

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

**MUNICIPIO DE CAMUY  
AUDITORÍA 2012-2013  
30 DE JUNIO DE 2013**



ESTADO LIBRE ASOCIADO DE  
**PUERTO RICO**  
Oficina del Comisionado de  
Asuntos Municipales

Hon. Alejandro García Padilla  
Gobernador

Lcdo. Carlos M. Santini Rodríguez  
Comisionado

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAMUY**

**BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTAL SCHEDULES**

**YEAR ENDED JUNE 30, 2013**

*Recibido  
E. Morales  
22/04/2014  
Via E-mail*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAMUY

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

|   |         |
|---|---------|
| Required Supplementary Information (Part I):  |         |
| Independent Auditor's Report  | 1 - 3   |
| Management's Discussion and Analysis  | 4 - 10  |
| Basic Financial Statements:   |         |
| Government-wide Financial Statements:   |         |
| Statement of Net Position   | 11      |
| Statement of Activities   | 12      |
| Governmental Fund Financial Statements:   |         |
| Balance Sheet – Governmental Funds and Reconciliation of the Balance Sheet –<br>Governmental Funds to the Statement of Net Position | 13-14   |
| Statement of Revenues, Expenditures and Changes in Fund Balances –<br>Governmental Funds  | 15      |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund<br>Balances to the Statement of Activities            | 16      |
| Notes to Basic Financial Statements   | 17 - 38 |
| Required Supplementary Information (Part II):   |         |
| Budgetary Comparison Schedule – General Fund  | 39      |
| Notes to Budgetary Schedule   |         |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAMUY  
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE  
ENDED JUNE 30, 2013

TABLE OF CONTENTS

**INTERNAL ACCOUNTING CONTROLS AND COMPLIANCE SECTION**

|  |       |
|--|-------|
| Schedules of Expenditures of Federal Awards  | 40-41 |
| Independent Auditor's Report on Compliance and on Internal Control<br>in accordance with Government Auditing Standards | 42-43 |
| Independent Auditor's Report on Compliance and Internal Control<br>in accordance with OMB Circular A-133               | 44-46 |
| Schedule of Findings and Questioned Cost   | 47-49 |

# ***Gil Alberto Ortiz Cabrera***

***Certified Public Accountants & Professional Consultants***

*Members of: The American Institute of Certified Public  
Accountants (AICPA)  
Puerto Rico Board of Certified Public  
Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

**Honorable Major and Members  
of the Municipal Assembly  
Municipality of Camuy  
Camuy, Puerto Rico**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Municipality of Camuy, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Municipality of Camuy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Camuy, as of June 30, 2013, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information presented on pages 4-10 and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's of Camuy basic financial statements. The schedule of expenditures of federal awards (Page 39) 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 basic financial statements. Such information has been subjected to the audit procedures, in the general purpose financial statements, and in our opinion, is fairly stated in in all material respects, in relation to the basic financial statements taken as a whole.

*Gil Alberto Ortiz Cabrera*

March 26, 2014

CPA Gil Alberto Ortiz Cabrera

License 1332, in force

Stamp # 2671145 was affixed

to the original report..

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAMUY

MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013

Management of the Municipality of Camuy of the Commonwealth of Puerto Rico (the Municipality) provides this *Management's Discussion and Analysis* (MD&A) for the readers of the Municipality's basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2013. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

During fiscal year ended June 30, 2003, the Municipality implemented the new required financial reporting standards established by Statement No. 34, *Basic Financial Statements – and Management's Discussion – and Analysis – for State and Local Governments*, issued by the Governmental Accounting Standards Board (GASB No. 34).

## FINANCIAL HIGHLIGHTS

### a) Government-Wide Highlights

- **Assets** – The Municipality has reported assets amounting to \$55.4 millions in the accompanying statement of net assets, of which the most significant are capital assets and cash amounting to \$38.1 millions, \$14.7 millions, respectively.
- **Liabilities** – The Municipality has reported liabilities amounting to \$27.2 millions in the accompanying statement of net assets, of which the most significant are Intergovernmental payable, deferred inflows, and other noncurrent liabilities amounting to \$2.2 millions, \$5.0 millions, and \$19.0 millions, respectively.
- **Net position** – The assets of the Municipality exceeded its liabilities by \$28.2 millions at June 30, 2013, which is presented as "total net position" in the accompanying statement of net position. Restricted net assets and unrestricted deficit amounted to \$10.7 millions, and (\$8.4) millions, respectively. Net assets invested in capital assets amounted to \$25.9 millions.
- **Net change in net position** – The Municipality's net assets increased by \$7.6 millions during fiscal year ended June 30, 2013. Net position at June 30, 2013 amounted to \$28.2 millions. The decreased in net deficit was principally for positive results of operations and increase in the Municipality's investments principally in Buildings and building improvements.
- **Revenues** – The Municipality has reported total revenues amounting to \$28.7 millions in the accompanying statement of activities, of which the most significant are property tax, municipal license and sales tax revenues (\$5.6 millions), and operating and capital grants and contributions (\$21.8 millions).
- **Expenses** – The Municipality has reported total expenses amounting to \$21.1 millions in the accompanying statement of activities.

