other obligations.

Table 7 Long Term Debts	Amount
General obligations bonds and notes	\$ 33,223,000
Others	11,854,193
Total Long Term Debts	\$ 45,077,193

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave and advances of property taxes. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which is composed of 16 members, exercises the legislative power.

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

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

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about this report or need any additional information, contact the Municipal Director of Finance, Attn: Carmen D. Feliciano, at P.O. Box 1308, Cabo Rojo, PR 00623 or call (787) 851-1025.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO

STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities
ASSETS:	
Cash and cash equivalents	\$ 798,055
Account receivable, net:	
Property taxes	3,587,819
Sales taxes	246,762
Grants and contributions	503,712
Other	8,078
Restricted assets:	
Cash and cash equivalents	5,157,600
Cash and cash equivalents with fiscal agent	14,286,144
Investments held in commercial banks	961,867
Capital assets:	
Non-depreciable	40,490,293
Depreciable, net of accumulated depreciation of \$32,304,564	48,306,305
	<u>114,346,635</u>
TOTAL ASSETS	114,346,635
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 5,176,250
Intergovernmental payable	1,221,355
Unearned revenues:	
Municipal license tax	1,670,914
Other	318,885
Accrued interests	931,732
Non-current liabilities:	
Due within one year	4,334,131
Due after one year	40,743,062
	<u>54,396,329</u>
TOTAL LIABILITIES	54,396,329
DEFERRED INFLOWS OF RESOURCES	<u>-</u>
NET POSITION	
Invested in capital assets, net of related debt	72,454,217
Restricted for:	
Debt service	6,800,680
Other specified purpose	7,939,429
Unrestricted	<u>(27,244,020)</u>
TOTAL NET POSITION	\$ 59,950,306

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO

STATEMENT OF ACTIVITIES
JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) / Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 10,292,553	\$ 270,901	\$ 129,538	\$ -	\$ (9,892,114)
Urban and economic development	9,788,712	60,933	46,693	4,303,032	(5,378,054)
Public safety	2,727,908	71,306	91,214		(2,565,388)
Health and sanitation	5,753,013				(5,753,013)
Culture, recreation and education	2,385,881	36,606	257,988		(2,091,287)
Public housing and welfare	3,039,792		598,981		(2,440,811)
Interest on long-term obligations	1,868,228				(1,868,228)
Total governmental activities:	\$ 35,856,087	\$ 439,746	\$ 1,124,414	\$ 4,303,032	\$ (29,988,895)
General revenues					
Taxes:					
Property					\$ 14,900,365
Municipal license					2,432,871
Construction					675,973
Sales					2,662,864
Total taxes					20,672,073
Grants and contributions, not restricted to specified programs					
Unrestricted interest on deposit					5,145,058
Miscellaneous					509,159
					684,390
Total general revenues					27,010,680
Net change in net position					(2,978,215)
Net position, beginning of year					62,928,521
Net position, end of year					\$ 59,950,306

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	Major Governmental Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service Fund	Commonwealth Legislature Resolutions		
ASSETS					
Cash and cash equivalents	\$ 798,055	\$ -	\$ -	\$ -	\$ 798,055
Investments	961,867				961,867
Account receivable, net allowance of uncollectible accounts:					
Property tax	304,334	64,350			368,684
Sales tax	183,778	62,984			246,762
Grants and contributions	416,943			22,419	439,362
Other				8,078	8,078
Due from other funds	43,983		2,518,760	546,548	3,109,291
Restricted assets:					
Cash and cash equivalents			3,177,729	1,979,871	5,157,600
Cash and cash equivalents with fiscal agent	40,252	9,865,078		4,380,814	14,286,144
Total assets	\$ 2,749,212	\$ 9,992,412	\$ 5,696,489	\$ 6,937,730	\$ 25,375,843
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts payable and accrued liabilities	\$ 3,746,947	\$ -	\$ 466,293	\$ 963,010	\$ 5,176,250
Intergovernmental payable	1,221,355				1,221,355
Due to other funds	3,065,308			43,983	3,109,291
Matured bonds due and payable		2,260,000			2,260,000
Accrued interests		931,732			931,732
Unearned revenues	1,670,914			318,885	1,989,799
Total liabilities	9,704,524	3,191,732	466,293	1,325,878	14,688,427
Deferred inflows of resources					
Unavailable revenues:					
Property taxes	304,334				304,334
Grants and contributions	271,863				271,863
Total deferred inflows of resources	576,197	-	-	-	576,197
Fund balances					
Restricted	527,115	6,800,680	5,230,196	4,015,880	16,573,871
Assigned				1,595,972	1,595,972
Unassigned	(8,058,624)				(8,058,624)
Total fund balances (deficit)	(7,531,509)	6,800,680	5,230,196	5,611,852	10,111,219
Total liabilities, Deferred inflows of resources and fund balances	\$ 2,749,212	\$ 9,992,412	\$ 5,696,489	\$ 6,937,730	\$ 25,375,843

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO

RECONCILIACION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

The amounts of governmental activities reported in the statement of net position and the balance sheet-governmental funds, are different for the following reasons:

Total fund balance reported in the balance sheet - governmental funds	\$	10,111,219
Add (Deduct):		
Capital assets used in governmental funds activities are not financial resources, therefore are not reported in the governmental funds:		
Non depreciable capital assets	40,490,293	
Depreciable capital assets	80,610,869	
Accumulated depreciation	<u>(32,304,564)</u>	
Total		88,796,598
Some of the Municipality's receivables will be collected after year end, but are not available soon enough to pay for the current period's expenditure and therefore:		
Property tax		3,587,819
Intergovernmental receivables related to christmas bonus that are not considered available financial resources at fiscal year-end:		
Grants and contributions		271,863
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	(30,963,000)	
Note payable to CRIM - delinquent accounts	(253,322)	
Landfill closure and postclosure care costs	(7,323,005)	
Obligation under capital leases	(74,758)	
Compensated absences	(3,861,684)	
Christmas bonus	<u>(341,424)</u>	
Total		<u>(42,817,193)</u>
Net position - governmental activities reported in statement of net position	\$	<u>59,950,306</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2013

	Major Governmental Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service Fund	Commonwealth Legislature Resolutions		
REVENUES:					
Taxes:					
Property tax	\$ 7,424,780	\$ 3,887,766	\$ -	\$ -	\$ 11,312,546
Municipal license tax	2,432,871				2,432,871
Construction excise tax	675,973				675,973
Sales tax	1,997,299	695,565			2,692,864
Charges for services	403,140			36,606	439,746
Grants and contributions	5,085,712		3,039,417	2,412,615	10,537,744
Interest on deposits	290,293	6,484		212,382	509,159
Miscellaneous	582,683			101,707	684,390
Total revenues	18,892,751	4,589,815	3,039,417	2,763,310	29,285,293
EXPENDITURES:					
Current:					
General government	10,369,349			10,938	10,380,287
Urban and economic development	6,268,172		272,408	1,700,919	8,241,499
Public safety	2,510,813			56,132	2,566,945
Health and sanitation	3,557,655				3,557,655
Culture, recreation and education	1,143,819		130,536	243,449	1,517,804
Public housing and welfare	1,650,803			1,220,160	2,870,963
Debt service:					
Principal		2,353,000			2,353,000
Interest		1,853,228			1,853,228
Capital outlays			4,094,543	1,223,405	5,317,948
Total expenditures	25,500,611	4,206,228	4,497,487	4,455,003	38,659,329
Excess (deficiency) of revenues over (under) expenditures	(6,607,860)	383,587	(1,458,070)	(1,691,693)	(9,374,036)
Other financing sources (uses)					
Transfers-In from other funds	218,728		886,569		1,105,297
Transfers-Out to other funds		(6,484)		(1,098,813)	(1,105,297)
Total other financing sources (uses)	218,728	(6,484)	886,569	(1,098,813)	-
Net change in fund balances	(6,389,132)	377,103	(571,501)	(2,790,506)	(9,374,036)
Fund balance (deficit), beginning	(1,142,377)	6,423,577	5,801,697	8,402,358	19,485,255
Fund balance (deficit), ending	\$ (7,531,509)	\$ 6,800,680	\$ 5,230,196	\$ 5,611,852	\$ 10,111,219

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COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO

RECONCILIACION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2013

Net change in fund balances - Total governmental funds \$ (9,374,036)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital assets additions 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 assets additions	5,317,948	
Depreciation expenses	(3,198,253)	
Total		2,119,695

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 expenditure:

Prior year revenues:

Department of Treasury - Christmas bonus	(174,247)	
Department of Labor - Law No.52	(38,270)	
Commonwealth Legislature Resolutions	(24,586)	
Sales tax	(30,000)	

Current year revenues:

Property tax	3,587,819	
Department of Treasury - Christmas bonus	271,863	
Total		3,592,579

Additions of long-term principal increases Long-Term Liabilities in the Statement of Net Position and therefore, reduce net position:

Landfill closure and postclosure care costs		(2,194,730)
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Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. In the current year, the repayments were:

General and special obligation bonds	2,338,000	
Note payable to CRIM - delinquent accounts	13,364	
Note payable to P.R. Department of Labor	90,612	
Obligation under capital leases	69,093	
Compensated absences	290,923	
Christmas bonus	7,071	
Claims and judgments	69,214	
Total		2,878,277

Net position - governmental activities reported in statement of net position \$ (2,978,215)

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Municipality of Cabo Rojo (“the Municipality”) was constituted on 1771 in the Commonwealth of Puerto Rico (the Commonwealth). **The Municipality** has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act no. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (the Act). **The Municipality** is one of seventy-eight municipalities legally separated from the Commonwealth’s government.

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

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

Reporting model

The accompanying basic financial statements present the financial position and the results of operations of **the Municipality** as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2013, in conformity with accounting principles generally accepted in the United States of America (“GAAP”), as applicable to governmental units.

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

1. MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of **the Municipality’s** financial activities for the fiscal year ended June 30, 2013, based on **the Municipality’s** knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control **the Municipality’s** operations.
2. Budgetary comparison schedule – general fund is a comparison of the actual results (using the budgetary basis of accounting, which differs from GAAP) with the original budget and the final amended budget for the general fund. A budget to GAAP reconciliation is presented providing information of differences between the budgetary basis of accounting and GAAP.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reporting entity

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

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality. In accordance with GASB No. 14 and GASB No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow: (1) The organization is legally separate entity; (2) The Municipality appoints a voting majority of the organization's board; (3) There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

Organizations meeting the above criteria are included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are considered to be blended component units of the Municipality: (1) The organization's governing body is substantively the same as the Municipality's governing body and (a) there is a financial benefit or burden relationship between the Municipality and the organization, or (b) management of the Municipality has operational responsibility for the organization; (2) The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it; (3) The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is bases on the nature and significance of the organization's relationship with the Municipality.

Based on the application of the criteria outlined above, the Municipality's management has concluded that there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2013.

Financial Statements presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-wide financial statements

The governmental-wide financial statements ("GWFS") are composed of the statement of net position and, the statement of activities. These financial statements report information of all governmental activities of **the Municipality** as a whole. These statements are aimed at presenting a broad overview

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

of **the Municipality's** finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

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

The Statement of Net Position presents the reporting entities' assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position (equity) and/or accumulated deficit. This statement assists management in assessing the level of services that can be provided by **the Municipality** in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which **the Municipality** has invested in capital assets and discloses legal and contractual restrictions on resources. Net Position is reported in three categories:

- **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted Net Position** – These results when constraints are placed on net position use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – These consists of net position which do not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

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

The accompanying statement of activities presents **the Municipality's** results of operations by showing, how **the Municipality's** assets and/or liabilities changed during the fiscal year ended June 30, 2013, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of **the Municipality's** functions, programs or other services either contributes to or draws from **the Municipality's** general revenues (property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education and (6) public housing and welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

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

Urban and economic development:

- Department of public works
- Department of tourism

Public safety:

- Department of municipal police
- Department of emergency management

Health and sanitation:

- Department of health
- Department of sanitation

Culture, recreation and education

- Department of recreation and sports

Public housing and welfare:

- Department of elderly affairs
- Department of federal programs

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

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

- Charges for services – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

the services. Also, include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Governmental fund financial statements

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

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

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

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

- General fund – The general fund is **the Municipality's** main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that **the Municipality's** governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund; legal requirements, GAAP requirements or, the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- Special revenue funds - The special revenue funds are non-major governmental funds, as defined below, used by **the Municipality** to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by **the Municipality** or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital project funds). The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in **the Municipality's** general fund provided that all applicable legal requirements are appropriately

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

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

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

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

General long-term debts for which debt service payments do not involve the advance accumulation of resources (such as compensated absences, claims and judgments, and notes payable, among others) are accounted for the accompanying statement of net position. The debt service payments of such debts are generally accounted for as debt service – principal and debt service - interest expenditures in the general fund.

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

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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Based on the aforementioned criteria, **the Municipality's** major governmental funds reported in the accompanying GFFS are the following:

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.

Commonwealth Legislative Resolutions Fund – This is the fund used to account for all the transactions of the state assignments by Legislature Resolutions. The primary objectives of this assignment are the development of projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

Debt Service Fund – This is the fund used to account for the accumulation of resources, from the property and sales taxes, for and the payment of general long-term debt principal, interest and related cost.

Measurement focus, basis of accounting and financial statements presentation

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

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

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

In the case of derived tax revenue transactions, which result from assessments **the Municipality** places on exchange transactions, receivables and revenues are recorded when the underlying

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

exchange has occurred (that generally is when the taxpayers' net sales or revenues subject to tax take place).

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

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

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

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

The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, **the Municipality** generally considers most revenues to be available if collected within 90 days after June 30, 2013, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred inflows of resources at June 30, 2013.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

Interest income is recorded when earned only if collected within 90 days after year-end since these revenues are considered both measurable and available at June 30, 2013.

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

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

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

- Employees' accumulated vacation, sick leave and compensatory time (compensated absences) is recorded as expenditure when consumed. The amount of the unpaid compensated absences has been reported only in the accompanying statements of net position.
- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1 which are recorded

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

as governmental fund liabilities at June 30 which is the date when resources were available in the debt service fund.

- Obligations under capital leases, compensated absences, and the reserve for federal cost disallowances are recorded only when they mature (when payment is due).
- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature.
- Validated purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

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

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

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

Stewardship, compliance and accountability

Budgetary control

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

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

The Municipal Legislature has 10 business days up to no later than June 13 to discuss and approve the project with modifications. The Municipal Legislature may amend the budget submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approve the project, the modified project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections. If the project is rejected by the Mayor, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved project is sent again to the Mayor, which then would have 3 days to sign and approve it.

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

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

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

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

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

Budgetary accounting

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

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

The accompanying budgetary comparison schedule - general fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2013.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Further details of **the Municipality's** budgetary control at the legal level may be obtained from the budgetary liquidation report for the fiscal year ended June 30, 2013, which is prepared by **the Municipality's** Department of Finance and Budget. Copies of that report may be obtained by writing to **the Municipality's** Director of Finance and Budget.

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

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not legally required to prepare a budget. Also, the budget prepared for the Federal Finance Awards Programs included in the Major and Non Major Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

Unrestricted and restricted deposits

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

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

Cash in fiscal agent in the general fund consist of surplus of operational loans. Cash in fiscal agent in the debt service funds consists principally of property and sales tax collections amounting to \$9,865,078 which are restricted for the payment of **the Municipality's** debt service, as required by law. Cash with fiscal agent recorded in the non-major governmental funds amounting to \$4,380,814 which is restricted for; the acquisition, construction or improvements of major capital assets.

Restricted cash in commercial banks for commonwealth legislative resolutions and other governmental funds, amounting to \$3,177,729 and \$1,979,871 respectively, are restricted, in most part, to finance the acquisition, construction and improvement of major capital assets.

Accounts and notes receivable

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2013. Major receivable balances for the governmental activities include municipal license taxes, property taxes and intergovernmental receivables.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Capital assets

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

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

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

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

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

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

The estimated useful lives of major capital asset categories are:

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	20-50
Infrastructure	20-40
Machinery and equipment	10
Licensed vehicles	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 functions/programs but reported as direct expenses of the urban and economic development function.

Deferred outflows / inflows of resources

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no deferred outflows of resources.

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period (s) and so will not be recognized as an inflow of resources (revenue) until that time.

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

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

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

At June 30, 2013, the governmental funds present deferred inflows of resources.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

Compensated absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the government-wide statement of net position is limited to leave that; is attributable to services already rendered on or before June 30, 2013 and, is not contingent on a specific event (such as illness) that is outside the control of **the Municipality** and the employee. The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes, Medicare taxes, employer contributions to the employees' retirement systems and others).