### b) Governmental Funds Highlights

- **Assets** – The Municipality's governmental funds have reported combined assets amounting to \$22.6 millions in the accompanying balance sheet – governmental funds, of which the most significant are cash, cash with fiscal agent, due from governmental agencies and due from other funds, amounting to \$9.8 millions, \$4.9 millions, \$2.6 millions and \$5.3 millions, respectively.

- **Liabilities** – The Municipality's governmental funds have reported combined liabilities amounting to \$13.6 millions in the accompanying balance sheet – governmental funds, of which the most significant are intergovernmental payable, due to other funds, and deferred revenues amounting to \$2.2 millions, \$5.3 millions and \$5.0 millions, respectively.
- **Governmental fund balances** – The Municipality's governmental funds reported combined fund balance amounting to \$9.0 millions, of which \$11.0 millions and (\$1.9) millions represent reserved and unreserved fund balances (deficit), respectively.
- **Net change in governmental fund balances** – The Municipality's governmental fund balances increased by \$4,372,253 during fiscal year ended June 30, 2013. Governmental fund balances at June 30, 2013 amounted to \$9.0 millions. The increase in fund balances represents the excess of revenues and other financing sources over (under) expenditures and other financing uses.
- **Revenues** – The Municipality's governmental funds have reported combined revenues amounting to \$28.7 millions in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, of which the most significant are property taxes, intergovernmental grants and contributions, and federal grants amounting to \$2.9 millions, \$17.9 millions, and \$3.9 millions, respectively.
- **Expenditures** – The Municipality's governmental funds have reported combined expenditures amounting to \$25.7 millions in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, of which the most significant are categorized as general government; public works, and capital outlays amounting to \$5.9 millions, \$6.9 millions and \$5.1 millions, respectively.

## USING THIS ANNUAL REPORT

This annual report consist of a series of financial statements similar to the previous financial statements. The focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

## OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements (collectively known as the basic financial statements). This report also contains additional required supplementary information (budgetary schedules) and other supplementary information (combining financial statements) in addition to the basic financial statements themselves. These components are described below:

### Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2013 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

## **Statement of Net Position**

The statement of net *position* presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net position" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

## **Statement of Activities**

The statement of activities presents information showing how the Municipality's net position changed during the fiscal year ended June 30, 2013. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

## **Fund Financial Statements**

The Municipality's fund financial statements, which consist of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) joint resolutions fund, (4) loan guarantee fund, (5) permanent improvement fund, (6) FPCE special communities fund, and (7) other non-major funds, (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the 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 fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. For financial reporting purposes the Municipality has three major funds: (1) the general fund, (2) state legislature joint resolutions, and (3) Loan Guarantee Fund.

## Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

## Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

## INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in governmental financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Financial Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2002, the Municipality commenced the prospective and retroactively reporting of infrastructure assets. Also the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

## FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

### Net Position

As noted earlier, net position may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, net deficit (excess of liabilities over assets) amounted to \$8.4 millions at June 30, 2013, compared to net deficit of \$8.7 millions at the end of the previous year. The largest portion of the Municipality's net position are invested in capital assets, net of their related debt (\$25.9 millions). The Municipality's net position is also composed of net assets amounting to \$10.7 millions that are restricted for (1) future debt service payments, (2) the future acquisition or construction of capital assets and (3) other purposes, mainly the financing of federal and state assisted programs. In addition, the Municipality's unrestricted deficit reported is \$8.4 millions.

The unrestricted deficit is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations.

The portion of the Municipality's net assets invested in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets, are used by the Municipality 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 following is a condensed presentation of the Municipality's financial position, as reported in the government-wide financial statements:

**Condensed Statement of Net Position:**

|                                    | 2013                 | 2012                 | Change              | %     |
|------------------------------------|----------------------|----------------------|---------------------|-------|
| Current assets                     | \$ 17,278,454        | \$ 14,283,284        | \$ 2,995,170        | 21%   |
| Noncurrent assets                  | 38,087,150           | 34,335,942           | 3,751,208           | 11%   |
| Total assets                       | <u>55,365,604</u>    | <u>48,619,226</u>    | <u>6,746,378</u>    | 14%   |
| Current liabilities outstanding    | 8,230,515            | 10,169,548           | (1,939,033)         | (19%) |
| Noncurrent liabilities outstanding | 18,973,308           | 17,914,692           | 1,058,616           | 6%    |
| Total liabilities                  | <u>27,203,823</u>    | <u>28,084,240</u>    | <u>(880,417)</u>    | (3%)  |
| Net position/(liabilities):        |                      |                      |                     |       |
| Net investment in capital assets   | 25,900,160           | 22,722,942           | 3,177,218           | 14%   |
| Restricted                         | 10,694,958           | 5,924,278            | 4,770,680           | 81%   |
| Unrestricted                       | (8,433,337)          | (8,112,234)          | (321,103)           | 4%    |
| Total net position                 | <u>\$ 28,161,781</u> | <u>\$ 20,534,986</u> | <u>\$ 7,626,795</u> | 37%   |

**Changes in Net Position**

The Municipality's net position increased by \$7.6 millions. Approximately 19.6 percent of the Municipality's total revenues came from taxes and licenses, while 75.8 percent resulted from restricted and unrestricted capital and operating grants, contributions and reimbursements, including federal financial assistance. The Municipality's expenses cover a range of services. The largest expenses were for health (10.4 percent), public works and certain capital outlays (29.8 percent), general government (28.6 percent) and community development (15.0 percent).

The following is a condensed presentation of the Municipality's results of operations, as reported in the government-wide financial statements:

| <b>Condensed Statement of Activities:</b>                    | <b>2013</b>          | <b>2012</b>          | <b>Change</b>       | <b>%</b>    |
|--|----------------------|----------------------|---------------------|-------------|
| Capital grants and contributions                             | \$ 9,147,135         | \$ 6,984,135         | \$ 2,163,000        | 31%         |
| Property taxes   | 2,877,001            | 3,018,099            | (141,098)           | (5%)        |
| Municipal license taxes                                      | 886,292              | 785,067              | 101,225             | 13%         |
| Sales Tax  | 1,866,255            | 1,813,501            | 52,754              | 3%          |
| Licenses, permits and other local taxes                      | 455,312              | 387,758              | 67,554              | 17%         |
| Grants and contributions not restricted to specific programs | 12,619,686           | 9,868,111            | 2,751,575           | 28%         |
| Interests, rent, fines and penalties                         | 191,791              | 217,398              | (25,607)            | (12%)       |
| Other contributions and miscellaneous                        | 677,131              | 129,254              | 547,877             | 424%        |
| <b>Total revenues</b>  | <b>28,720,603</b>    | <b>23,203,323</b>    | <b>5,517,280</b>    | <b>24%</b>  |
| Expenses:  |                      |                      |                     |             |
| General government   | 6,029,484            | 6,791,524            | (762,040)           | (11%)       |
| Public safety  | 877,393              | 1,453,051            | (575,658)           | (40%)       |
| Culture and recreation                                       | 1,107,850            | 1,017,079            | 90,771              | 9%          |
| Health   | 2,203,589            | 2,404,428            | (200,839)           | (8%)        |
| Public Works and capital outlays                             | 6,275,820            | 5,691,876            | 583,944             | 10%         |
| Public Housing & Welfare                                     | 875,731              | 1,064,037            | (188,306)           | (18%)       |
| Community development  | 3,160,690            | 2,101,435            | 1,059,255           | 50%         |
| Interest on bonds and notes                                  | 563,251              | 1,033,943            | (470,692)           | (46%)       |
| <b>Total expenses</b>  | <b>21,093,808</b>    | <b>21,557,373</b>    | <b>(463,565)</b>    | <b>(2%)</b> |
| Net increase in net position                                 | 7,626,795            | 1,645,950            | 5,980,845           | 363%        |
| Net position - at beginning of year                          | 20,534,986           | 18,340,099           | 2,194,887           | 12%         |
| Net position - at end of year                                | <b>\$ 28,161,781</b> | <b>\$ 19,986,049</b> | <b>\$ 8,175,732</b> | <b>41%</b>  |

## FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The accompanying statement of net assets reported total gross capital assets, at cost, amounting to \$62.3 millions at June 30, 2013. The related accumulated depreciation and amortization of capital assets amounted to \$24.2 millions at June 30, 2013. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems and similar items.