The vacation policy of **the Municipality** provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year). Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Compensatory time is accumulated by employees at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

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

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

Long-term debt

The long-term liabilities reported in the accompanying statements of net position include **the Municipality's** bonds payable, notes payable, accrued compensated absences, and legal claims and judgments.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Accounting for pension costs

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

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

Risk management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of **the Municipality** and then is reimbursed each year through monthly equal payments deducted from **the Municipality's** gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico (see note 4).

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

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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by **the Municipality** on behalf of its employees. The current insurance policies have not been canceled or terminated at June 30, 2013. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, **the Municipality** has not settled claims that exceeded insurance coverage.

Fund balances

According to the provisions of GASB No. 54, the fund balances are reported in five categories:

- Nonspendable – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- Restricted – Amounts are restricted by external parties (creditors, grantors, contributors or law/regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- Committed – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.
- Assigned – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.
- Unassigned – Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts is restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

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 reciprocal and nonreciprocal interfund activities:

- Interfund loans – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- Interfund transfers – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- Interfund reimbursements – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

Claims and judgements

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. The Long-Term Liabilities includes 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.

Use of estimates

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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Municipal solid waste landfill closure and post closure care cost

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

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

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

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

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

Recent adoption of accounting pronouncements

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

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. The Municipality has implemented this Statement in fiscal year 2012-2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of 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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Municipality has implemented this Statement in fiscal year 2012-2013.

Future adoption of accounting pronouncements

The GASB has issued the following accounting standards 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*. This statement is effective for periods beginning after December 15, 2012.
- GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*.
- GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement is effective for periods beginning after June 15, 2014.
- GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for periods beginning after June 15, 2013.
- GASB Statement No. 71 *Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB 68*. This statement is effective for periods beginning after June 15, 2014.

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

2. DEPOSITS

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

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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

2. DEPOSITS (CONTINUED)

- Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, **the Municipality** has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, **the Municipality** is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers’ acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, **the Municipality** is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, **the Municipality’s** management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on **the Municipality’s** deposits is considered low at June 30, 2013.

- Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. **The Municipality** manages its exposure to declines in fair values by; not including debt investments in its investments portfolio at June 30, 2013, limiting the weighted average maturity of its investments to periods of three months or less and keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2013, the Municipality’s investments held in commercial bank consist of the following:

<u>Security Description</u>	<u>Maturities</u>	<u>Fair Market Values as of June 30, 2013</u>
PR Commw. Government Development Bank, subject to extraordinary call	2/01/2019	\$ 79,342
PR Public Finance Corporation, Appropriation BDS	8/01/2022	334,354
PR Public Finance Corporation, continuously callable from 02/01/2013*	8/01/2023	548,171
	Total	\$ 961,867

*These bonds are callable on any date after the first call date until its maturity.

- Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, **the Municipality’s** deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by **Municipalities** are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by **the Municipality** are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in **the Municipality’s** name by the agents of the Commonwealth’s Secretary of Treasury. Deposits with GDB are uninsured and unsecured. However, no losses related to defaults by GDB on deposit transactions have been incurred by **the Municipality** through June 30, 2013. **The Municipality’s** management has concluded that at June 30, 2013, the custodial credit risk associated with **the Municipality’s** cash is considered low.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

2. DEPOSITS (CONTINUED)

- 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.

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

The Municipality's bank balances in commercial banks of \$798,055 in the General Fund and \$3,177,729 in the Commonwealth Legislature Resolutions Fund were fully collateralized at June 30, 2013. In the Other Governmental Funds, there were deposits with commercial banks of \$1,979,871 that were fully collateralized.

The deposits at GDB of \$40,252 in the General Fund, \$9,865,078 in the Debt Service Fund and the \$4,380,814 in Other Governmental Funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

Property Taxes Receivables

Property taxes receivable of \$304,334 and \$64,350 in the General Fund and Debt Service Fund, respectively, represents advances from fiscal year 2012-2013, not collected by the Municipality at June 30, 2013.

Sales Tax Receivables

As described below in Note 16, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. Therefore sales tax receivable of \$183,778 and \$62,984 in General Fund and Debt Service Fund, respectively, represents the amounts due by the taxpayers at June 30, 2013.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

3. RECEIVABLES (CONTINUED)

Intergovernmental Receivables

Receivables in the General Fund represent expenditures incurred not yet reimbursed by the state agencies. Following is a detail of the state government receivables:

<u>Description</u>	<u>Amount</u>
State Department of Labor (Law 52)	\$ 145,080
State Department of Treasury (Christmas Bonus Reimbursement)	271,863
Total	<u>\$ 416,943</u>

Federal Grants Receivable

Federal grants receivable in Other Governmental Funds represent expenditures incurred not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the federal grants receivable:

<u>Description</u>	<u>Amount</u>
Housing Urban Development	\$ 19,772
Rural Housing Preservation Grant	2,647
Total	<u>\$ 22,419</u>

Other Receivables

Other receivable in the General Fund, for the amount of \$8,078 represents other miscellaneous income due at June 30, 2013.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FISCAL YEAR ENDED JUNE 30, 2013

4. INTERFUND BALANCES

On July 1, 2001, the Municipality adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures*, issued by the Governmental Accounting Standards Board. This statement requires the disclosure of the flow of resources between funds and to assess the collectibility of interfund balances. Interfund balances at June 30, 2013 consisted of the following:

	Transfers from				
	Major funds				
	General fund	Debt service fund	Commonwealth legislative resolutions	Other governmental funds	Total governmental funds
Transfers to:					
Major funds:					
<i>General fund</i>	\$ -	\$(6,484)	\$ -	\$ -	\$ (6,484)
<i>Debt service fund</i>	-	-	-	-	-
<i>Commonwealth legislative resolutions</i>	218,728	-	-	(1,098,813)	(880,085)
Nonmajor funds:					
<i>Other governmental funds</i>	-	-	886,569	-	886,569
Total:	\$218,728	\$(6,484)	\$ 886,569	\$ (1,098,813)	\$ -
	Due from				
	Major funds				
	General fund	Debt service fund	Commonwealth legislative resolutions	Other governmental funds	Total governmental funds
Due to:					
Major funds:					
<i>General fund</i>	\$ -	\$ -	\$ 2,518,760	\$ 546,548	\$ 3,065,308
<i>Debt service fund</i>	-	-	-	-	-
<i>Commonwealth legislative resolutions</i>	-	-	-	-	-
Nonmajor funds:					
<i>Other governmental funds</i>	43,983	-	-	-	43,983
Total:	\$ 43,983	\$ -	\$ 2,518,760	\$ 546,548	\$ 3,109,291

At June 30, 2013, all amounts due to among funds are considered collectible by the Municipality's management.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2012-2013, and not paid by the Municipality at June 30, 2013. Following is a detail of these accounts payable and accrued liabilities by major fund:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 3,342,007	\$ 404,940	\$ 3,746,947
Commonwealth Legislative Resolutions Fund	466,293		466,293
Other Governmental Funds	963,010		963,010
Total	\$ 4,771,310	\$ 404,940	\$ 5,176,250

6. BONDS AND NOTES PAYABLE

As described below in Note 13, the Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. At June 30, 2013, the government-wide and fund financial statements presented the following accounts payable, regarding to the outstanding balance of these bonds and notes, including its accrued interests:

Description	Amount
Principal	\$2,260,000
Interests	931,732
Total	\$3,191,732

7. INTERGOVERNMENTAL PAYABLES

As of June 30, 2013, balance due to other governmental units in General Fund consists of the following:

Governmental Agency	Amount
State Department of Labor	\$ 259,426
State Retirement System Administration	144,235
State Aqueduct and Sewer Authority	112,951
Commonwealth of Puerto Rico Employee's Association	16,457
General Service Administration	6,662
Municipal Revenue Collection Center ("CRIM")	649,821
Social Security Administration	31,803
Total	\$1,221,355

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FISCAL YEAR ENDED JUNE 30, 2013

8. UNEARNED REVENUES

Municipal license tax – unearned revenues of 1,670,914 in the General Fund are related to volume of business taxes collected in fiscal year 2012-2013, that will be earned in fiscal year 2013-14.

State and Federal grants – unearned revenues presented in the other governmental funds represents the portion of state and Federal grants received for which qualifying expenditures have not been incurred. Unearned revenues from the state and Federal government are as follows:

Program Description	Amount
State Office of the Elderly	\$ 11,617
Administration of Children and Families	4,449
Homeland Security Grants	15,498
State Department of Justice	255
State Administration of Solid Waste	287,066
Total	\$ 318,855

9. DEFERRED INFLOWS OF RESOURCES

Property taxes- deferred inflows of resources of \$304,334 were unavailable revenues related to property taxes amounting to \$33,923 that represents the final liquidation of the property taxes of the fiscal year 2012-2013. This amount was not collected by the Municipality at June 30, 2013.