Actual costs incurred to purchase or construct capital assets were \$5.7 for the year ended June 30, 2013. Depreciation and amortization charges for the year totaled \$1.9 millions.

The Municipality finances a significant portion of its construction activities through bond issuances and state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

### **Debt Administration**

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

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

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

### **ECONOMIC FACTORS AND NEXT BUDGETS AND RATES**

The Municipality relies primarily on property and municipal license taxes, as well as, federal and state grants to carry out the governmental activities. Historically, property and municipal license taxes have been very predictable with increases not generally exceeding ten percent. Federal grant revenues may vary if new grants are available but the revenue is also very predictable.

### **FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and demonstrate the Municipality's accountability. If you have any questions about the report or need additional financial information, contact the Municipality's Director of Finance, Ms. Yinelba Román Bonilla, at Department of Finance, PO Box 1544 Camuy, Puerto Rico, 00539, or call (787) 898-2160.

Commonwealth of Puerto Rico  
Municipality of Camuy  
Statement of Net Position  
June 30, 2013

| <u>Assets</u>   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| Cash and cash equivalents   | \$ 9,849,882                       |
| Cash with Fiscal Agent  | 4,851,211                          |
| Other receivable  | 4,618                              |
| Due from Governmental Entities  | 2,572,743                          |
| Capital Assets  |                                    |
| Land, improvements, construction in progress and other<br>capital assets, net of depreciation of \$24,196,102 | 38,087,150                         |
| Total assets  | \$ 55,365,604                      |
| <b><u>Liabilities and Net Position</u></b>  |                                    |
| <b>Liabilities</b>  |                                    |
| Accounts payable and accrued liabilities  | \$ 301,692                         |
| Due to Governmental Entities  | 2,228,164                          |
| Deferred inflows:   |                                    |
| Municipal license taxes   | 658,619                            |
| Grants and contributions  | 4,306,471                          |
| Mature bonds payable  | 600,000                            |
| Mature interests payable  | 135,569                            |
| Noncurrent liabilities:   |                                    |
| Due within one year   | 699,000                            |
| Due in more than one year   | 18,274,308                         |
| Total liabilities   | 27,203,823                         |
| <b><u>Net Position</u></b>  |                                    |
| Invested in capital assets, net of related debt   | 25,900,160                         |
| Restricted for:   |                                    |
| Other purposes  | 7,747,131                          |
| Debt service  | 2,947,827                          |
| Unrestricted (deficit)  | (8,433,337)                        |
| Total net position  | 28,161,781                         |
| Total liabilities and net position  | \$ 55,365,604                      |

The notes to the financial statement are an integral part of this statement

**Commonwealth of Puerto Rico  
Municipality of Camuy  
Statement of Activities  
For the year ended June 30, 2013**

| Functions/Programs               | Expenses including Depreciation | Program Revenues     |                                    |                                  | Net (Expense) Revenue and Changes in Net Assets |
|----------------------------------|---------------------------------|----------------------|------------------------------------|----------------------------------|---|
|                                  |                                 | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |   |
| General government               | \$ 6,029,484                    | \$ 455,312           | \$ 457,119                         | \$ -                             | \$ (5,117,053)                                  |
| Culture and recreation           | 1,107,850                       | -                    | -                                  | -                                | (1,107,850)                                     |
| Public safety                    | 877,393                         | -                    | 214,586                            | -                                | (662,807)                                       |
| Health                           | 2,203,589                       | -                    | 552,991                            | -                                | (1,650,598)                                     |
| Public works and capital outlays | 6,275,820                       | -                    | -                                  | 5,161,284                        | (1,114,536)                                     |
| Public housing & welfare         | 875,731                         | -                    | 819,010                            | -                                | (56,721)  |
| Interest on long-term debt       | 563,251                         | -                    | -                                  | -                                | (563,251)                                       |
| Community development            | 3,160,690                       | -                    | 1,942,145                          | -                                | (1,218,545)                                     |
| Total governmental activities    | \$ 21,093,808                   | \$ 455,312           | \$ 3,985,851                       | \$ 5,161,284                     | (11,491,361)                                    |

**General Revenues:**

|  |               |
|--|---------------|
| Property tax   | 2,877,001     |
| Municipal license taxes                                      | 886,292       |
| Sales Tax  | 1,866,255     |
| Grants and contributions not restricted to specific programs | 12,619,686    |
| Fines and forfeitures  | 11,378        |
| Rent of Property   | 30,315        |
| Interests and investments earnings                           | 150,098       |
| Other contributions and miscellaneous                        | 677,131       |
| Total general revenues                                       | 19,118,156    |
| Change in net position                                       | 7,626,795     |
| Net position - beginning of year, as restated                | 20,534,986    |
| Net position - ending  | \$ 28,161,781 |

12

The notes to the financial statement are an integral part of this statement

Commonwealth of Puerto Rico  
Municipality of Camuy

**Balance Sheet - Governmental Funds and Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position  
June 30, 2013**

**MAJOR FUNDS**

|  | General Fund | Joint Resolutions |              | Loan Guarantee Fund |              | Debt Service Fund |              | Permanent Improvement Fund |  | FPCE Special Communities |  | Other Non-Major Funds |  | Total Governmental Funds |
|--|--------------|-------------------|--------------|---------------------|--------------|-------------------|--------------|----------------------------|--|--------------------------|--|-----------------------|--|--------------------------|
|  |              |                   |              |                     |              |                   |              |                            |  |                          |  |                       |  |                          |
| <b>Assets</b>                            |              |                   |              |                     |              |                   |              |                            |  |                          |  |                       |  |                          |
| Cash and cash equivalents                | \$ (59,047)  | \$ 4,977          | \$ 3,933,646 | \$ -                | \$ 2,291,869 | \$ 2,795,078      | \$ 883,359   | \$ 9,849,882               |  |                          |  |                       |  |                          |
| Cash with Fiscal Agent                   | -            | -                 | 3,544,179    | -                   | -            | -                 | 1,307,032    | 4,851,211                  |  |                          |  |                       |  |                          |
| Other receivables                        | -            | -                 | -            | -                   | -            | -                 | 4,618        | 4,618                      |  |                          |  |                       |  |                          |
| Due from Governmental Entities           | 1,824,226    | -                 | -            | -                   | -            | -                 | 748,517      | 2,572,743                  |  |                          |  |                       |  |                          |
| Due from other funds                     | 2,657,112    | 1,604,270         | -            | -                   | -            | -                 | 1,060,431    | 5,321,813                  |  |                          |  |                       |  |                          |
| Total assets                             | \$ 4,422,291 | \$ 1,609,247      | \$ 3,933,646 | \$ 3,544,179        | \$ 2,291,869 | \$ 2,795,078      | \$ 4,003,957 | \$ 22,600,267              |  |                          |  |                       |  |                          |
| <b>Liabilities and Fund Balances</b>     |              |                   |              |                     |              |                   |              |                            |  |                          |  |                       |  |                          |
| <b>(Deficit)</b>                         |              |                   |              |                     |              |                   |              |                            |  |                          |  |                       |  |                          |
| <b>Liabilities</b>                       |              |                   |              |                     |              |                   |              |                            |  |                          |  |                       |  |                          |
| Accounts payable and accrued liabilities | \$ 301,692   | \$ -              | \$ -         | \$ -                | \$ -         | \$ -              | \$ -         | \$ 301,692                 |  |                          |  |                       |  |                          |
| Due to Governmental Entities             | 2,228,164    | -                 | -            | -                   | -            | -                 | -            | 2,228,164                  |  |                          |  |                       |  |                          |
| Deferred revenues:                       |              |                   |              |                     |              |                   |              |                            |  |                          |  |                       |  |                          |
| Municipal license taxes                  | 658,619      | -                 | -            | -                   | -            | -                 | -            | 658,619                    |  |                          |  |                       |  |                          |
| Grants and contributions                 | -            | -                 | 3,700,382    | -                   | -            | -                 | 619,102      | 4,319,484                  |  |                          |  |                       |  |                          |
| Mature bonds payable                     | 120,000      | -                 | -            | 480,000             | -            | -                 | -            | 600,000                    |  |                          |  |                       |  |                          |
| Mature interests payable                 | 19,217       | -                 | -            | 116,352             | -            | -                 | -            | 135,569                    |  |                          |  |                       |  |                          |
| Due to other funds                       | 2,754,631    | 63,000            | -            | -                   | 1,134,182    | -                 | 1,370,000    | 5,321,813                  |  |                          |  |                       |  |                          |
| Total liabilities                        | 6,082,323    | 63,000            | 3,700,382    | 596,352             | 1,134,182    | -                 | 1,989,102    | 13,565,341                 |  |                          |  |                       |  |                          |