State contributions grants – unearned revenues of \$271,863 presented in the general fund represents the amount to be reimbursed by the State Government for Christmas bonus vested by Municipality's employees, respectively. These amounts were not collected by the Municipality at June 30, 2013.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

10. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2012</u>	<u>Additions/ increases</u>	<u>Disposals/ decreases</u>	<u>Reclassification</u>	<u>Balance June 30, 2013</u>
Cost basis of capital assets, not subject to depreciation and amortization:					
Land	\$ 10,381,090				\$ 10,381,090
Construction in progress	27,472,437	4,135,092.00		(1,498,326)	30,109,203
Total cost basis of capital assets, not subject to depreciation and amortization	37,853,527	4,135,092	-	(1,498,326)	40,490,293
Cost basis of capital assets, subject to depreciation and amortization:					
Land improvements	3,478,093	144,119		1,048,153	4,670,365
Buildings, structures and improvements	36,189,492				36,189,492
Infrastructure	25,674,859	67,509		450,173	26,192,541
Machinery and equipments	3,707,502	1,645			3,709,147
Licensed vehicles	8,879,741	969,583			9,849,324
Total cost basis of capital assets subject to depreciation and amortization	77,929,687	1,182,856	-	1,498,326	80,610,869
Total cost basis of capital assets	\$ 115,783,214	5,317,948	-	-	\$ 121,101,162
ACCUMULATED DEPRECIATION AND AMORTIZATION:					
Land improvements	\$ 2,108,479	171,077		-	\$ 2,279,556
Buildings, structures and improvements	9,296,578	1,013,657		-	10,310,235
Infrastructure	10,711,061	1,241,175		-	11,952,236
Machinery and equipments	6,545,901	334,401		-	6,880,303
Licensed vehicles	444,292	437,943		-	882,234
Total accumulated depreciation and amortization	29,106,311	3,198,253	-	-	32,304,564
CAPITAL ASSETS, NET	\$ 86,676,903	2,119,695	-	-	\$ 88,796,598

Depreciation and amortization expenses for the fiscal year ended June 30, 2013, were charged to functions/programs as follows:

<u>Governmental activities:</u>	
General government	\$ 452,543.00
Public safety	160,963
Urban and economic development	1,547,213
Health and sanitation	628
Public housing and welfare	168,829
Culture, recreation, and education	868,077
	<u>\$ 3,198,253.00</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

11. EMPLOYEES' RETIREMENT SYSTEMS

Plan description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular full time employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, and Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining **the Municipality** on or after January 2000 will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

11. EMPLOYEES' RETIREMENT SYSTEMS (CONTINUED)

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Contribution requirements

Commonwealth legislation requires employees to contribute, under a coordination plan, 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 and under a supplementation plan, only available to Police, Firefighters and Mayors, 8.275% of gross salary. **The Municipality's** contributions are 9.275% of gross salary.

For the year ended June 30, 2013, 2012 and 2011 **the Municipality** contributed approximately \$704,535, \$772,695 and \$707,917, respectively, which represents 100% of required contributions. The Municipality contributions during those years are recognized as total pension expenditures/expenses in the category of administration.

Additional information of ERS is presented in the most recent actuarial valuation report for the year ended June 30, 2013, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

12. LONG-TERM DEBT

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

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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

12. LONG-TERM DEBT (CONTINUED)

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2013, the Municipality is in compliance with the debt limitation requirements. The general long-term debt activity for the year ended June 30, 2013 was as follows.

<u>Description</u>	<u>Balance at June 30, 2012</u>	<u>Borrowings or additions</u>	<u>Payments or deductions</u>	<u>Balance at June 30, 2013</u>	<u>Balance due within one year</u>
General and special obligation bonds	\$ 35,561,000	\$ -	\$ 2,338,000	\$ 33,223,000	\$ 2,357,000
Note payable to CRIM - delinquent accounts	266,686	-	13,364	253,322	13,333
Note payable to P.R. Department of Labor	90,612	-	90,612	-	-
Payable to CRIM - excess of advances over collections	641,184	-	641,184	-	-
Landfill closure and postclosure care costs	5,128,275	2,194,730		7,323,005	-
Obligation under capital leases	143,851	-	69,093	74,758	-
Compensated absences	4,152,607	-	290,923	3,861,684	1,622,374
Christmas bonus	348,495	-	7,071	341,424	341,424
Claims and judgments	69,214	-	69,214	-	-
Total:	<u>\$ 46,401,924</u>	<u>\$ 2,194,730</u>	<u>\$ 3,519,461</u>	<u>\$ 45,077,193</u>	<u>\$ 4,334,131</u>

Bonds payable

The Municipality issues general obligation, special (public improvement) obligations bonds, and notes to provide for the acquisition, construction of major capital facilities and equipment, as well as, to over certain operating needs. Bonds payable at June 30, 2013 is composed of the following debts:

<u>Description</u>	<u>Outstanding Amount</u>
1992 public improvement bonds of \$880,000 due in annual installments ranging from \$20,000 to \$61,000 through January 1, 2016; bearing interest at 5.0%	\$ 174,000
1993 public improvement bonds of \$454,000 due in annual installments ranging from \$10,000 to \$32,000 through January 1, 2017; bearing interest at 5.0%	118,000
1997 public improvement bonds of \$765,000 due in annual installments ranging from \$15,000 to \$75,000 through January 1, 2016; bearing interest at rates ranging from 6.23% to 6.58% (6.30% at June 30, 2011)	255,000
1997 general obligation notes of \$1,735,000 due in annual installments ranging from \$40,000 to \$165,000 through January 1, 2016; bearing interest at rates ranging from 6.23% to 6.58% (6.30% at June 30, 2011)	585,000

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

12. LONG-TERM DEBT (CONTINUED)

Description	Outstanding Amount
1999 general obligation bonds of \$830,000 due in annual installments ranging from \$10,000 to \$70,000 through July 1, 2023; bearing interest at rates ranging from 5.86% to 6.56% (5.86% at June 30, 2011)	545,000
1999 general obligation bonds of \$1,310,000 due in annual installments ranging from \$50,000 to \$140,000 through July 1, 2013; bearing interest at rates ranging from 5.86% to 6.11% (5.86% at June 30, 2011)	140,000
2000 general obligation bonds of \$2,040,000 due in annual installments ranging from \$80,000 to \$215,000 through July 1, 2014; bearing interest at rates ranging from 4.30% to 4.73% (4.30% at June 30, 2011)	415,000
2003 general obligation bonds of \$4,425,000 due in annual installments ranging from \$75,000 to \$345,000 through July 1, 2026; bearing interest at rates ranging from 4.30% to 5.60% (4.30% at June 30, 2011)	3,275,000
2004 general obligation bonds of \$505,000 due in annual installments ranging from \$10,000 to \$40,000 through July 1, 2028; bearing interest at rates ranging from 4.36% to 5.31% (4.50% at June 30, 2011)	390,000
2004 general obligation bonds of \$545,000 due in annual installments ranging from \$10,000 to \$35,000 through July 1, 2028; bearing interest at rates ranging from 4.36% to 5.31% (4.50% at June 30, 2011)	420,000
2004 general obligation bonds of \$1,000,000 due in annual installments ranging from \$20,000 to \$75,000 through July 1, 2028; bearing interest at rates ranging from 4.36% to 5.31% (4.50% at June 30, 2011)	790,000
2004 general obligation bonds of \$505,000 due in annual installments ranging from \$40,000 to \$65,000 through July 1, 2014; bearing interest at rates ranging from 4.36% to 4.73% (4.50% at June 30, 2011)	125,000
2006 general obligation bonds of \$355,000 due in annual installments ranging from \$5,000 to \$25,000 through July 1, 2030; bearing interest at rates ranging from 4.36% to 5.31% (4.50% at June 30, 2011)	305,000
2006 general obligation bonds of \$1,775,000 due in annual installments ranging from \$200,000 to \$315,000 through July 1, 2013; bearing interest at rates ranging from 1.53438% to 7.50% (1.53438% at June 30, 2011)	315,000
2007 general obligation bonds of \$710,000 due in annual installments ranging from \$80,000 to \$125,000 through July 1, 2014; bearing interest at rates ranging from 1.53438% to 7.50% (1.53438% at June 30, 2011)	240,000

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

12. LONG-TERM DEBT (CONTINUED)

Description	Outstanding Amount
2008 general obligation bonds of \$1,850,000 due in annual installments ranging from \$45,000 to \$175,000 through July 1, 2028; bearing interest at rates ranging from 1.53438% to 7.50% (1.53438% at June 30, 2011)	1,655,000
2010 general obligation bonds of \$9,405,000 due in annual installments ranging from \$135,000 to \$785,000 through July 1, 2034; bearing interest at rates ranging from 6.00% to 7.50% .	8,960,000
2011 general obligation bonds of \$4,530,000 due in annual installments ranging from \$100,000 to \$415,000 through July 1, 2030; bearing interest at rates ranging from 6.00% to 7.50% .	4,320,000
2012 general obligation bonds of \$3,255,000 due in annual installments ranging from \$45,000 to \$270,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50% .	3,210,000
2012 general obligation bonds of \$1,040,000 due in annual installments ranging from \$15,000 to \$90,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50% .	1,025,000
2012 general obligation bonds of \$2,556,000 due in annual installments ranging from \$100,000 to \$271,000 through July 1, 2026; bearing interest at rates ranging from 6.00% to 7.50% .	2,456,000
2012 general obligation bonds of \$1,580,000 due in annual installments ranging from \$175,000 to \$275,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50% .	1,405,000
2012 general obligation bonds of \$2,370,000 due in annual installments ranging from \$270,000 to \$420,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50% .	2,100,000
Total:	<u>\$ 33,223,000</u>

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

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

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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

12. LONG-TERM DEBT (CONTINUED)

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

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

<u>Year ending June 30, 2013</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,357,000	\$ 1,806,189	\$ 4,163,189
2015	2,051,000	1,652,874	3,703,874
2016	1,767,000	1,864,644	3,631,644
2017	1,827,000	1,770,172	3,597,172
2018	1,670,000	2,415,768	4,085,768
2019-2023	7,045,000	6,667,378	13,712,378
2024-2028	8,011,000	4,254,440	12,265,440
2029-2033	5,680,000	1,633,100	7,313,100
2034-2038	2,815,000	-	2,815,000
	<u>\$ 33,223,000</u>	<u>\$ 22,064,565</u>	<u>\$ 55,287,565</u>

Notes payable to CRIM – Delinquent Accounts

Law 146 – On 2001, a resolution was enacted to authorize **the Municipality** to obtain up to \$333,358, for a term not exceeding 30 years, for repayment of bonds issued for the sale of delinquent accounts. A repayment agreement that bears interest at 6.22% beginning July 1, 2007 was settled with the CRIM. The outstanding principal balance of the note payable to CRIM amounted to \$253,322, at June 30, 2013. The principal and interest maturities are as follows:

<u>Year ending June 30, 2013</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 13,333	\$ 6,343	\$ 19,676
2015	13,333	6,009	19,342
2016	13,333	5,675	19,008
2017	13,333	5,342	18,675
2018	13,333	5,008	18,341
2019-2023	66,664	20,031	86,695
2024-2028	66,664	11,685	78,349
2029-2033	53,329	3,339	56,668
	<u>\$ 253,322</u>	<u>\$ 63,432</u>	<u>\$ 316,754</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

12. LONG-TERM DEBT (CONTINUED)

Compensated absences: At June 30, 2013, the liability for compensated absences amounted to \$3,861,684. This is the combination of balances related to accrued sick leave benefits, accrued vacation benefits, and compensatory leave benefits. The total amount of compensated absences is composed as follows:

	<u>Due within one year</u>	<u>Due after one year</u>	<u>Total</u>
Accrued vacations	\$ 812,154	\$ 480,098	\$ 1,292,252
Accrued sick leave	576,886	1,759,212	2,336,098
Accrued compensatory time	233,334	-	233,334
Total compensated absences	<u>\$ 1,622,374</u>	<u>\$ 2,239,310</u>	<u>\$ 3,861,684</u>

Operating leases

The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Municipality's financial statements.

The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2013:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2014	\$ 37,199
2015	25,344
2016	12,988
2017	3,250
Amount representing interests	(4,023)
Total minimum payments required	<u>\$ 74,758</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

13. LANDFILL CLOSURE AND POSTCLOSURE CARE COST OBLIGATION

The Municipality owns a municipal solid waste landfill and adopted the required provisions of Statement No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*", issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net positions date. The \$7,323,005 reported as landfill closure and post closure care liability at June 30, 2013, represents an estimate of the cumulative amount reported to date based on the percentage used (53%) of the estimated capacity of the landfill.

The Municipality will recognize the remaining estimated cost of closure and post closure care of \$6,435,367, as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2013. The estimated life of the landfill according to the engineers of the Municipality is approximately twenty nine years and a half (29.5). Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

14. MUNICIPAL LICENSE TAXES

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of **the Municipality**. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. **The Municipality** establishes the applicable tax rates. At June 30, 2013 the municipal license tax rates imposed by **the Municipality** were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates.

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

Municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$2,432,871 at June 30, 2013.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

15. PROPERTY TAXES

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

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force was 7.03% (of which taxpayers pay 6.83% and 0.20% is reimbursed by the Department of Treasury) at June 30, 2013. Real property taxes are assessed by The Municipal Revenue Collection Center ("CRIM"). The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. The total real property tax rate in force was 10.28% (of which 10.08% is paid by taxpayers and 0.20% is also reimbursed by the Department of Treasury) at June 30, 2013.

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

CRIM is responsible for the billing and collections of real and personal property taxes on behalf of **the Municipality**. Prior to the beginning of each fiscal year, CRIM informs **the Municipality** of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, CRIM advances funds to **the Municipality** based on the initial estimated collections. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than December 31. If CRIM remits to **the Municipality** property tax advances, which are less than the tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

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

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

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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

15. PROPERTY TAXES (CONTINUED)

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

Total property tax receivable, net of an allowance for uncollectible accounts of \$31,399,599 amounted to \$3,283,485 at June 30, 2013. The composition of property taxes receivable and the related deferred inflows or resources at June 30, 2013 is as follows:

	<u>General fund</u>	<u>Debt service fund</u>	<u>Total</u>
Gross property taxes receivable	\$ 26,682,067	\$ 8,001,017	\$ 34,683,084
Less allowance for uncollectible Accounts	<u>24,157,937</u>	<u>7,241,662</u>	<u>31,399,599</u>
Net property tax receivable	<u>\$ 2,524,130</u>	<u>\$ 759,355</u>	<u>\$ 3,283,485</u>
 Deferred (earned but unavailable) property tax revenues in GFFS	 <u>\$ 304,334</u>	 <u>\$ -</u>	 <u>\$ 304,334</u>

16. MUNICIPAL SALES AND USE TAX

On October 25, 2006, the Municipal Legislature of Cabo Rojo approved the Ordinance no. 27, series 2005-06 based on State Public Law No. 117 of July 4, 2006 establishing a local sales and use tax of 1.5%, over the sales of goods and services made within the Municipalities boundaries. The Ordinance, was effective ten days after public notice, and under this Ordinance, every business doing retail sales is required to register in **the Municipality** to obtain a Retailer's Registration Certificate. The retailers are required to file monthly sales tax returns by the 20th day following the month in which the tax was collected.

On July 29, 2007, the State Public Law No. 80 establishes that the municipalities may collect only 1.0% of its sales and use tax and the Puerto Rico Treasury Department (PRTD) the other 0.5%. Resources collected would be use for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs by **the Municipality**.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

17. PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATIONS

During the compilation of the financial statements for the year ended on June 30, 2013, **The Municipality** restated amounts presented in its financial statements for the fiscal year 2011-2012. The restatements was related to adjustments to accounts receivables, reclassification of accounts payables and adjustments to the interfund transactions.

Using the criteria set forth by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, **The Municipality** also made a reclassification on liabilities. This reclassification has the intention of recognize as deferred inflows the amounts of *imposed non-exchange transactions* previously presented as deferred revenues on the liabilities section.