**Fund Balances (Deficit):**

|                                     |              |              |              |              |              |              |              |   |             |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---|-------------|
| Reserved for:                       |              |              |              |              |              |              |              |   |             |
| Committed                           | 272,810      | -            | -            | -            | -            | -            | -            | - | 272,810     |
| Other purposes                      | -            | 1,546,247    | 233,264      | -            | 1,157,687    | 2,795,078    | 2,014,855    | - | 7,747,134   |
| Debt service                        | -            | -            | -            | -            | -            | -            | -            | - | 2,947,827   |
| Unreserved:                         |              |              |              |              |              |              |              |   |             |
| Undesignated (deficit)              | (1,932,842)  | -            | -            | -            | -            | -            | -            | - | (1,932,842) |
| Total fund balances (deficit)       | (1,660,032)  | 1,546,247    | 233,264      | 2,947,827    | 1,157,687    | 2,795,078    | 2,014,855    | - | 9,034,926   |
| Total liabilities and fund balances | \$ 4,422,291 | \$ 1,609,247 | \$ 3,933,646 | \$ 3,544,179 | \$ 2,291,869 | \$ 2,795,078 | \$ 4,003,957 |   |             |

**Reconciliation of the Governmental Funds Balance Sheet to the Governmental-Wide Statement of Net Position:**

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

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

Other long-term liability are not available to pay current period expenditures and therefore are offset by

Long-Term liabilities are not due and payable in the current period, and therefore, are not reported in the funds

**Net position of governmental activities**

|  |                      |
|--|----------------------|
|  | 38,087,150           |
|  | (18,960,295)         |
|  | <u>\$ 28,161,781</u> |

The notes to the financial statement are an integral part of this statement

**Commonwealth of Puerto Rico**  
**Municipality of Camuy**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds**  
**June 30, 2013**

|  | MAJOR FUNDS           |                     |                     |                     |                            |                          |                       | Total Governmental Funds |
|--|-----------------------|---------------------|---------------------|---------------------|----------------------------|--------------------------|-----------------------|--------------------------|
|  | General Fund          | Joint Resolutions   | Loan Guarantee Fund | Debt Service Fund   | Permanent Improvement Fund | FPCE Special Communities | Other Non-Major Funds |                          |
| <b>Revenues:</b>   |                       |                     |                     |                     |                            |                          |                       |                          |
| Property tax   | \$ 2,010,302          | \$ -                | \$ -                | \$ 866,699          | \$ -                       | \$ -                     | \$ -                  | \$ 2,877,001             |
| Municipal license taxes                                  | 886,292               | -                   | -                   | -                   | -                          | -                        | -                     | 886,292                  |
| Sales tax  | 1,058,308             | -                   | -                   | 464,489             | -                          | -                        | 343,458               | 1,866,255                |
| Licenses, permits and other local taxes                  | 440,009               | -                   | -                   | -                   | -                          | -                        | -                     | 440,009                  |
| State and intergovernmental contributions                | 6,921,780             | 1,028,500           | -                   | -                   | 4,472,089                  | 3,455,105                | 2,034,332             | 17,911,806               |
| Charges for services and other contributions             | 4,921                 | -                   | -                   | -                   | -                          | -                        | 10,382                | 15,303                   |
| Rent of property   | 30,315                | -                   | -                   | -                   | -                          | -                        | -                     | 30,315                   |
| Fines and forfeitures                                    | 11,378                | -                   | -                   | -                   | -                          | -                        | -                     | 11,378                   |
| Interests  | 94,599                | -                   | 16,980              | 3,001               | -                          | -                        | 35,518                | 150,098                  |
| Federal grants   | -                     | -                   | 60,676              | -                   | -                          | -                        | 3,794,339             | 3,855,015                |
| Other contributions and miscellaneous                    | 72,912                | -                   | -                   | -                   | -                          | -                        | 604,219               | 677,131                  |
| <b>Total revenues</b>                                    | <b>11,530,816</b>     | <b>1,028,500</b>    | <b>77,656</b>       | <b>1,334,189</b>    | <b>4,472,089</b>           | <b>3,455,105</b>         | <b>6,822,248</b>      | <b>28,720,603</b>        |
| <b>Expenditures:</b>                                     |                       |                     |                     |                     |                            |                          |                       |                          |
| General government                                       | 5,849,826             | -                   | -                   | -                   | -                          | -                        | 91,278                | 5,941,104                |
| Culture and recreation                                   | 548,953               | -                   | -                   | -                   | -                          | -                        | -                     | 548,953                  |
| Public safety  | 576,681               | -                   | -                   | -                   | -                          | -                        | 191,892               | 768,573                  |
| Health   | 1,544,124             | -                   | -                   | -                   | -                          | -                        | 557,847               | 2,101,971                |
| Public works   | 2,661,269             | -                   | -                   | -                   | -                          | 1,728,465                | 2,497,257             | 6,886,991                |
| Public housing and welfare                               | -                     | -                   | -                   | -                   | -                          | -                        | 860,547               | 860,547                  |
| Community and economic development                       | -                     | -                   | -                   | -                   | -                          | -                        | 2,086,891             | 2,086,891                |
| Capital outlays  | -                     | 2,846,279           | 7,888               | -                   | 233,431                    | -                        | 1,999,137             | 5,086,735                |
| Debt service:  |                       |                     |                     |                     |                            |                          |                       |                          |
| Principal  | 142,334               | -                   | 135,000             | 576,000             | -                          | -                        | -                     | 853,334                  |
| Interests  | 94,229                | -                   | 212,677             | 256,345             | -                          | -                        | -                     | 563,251                  |
| <b>Total expenditures</b>                                | <b>11,417,416</b>     | <b>2,846,279</b>    | <b>355,565</b>      | <b>832,345</b>      | <b>233,431</b>             | <b>1,728,465</b>         | <b>8,284,849</b>      | <b>25,698,350</b>        |
| <b>Excess (Deficiency) of revenues over expenditures</b> | <b>113,400</b>        | <b>(1,817,779)</b>  | <b>(277,909)</b>    | <b>501,844</b>      | <b>4,238,658</b>           | <b>1,726,640</b>         | <b>(1,462,601)</b>    | <b>3,022,253</b>         |
| Other financing sources (uses):                          |                       |                     |                     |                     |                            |                          |                       |                          |
| Proceeds from issuance of bonds                          | -                     | -                   | -                   | -                   | -                          | -                        | 1,350,000             | 1,350,000                |
| Operating transfer - In                                  | 37,110                | 1,505,509           | 287,000             | -                   | -                          | -                        | 624,500               | 2,454,119                |
| Operating transfer - Out                                 | -                     | (20,000)            | -                   | (1,699)             | (2,022,089)                | (83,420)                 | (326,911)             | (2,454,119)              |
| <b>Total other financing sources (uses)</b>              | <b>37,110</b>         | <b>1,485,509</b>    | <b>287,000</b>      | <b>(1,699)</b>      | <b>(2,022,089)</b>         | <b>(83,420)</b>          | <b>1,647,589</b>      | <b>1,350,000</b>         |
| <b>Net change in fund balances</b>                       | <b>150,510</b>        | <b>(332,270)</b>    | <b>9,091</b>        | <b>500,145</b>      | <b>2,216,569</b>           | <b>1,643,220</b>         | <b>184,888</b>        | <b>4,372,253</b>         |
| Fund balance, beginning, as restated                     | (1,810,542)           | 1,878,517           | 224,173             | 2,447,682           | (1,058,882)                | 1,151,858                | 1,829,867             | 4,662,673                |
| <b>Fund balance, ending</b>                              | <b>\$ (1,660,032)</b> | <b>\$ 1,546,247</b> | <b>\$ 233,264</b>   | <b>\$ 2,947,827</b> | <b>\$ 1,157,687</b>        | <b>\$ 2,795,078</b>      | <b>\$ 2,014,855</b>   | <b>\$ 9,034,926</b>      |

The notes to the financial statement are an integral part of this statement

**Commonwealth of Puerto Rico**  
**Municipality of Camuy**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance -**  
**Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2013**

|   |              |
|---|--------------|
| Governmental Activities amounts reported in the statement of activities and the Net Change in fund balance reported in the statement of Revenue, Expenditures and changes in Fund Balance - Governmental Funds  | \$ 4,372,253 |
| <br><u>Add (deduct):</u>  |              |
| Some expenditures reported in the statement of revenues and expenditures and changes in fund balance, however these costs are not reported in the statement of activities, such as principal payments of L/T Debts.   | 853,334      |
| Governmental Funds report capital outlays as expenditures, however in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expenses. This year the amount by which outlays exceed depreciation and amortization expense. | 3,751,208    |
| Governmental Funds report proceeds from long-term debts as other financing sources, expenditures, however in the statement of activities, these proceeds are recorded as noncurrent liabilities.  | (1,350,000)  |
|   | \$ 7,626,795 |
| Net Change in net assets reported in statement of activities  |              |

The notes to the financial statement are an integral part of this statement

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAMUY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of Camuy was founded in 1807. The executive governs the Municipality and the legislative branch elected for a four-year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen (14) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitute GAAP for governmental units.