The following tables show the previously reported restatement adjustments:

	Prior period adjustments				
	Major funds				Total Prior Period Adjustments
	General fund	Debt service fund	Commonwealth legislative resolutions	Other governmental funds	
Transfers to:					
Assets:					
Original presentation	\$ 4,507,134	\$ 9,523,332	\$ 8,337,459	\$ 10,199,189	\$ 32,567,114
Adjusted presentation	4,075,419	9,523,332	8,337,459	10,406,498	32,342,708
Change in assets	(431,715)	-	-	207,309	(224,406)
Liabilities:					
Original presentation	4,567,975	3,099,755	2,535,762	2,004,140	12,207,632
Adjusted presentation	5,217,796	3,099,755	2,535,762	2,004,140	12,857,453
Change in liabilities	649,821	-	-	-	649,821
Fund balance:					
Original presentation	(60,841)	6,423,577	5,801,697	8,195,049	20,359,482
Adjusted presentation	(1,142,377)	6,423,577	5,801,697	8,402,358	19,485,255
Change in fund balance	\$ (1,081,536)	\$ -	\$ -	\$ 207,309	\$ (874,227)

Description	Total
Net position, beginning	\$63,972,851
To correct prior year accounts receivables	(1,044,330)
Net position, beginning as restated	<u>\$ 62,928,521</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

18. COMMITMENTS AND CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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

In respect to pending or threatened litigation, **the Municipality** does not have or anticipate unfavorable judgments as of June 30, 2013. Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significantly.

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. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

C. CONSTRUCTION

The Municipality had commitments at June 30, 2013 of approximately \$126,916 for the construction, improvements, or renovation of several capital facilities and the capital assets.

D. OTHER COMMITMENTS

At June 30, 2013 the general fund had commitments of approximately \$389,313 for executory purchase orders or contracts that will be honored during the subsequent year.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

19. FUND BALANCE

As of June 30, 2013, the fund balance (deficit) classifications are as follows:

Fund Balance	General Fund	Commonwealth Legislature Resolutions	Debt Service Fund	Other Governmental Fund	Total
Restricted for:					
General Government	\$ 40,503	\$ -	\$ -	\$ -	\$ 40,503
Urban and economic development	485,069	5,230,196	-	5,360,001	11,075,266
Public safety	-	-	-	98,854	98,854
Culture, recreation and education	1,543	-	-	38,210	39,753
Public housing and welfare	-	-	-	114,787	114,787
Debt service	-	-	6,800,680	-	6,800,680
Unassigned:					
	(8,058,624)	-	-	-	(8,058,624)
Total Fund Balance	\$ (7,531,509)	\$ 5,230,196	\$ 6,800,680	\$ 5,611,852	\$10,111,219

20. SUBSEQUENT EVENTS

The Municipality's executive branch authorized the issuance of a General Obligation Note in the amount of \$5,985,000 for operational purposes. This note is payable with resources collected through the Special Additional Contribution Fund, and were disbursed by the Governmental Development Bank (GDB) during the months of October and November 2013.

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. The ERS financial situation was approached through Act 3, which became effective on July 1, 2013 ("Effective Date"). The Act establishes the following: (i) it freezes and grandfathers the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS's defined benefit formula (those who joined the ERS prior to January 1, 2000 whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service) (the "Defined Benefit Employees"); (ii) it provides that, beginning on July 1, 2013, the retirement benefits accruing on and after the Effective Date for Defined Benefit Employees will be based on a defined contribution plan and will be paid out in the form of a lifetime annuity (upon retirement, the employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013 in the form of a lifetime annuity); (iii) it provides that defined contribution benefits accrued pursuant to System 2000 will also be paid in the form of a lifetime annuity rather than a lump

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

20. SUBSEQUENT EVENTS (CONTINUED)

sum payment; (iv) it eliminates the so called "merit pension" that provided to participants who joined the Employees Retirement System prior to April 1, 1990, after attaining 30 years of service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age 55 or greater) of the average salary earned during the highest 36 months of employment; (v) it increases the retirement age for various groups of participants; (vi) it increases the employee contribution to the ERS from 8.275% to a minimum of 10%; (vii) it eliminates or reduces various retirement benefits previously granted by special laws and the System will benefit from the savings generated; (viii) it increases the minimum pension from \$400 to \$500 per month for current retirees; and (ix) it eliminates or modifies other benefits, such as disability and survivor benefits.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42).

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund, which authorize municipalities to pledge the funds deposited on the Municipal Administration Fund to secure the repayment of any loan, bond, promissory note or other evidence of debt, whose source of repayment are the funds deposited into the Special Fund and to meet any budgeted expenditure of the municipalities and any activity or project of the municipalities; authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in the approved Law; amend paragraph (b) of section 4020.01; amended paragraph (b) of section 4020.02, and amend paragraph (a) and repealing paragraph (e) of section 6080.14 of the law No. 1 - 2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico", for the purposes of restructuring the sales and use tax so that tax rate is six (6) percent statewide and one (1) percent at municipal level; to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

20. SUBSEQUENT EVENTS (CONTINUED)

by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico"; in order to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

Management has evaluated subsequent events through March 24, 2014, the date the financial statements were available to be issued.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

Budgetary Comparison Schedule - General Fund
For the Fiscal Year ended June 30, 2013

	Budgeted Amounts		Actual amounts (budgetary basis)	Variance with final budget - over (under)
	Original	Final		
Revenues:				
Property tax	\$ 7,399,241	\$ 7,399,241	\$ 7,424,780	\$ 25,539
Municipal license tax	2,835,000	2,835,000	2,432,871	(402,129)
Construction excise tax	2,949,999	2,949,999	675,973	(2,274,026)
Sales tax	3,000,000	3,000,000	1,997,299	(1,002,701)
Charges for services	985,000	985,000	403,140	(581,860)
Grants and contributions	4,401,626	4,720,337	4,795,552	75,215
Interest on deposits	730,000	730,000	290,293	(439,707)
Miscellaneous	1,265,712	1,265,712	240,819	(1,024,893)
Total revenues	<u>23,566,578</u>	<u>23,885,289</u>	<u>18,260,727</u>	<u>(5,624,562)</u>
Expenditures:				
Current:				
General government	9,082,166	9,818,595	9,940,739	(122,144)
Urban and economic development	5,933,427	5,997,615	5,904,426	93,189
Public safety	3,011,201	2,581,923	2,517,833	64,090
Health and sanitation	2,618,941	2,557,001	3,478,676	(921,675)
Culture, recreation and education	1,246,626	1,198,822	1,151,318	47,504
Public housing and welfare	1,674,217	1,731,333	1,710,297	21,036
Total expenditures	<u>23,566,578</u>	<u>23,885,289</u>	<u>24,703,289</u>	<u>(818,000)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,442,562)</u>	<u>\$ (6,442,562)</u>
Explanation of Differences:				
Sources/inflows of financial resources:				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule				\$ 18,260,727
Differences - budget basis to GAAP:				
Resources considered revenues for financial reporting but not for budgetary purposes				632,024
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 18,892,751</u>
Uses/outflows of financial resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 24,703,289
Differences - budget basis to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				212,879
Current-year encumbrances recorded as current expenditures for Budgetary basis				(389,313)
Resources considered expenses for financial reporting purposes but are not expenditures for budgetary purposes				973,756
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 25,500,611</u>

See accompanying notes to the budgetary comparison schedule - general fund.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2013

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the General Fund.

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 reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal 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 annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2012 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2013.

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

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Rural Housing Preservation Grant	10.433		\$ 23,988
Pass-through the Department of Education of the Commonwealth of Puerto Rico:			
Child and Adult Care Food Program	10.558	N/AV	<u>24,102</u>
Total U.S. Department of Agriculture			<u>48,090</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Puerto Rico Highway and Transportation Authority:			
Federal Transit Technical Studies Grants	20.505	PR-80-0004	<u>24,092</u>
Total U.S. Department of Transportation			<u>24,092</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Community Development Block Grants/ Entitlement Grants	14.218		1,165,238
ARRA- Community Development Block Grant ARRA Entitlement Grants (CDBG- R)	14.253		<u>74,134</u>
Total CDBG – Entitlement Grants Cluster			1,239,372
Section 8 Housing Choice Vouchers Program	14.871		504,759
ARRA- Homelessness Prevention and Rapid Re- housing Program	14.257		3,329
Pass-through the Office of the Commissioner of Municipal Affairs of the Commonwealth of Puerto Rico:			
Community Development Block Grants/ State’s Program	14.228	2010-003825/ 3826	<u>45,500</u>
Total U.S. Department of Housing and Urban Development			<u>1,792,960</u>

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE:			
Pass-Through the Office of the Elderly:			
Special Program for the Aging, Title III, Part B	93.045	130392R2	70,234
Pass-Through the Administration for Integral Care and Development of Children of the Commonwealth of Puerto Rico:			
Child Care and Development Block Grant	93.575	241-2013-000179	134,711
Total U.S. Department of Health and Human Service			204,945
DEPARTMENT OF HOMELAND SECURITY			
Pass-Through the Governor's Office of Public Safety Affairs:			
Homeland Security Grant Program	97.067	N/AV	46,693
Total Department of Homeland Security			46,693
U.S. DEPARTMENT OF JUSTICE:			
Pass-Through – Department of Justice of the Commonwealth of Puerto Rico:			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2010-DJ-MCRAA	90,107
Total Department of Justice			90,107
U.S. DEPARTMENT OF ENERGY:			
Direct Program:			
ARRA- Energy Efficiency and Conservation Block Grant Program	81.128		12,307
TOTAL EXPENDITURE OF FEDERAL AWARDS			\$ 2,219,194

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Cabo Rojo, Puerto Rico (Municipality) and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
2. The Municipality in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
3. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 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.

NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and identifying number assigned by the pass-through entity for federal awards received as a sub recipient. Numbers identified as N/AV are not available.

NOTE 5 – MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Cabo Rojo, Puerto Rico**

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of **Cabo Rojo**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated March 30, 2014. I did not express an opinion on the governmental activities because I was unable to obtain sufficient and competent evidential matter related to the capital assets.

Internal Control over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not design 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, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Finding 13-II-02, 13-II-03 and 13-II-04.

A *significant deficiency* is a deficiency, or 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. I consider the deficiencies described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 13-II-01.

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

Compliance and Other Matters

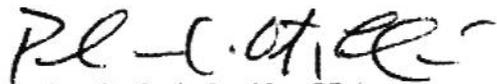
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my 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-II-02, 13-II-03 and 13-II-04.

Municipality's Response to Findings

Municipality's response to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly I express no opinion on it.

Purpose of this Report

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



Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 30, 2014



PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

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

**To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Cabo Rojo, Puerto Rico**

Report on Compliance for Each Major Federal Program

I have audited Municipality of **Cabo Rojo**, Puerto Rico (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 Municipality's major federal programs for the fiscal 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

My responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 I considered necessary in the circumstances.

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

Opinion on Each Major Federal Programs

In my opinion, the Municipality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2013.

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

Other Matters

The results of my auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 13-III-05 and 13-III-06. My opinion on each major federal program is not modified with respect to these matters.

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

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

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

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, I identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 13-III-05 and 13-III-06 that I consider to be significant deficiencies.

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

Report on Internal Control Over Compliance (Continued)

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

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.


Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 30, 2014



**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Disclaimer of opinion in the governmental activities

Unmodified opinion for governmental funds

Internal control over financial reporting:

Material weakness identified?

Yes **X** No

Significant deficiencies identified?

Yes **X** None reported

Noncompliance material to financial statements noted?

Yes **X** No

Federal awards

Internal Control over major programs:

Material weakness identified?

Yes No **X**

Significant deficiencies identified?

Yes **X** None reported

Type of auditor’s report issued on compliance for major programs:

Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

Yes **X** No

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants - Entitlement Grants
14.253	ARRA-Community Development Block Grants - Entitlement Grants
14.871	Section 8 Housing Choice Voucher Program

Dollar threshold used to distinguish between Type A and Type B programs

\$300,000

Auditee qualified as low-risk auditee?

Yes No **X**

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	13-II-01
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CONDITION	The Municipality did not maintain an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles (GAAP).
CONTEXT	<p>During my examination of the accounting cycle, I noted that the Municipality's management did not have adequate internal control procedures in place over the financial statements issued by the Municipality using the basis of accounting required by GAAP. The accounting records are maintained in the cash and budgetary basis and at the end of year, external consultants summarized in electronic worksheets the revenues, expenditures, capital assets transactions, accounts receivables, accounts payable and long term-debts. These worksheets are used for the preparation of the financial statements.</p> <p>Also, I noted the following conditions during my evaluation of the accounting cycle for the fiscal year 2012-2013:</p> <ol style="list-style-type: none">a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems does not provide for a self-balancing set of accounts for each fund operated by the Municipality;b. Both accounting systems does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payables and long-term debts;c. During my examination of the Model 4a (the manual accounting report that summarizes the monthly cash transactions of the Municipality), I noted that the Municipality did not have adequate internal control over the cash transactions of the current bank account were the Municipality pooled the cash of various non-federal special revenue funds. Also, I noted that several funds in this report maintain overdrafts.d. During my evaluation of the budget liquidation (the manual accounting report that summarizes the annual operations results of the general fund), I noted that the Municipality did not included in this report the total amount of the liability related to the services of waste management at June 30, 2013.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	13-II-01 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
	e. No adequate year-end closing entries procedures were made.
CRITERIA	Article 8.010 (b) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) states that the system used must produce reliable reports and financial statements, provide complete information about the results of operations and include the necessary internal controls to account for all funds, capital assets and other assets.
CAUSE	The Municipality did not maintain effective internal control over the accounting records from where the financial information is obtain for the preparation of the financial statements in accordance with generally accepted accounting principles.
EFFECT	The Municipality is not in compliance with Articles 8.010 (b) and (c) of the State Law Number 81 of August 30, 1991.
RECOMMENDATION	I recommend management to establish the necessary internal controls and procedures in the finance department in order to maintain a complete set of accounting records that provides accurate financial information related to the assets, liabilities, revenues and expenditures. Also, these records should provide trial balances by each fund in the modified accrual basis of accounting. In addition, the system should provide for the maintenance of the capital assets and the general long term debt of the Municipality.
MANAGEMENT RESPONSE	The Municipality of Cabo Rojo is managed by a new municipal administration since last January 13, 2013. The fiscal year 2012-2013, referred to this audit, was a year half course adopted by the new administration and it was not possible to make a drastic change in accounting processes to half a year. Anyway, the real alternatives of the Municipality to change the accounting basis of the existing system are few. The Municipality accounting records are presented using the Mechanized Uniform Accounting System (SUCM by its Spanish acronym) provided to municipalities by the Office of the Commissioner of Municipal Affairs (OCAM for its acronym in Spanish) . Accounting processes used by SUCM are previously established and regulated by the OCAM.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING

13-II-01 (CONTINUED)

REQUIREMENT

ACCOUNTING RECORDS AND REPORTING SYSTEM

OCAM is a government agency of the Commonwealth of Puerto Rico created by Act No. 81 of August 30, 1991 , as amended, known as the " Autonomous Municipalities Act of the Commonwealth of Puerto Rico , 1991" (Act No. 81) . Its main function is to serve as regulator of the Municipalities, advice and provide technical and professional assistance to them in matters relating to the organization, administration, and operation. In addition, they must design or approve, subject to the aforementioned law, fiscal organization, the uniform computerized accounting system and procedures of payments, income and property to be set and follow by the municipalities.

Unfortunately OCAM has not do the necessary updates to SUCM, nor has provided effective support and ongoing training to accounting staff of the Municipality.

Certainly the new municipal administration recognizes the weaknesses of the current system and evaluated various alternatives, but regulations by OCAM and the economic situation being experienced by the municipality have not allowed the new municipal administration to purchase a different accounting system that the one provided by the OCAM. Anyway this administration has taken the available resources to make the necessary adjustments in order to present its financial statements in full compliance with the principles of GAAP and GASB.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	13-II-02
REQUIREMENT	ACCOUNTING RECORDS- INTERFUND TRANSACTIONS
CONDITION	The Municipality transfer funds of special revenue funds to the General Fund without adequate supporting documentation.
CONTEXT	During my examination of the accounting records, I noted that during the fiscal year 2012-2013, the Municipality transfer funds to the General Fund bank account, amounting to approximately \$2,518,760, of state assignments and grants. This amounts were used by the General Fund to paid operational costs. Such state assignments and grants are restricted by Joint Resolutions of both the State House of Representative and Senate.
CRITERIA	Article 8.004 (c) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991, stated that the restricted funds received by the Municipality should be only used for the purposes established by these resources.
CAUSE	The General Fund cash resources have been reduced over the past years due to the excess of expenditures over revenues and has caused a liquidity problem to meet its current obligations and services. This situation caused that the General Fund uses resources from other funds.
EFFECT	The Municipality at this moment did not count with the sufficient resources to comply with the projects or activities for which such funds were obtained and restricted.
RECOMMENDATION	The Municipality should either reimburse immediately all resources obtained from the transfers of those funds, or obtain an authorization from the State House of Representative and Senate for the re-programation of such funds. The Municipality should continue strengthening its internal controls to avoid subsequent appropriations of other funds whose uses are restricted.
MANAGEMENT RESPONSE	<p>During the recent transition process the new municipal administration came into knowledge of improper transfers by the previous municipal administration. These administrative violations were documented and referred to the governmental bodies responsible for ensuring the proper use of public funds.</p> <p>Meanwhile, the new municipal administration recognizes that restricted funds must be used only to cover the previously stated purposes. It is for this reason that immediately all necessary arrangements were made to return to the Municipality Legislative Resolutions the entire amount of funds that was improperly used by the general fund during the past's years.</p>

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	13-II-03
REQUIREMENT	ACCOUNTING RECORDS- CAPITAL ASSETS
CONDITION	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
CONTEXT	Adequate accounting records regarding the capital assets was not available in a timely manner. Also, during my examination of the property records, I noted that the Municipality does not maintain adequate internal controls and procedures over capital assets subsidiary. The amount reported of capital assets in the financial statements were not traceable to an Excell spreadsheet that serves as a subsidiary ledger for the capital assets.
CRITERIA	Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociados de Puerto Rico de 1991</i> of August 30, 1991, stated that Municipality should maintain updated property accounting records.
CAUSE	The lack of an adequate capital assets register did not permit the proper accounting over the capital assets additions, the accumulated depreciation and the depreciation expense presented in the financial statements of the Municipality.
EFFECT	The Municipality is not in compliance with Article 8.010 (c) (3) of the State Law Number 81 of August 30, 1991.
RECOMMENDATION	I recommend management and the Property Division of the Municipality to revise that all capital assets are included in subsidiary ledger. Also, management should be aware that the accumulated depreciation and the depreciation expense are properly calculated.
MANAGEMENT RESPONSE	When performing an analysis of the computerized system use to manage the existing capitalized property of the Municipality, the new municipal administration found that the information on the system had not been updated since 2009. Immediately a team was assigned to work with the actualization of the municipal property reports. Updating the information for fiscal years 2009-2010, 2010-2011 and 2011-2012 is still in process. The new administration did manage to complete and properly document all property transactions related to fiscal year 2012-2013. However, the failure to have adequate initial base continues to affect the results of the system. The new city administration hopes to complete the process of updating its system of property management by the end of fiscal 2013-2014.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	13-II-04
REQUIREMENT	GENERAL FUND'S ACCUMULATED DEFICIT
CONDITION	Municipality's General Fund accumulated deficit.
CONTEXT	During my examination of the financial statements for the fiscal year ended June 30, 2013, I noted that the General Fund has an accumulated deficit of \$7,531,994. Such accumulated deficit is caused by the cumulative results from many years in which expenditures have exceeded revenues. In addition, during the fiscal year 2012-2013 the General Fund has revenues of \$18,892,751, expenditures of \$25,500,611 and other financing sources of \$218,728, resulting in an operating deficit of \$6,389,132.
CRITERIA	Article 7.011 (a) of State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991 (as amendment as of January 2004), stated that for any accumulated deficit incurred in the General Fund at the end of any given fiscal year, the Municipality must reserve the necessary financial resources in the General Fund's operating budget of the immediately following fiscal year to cover such deficit.
CAUSE	The Municipality, over the years, has suffered recurring excesses of expenditures over revenues, which have led to the accumulated deficit in the General Fund. In addition, the Municipality has not established an adequate budget control.
EFFECT	The Municipality will continue having liquidity problems and will continue affecting the Municipality's ability to finance current operations.
RECOMMENDATION	I recommend management to improve the budget control process, implement a cost reduction plan, and increase the collection efforts over the municipal license tax, the property taxes, sales and uses tax. In addition, the Municipality should evaluate additional long term financing agreements with the Government Development Bank.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER **13-II-04 (CONTINUED)**

REQUIREMENT **GENERAL FUND’S ACCUMULATED DEFICIT**

MANAGEMENT RESPONSE The new municipal government recognizes and regrets the deficit which was led the Municipality of Cabo Rojo over the past six years. Operating budgets for fiscal years 2008-2009, 2009-2010, 2010-2011, 2011-2012 and 2012-2013 were presented, by the last municipal administration, with inflated income amounts that could never be reached by the Municipality. Aware of this situation, the new municipal administration has made the necessary adjustments to the operational budget of the current fiscal 2013-2014. Cost-cutting measures were performed, collection management measures were implemented to tax evaders, and an operating budget for fiscal year 2013-2014 with actual amounts within the current capacity of the Municipality was presented.

The new municipal administration is focused on restoring the financial health of the municipality of Cabo Rojo and overlay the current accumulated deficit that exceeds \$ 7,500,000.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-III-05
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE ACTIVITIES-HOUSEKEEPING SERVICES
CONDITION	Adequate supporting documentation was missing in the housekeeping services participant's files.
CONTEXT	<p>As part of my grant disbursement test, I examined seventeen (17) Housekeeping Services participant's files and noted the following conditions:</p> <ul style="list-style-type: none"> • In two (2) files, the contracts formalized between the Municipality and the participants were not available for examination. Also, in thirteen (13) files, the contracts with the participants were made after the services were started; • In all the files the eligibility forms did not have the date in which the forms were completed; <p>Also, I found that the housekeeping services operational guide did not provide for monthly follow-up visits to the participants to assure that the services are being provided in accordance with the Program regulations.</p>
CRITERIA	Code of Federal Regulations 24, 85.20 (a) (1) states that fiscal control and accounting procedures of subgrantees, must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Also, the Municipality has an operational guide "Manual Operacional Programa Auxiliares del Hogar" that includes all procedures and program's requirements for housekeeping services.
CAUSE	The Program's internal controls procedures did not detect that all the required information regarding participants were obtained and completed. Also, the lack of requirement, in the operational guide, related to follow up visits, did not enforce that the interviews, visits and inspections, to monitor the services, are made monthly and are properly documented.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-III-05 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE ACTIVITIES-HOUSEKEEPING SERVICES
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, 85.20 (a) (1) and with the operational guide.
RECOMMENDATION	I recommend management to implement adequate internal controls and procedures in order to assure that the program staff completes all the required forms. Also, the Program should consider revise the operational guide to include a requirement of monitoring the services provided to the participants.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	All participants served under the program were eligible as limited clientele and evidence of qualification was on file prior to the beginning of services. However, the Municipality of Cabo Rojo will evaluate its guide for the implementation of the Housekeeping Program and additional internal controls will be implemented as necessary to comply with the record keeping requirements.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-06
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	DAVIS-BACON ACT
CONDITION	During the fiscal year 2012-2013, the Program did not comply with the Davis-Bacon Act.
CONTEXT	During my Davis-Bacon Act test, I selected a sample of two (2) construction projects related to the pavement of roads and streets in “Casco Urbano” and “Camino Wistel y Ramal”. During my evaluation, I did not find, for these projects, evidence of formal contracts that include the required prevailing wage rate clauses in accordance with the Davis-Bacon Act.
CRITERIA	Davis- Bacon Act, 42 USC 5310.
CAUSE	The Municipality’s internal controls failed to verify that the contracts subject to the Davis- Bacon Act, include a clause in compliance with this requirement.
EFFECT	The Municipality is not in compliance with Davis- Bacon Act, 42 USC 5310.
RECOMMENDATION	I recommended management to include in all the construction contracts that will be paid with CDBG funds, a clause that describe the required prevailing wage rate established in the Davis-Bacon Act.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Municipality of Cabo Rojo does enforce the Federal labor Standards Provisions as required by HUD in every applicable contract. The contractual obligation was enforced by including the HUD-4010 form on the applicable contracts. On the specific projects that were audited, we provided all documentation on enforcement and demonstrated to be in compliance. However, we could not provide the executed HUD-4010 form. The Municipality will include a clause in all applicable contracts to demonstrate contractual obligation relating Federal Labor Standards Provisions, and will keep including the HUD-4010 form.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The following schedule contains the original number and title of each of the findings of federal awards included in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133* and the Schedule of Prior Years' Audit Findings for the Fiscal Year ended June 30, 2013. The following legend indicates the current status of the prior years' audit findings:

ORIGINAL FINDING NUMBER	CFDA NUMBER	TITLE
12-01	14.218	<u>Reporting</u> Full corrective action was taken. During the fiscal year 2012-2013 we submitted in a timely manner the applicable quarterly reports. Evidence of the submission was submitted to our auditor.