In June 1999, the Governmental Accounting Standard Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments". This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition, to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

**Financial reporting entity**

The financial reporting entity included in this report consists of the financial statements of the Municipality of Camuy (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and,
  - 1) The primary government can impose its will on the potential component unit and/or,
  - 2) A financial benefit/ burden exist between the primary government and the potential component unit.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete. Based on the above criteria there are no potential component units which should be included as part of the financial statements.

### **Basis of presentation, measurement focus and basis of accounting**

The financial report of the Municipality consists of a Management Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus.

### **Management Discussion and Analysis**

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

### **Basic financial statements**

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

### **Government-wide statements**

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Statement of Net Assets incorporates all capital (long lived) assets and receivables as well as long term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed non-exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred).

In subsequent periods, when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

### **Fund Statements**

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose, which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures (for Community Development Block Grant Program Fund) or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users (for Child Care/Head Start Program Fund and Debt Service Fund).

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Municipality reports the following major governmental funds:

**General Fund:** is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

**Joint Resolutions, Permanent Improvement Fund and FPCE Special Communities:** is the accounting entity in which revenues derived from state grants, is accounted for. State statutes specify the uses and limitations of each special revenue fund.

**Loan Guarantee Fund:** is the accounting entity in which revenues are derived from federal funds sources related to capital projects, is accounted for. The uses and limitations of this fund are specified by federal statute.

**Debt Service Fund:** This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing (Uses) in net current assets.

The fund statements are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the related liability is incurred.

Property taxes (imposed non-exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred, subject to the availability criteria. Revenues on intergovernmental grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider has been met and revenue becomes available. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available.

The Municipality reports deferred revenues in the governmental funds statements, which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following:

- 1) Payments of principal and interest on general long term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made);
- 2) Vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long term portions of debt must be included).

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

**Notes to Financial Statements** - The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

**Required Supplementary Information** - Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

### **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 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 ten (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 item so far to cause a deficit without imposing taxes or identifying other sources of revenues to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the project, the modified project is sent back to the Mayor for his approval or rejection within six (6) days. The Mayor may decrease or eliminate any item, but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

### **Budgetary Control – Continued**

its entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the project, the Municipal Legislature will have up to eight (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 three (3) days to sign and approve it.

If a budget is not adopted prior to the end of the deadlines referred 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 a 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 with a fund). The Mayor may transfer unencumbered appropriations within programs within funds. Appropriation control is by program a fund. The Municipal Legislature may transfer amounts among programs within and between funds.

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 budget is prepared under a budgetary basis of accounting, which is not in accordance with GAAP. Under the budgetary basis of accounting, revenue is generally recognized when cash is received. Short-Term and long-term borrowings may be used to finance budgetary excess of expenditure over revenues.

Under the budgetary basis of accounting, the Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of the fiscal year.

### **Budgetary Accounting**

Amounts required settling claims and judgment against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

### Assets, liabilities and net Assets

#### 1. *Cash, cash equivalents and cash with fiscal agents.*

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the un disbursed balance of property tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the general and other governmental funds represent the un disbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB (Governmental Development Bank) or a federal government agency.

#### 2. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property tax revenue of current fiscal year collected by the CRIM on the first month (July) of subsequent fiscal year.

#### 3. *Inter-fund receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans).

All Other outstanding balances between funds are reported as "due from/to other funds".

#### 4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the Statement of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

All capital assets, other than land, are depreciated using the straight-line method of the ninety-percent of usage value over the following useful lives:

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

| <u>Description</u>   | <u>Years</u> |
|--|--------------|
| Land Improvements  | 20           |
| Buildings, structures and building improvements                    | 50           |
| Infrastructure   | 20 to 50     |
| Vehicles   | 8            |
| Furniture and fixtures   | 5 to 20      |
| Machinery and equipment, excluding those held under capital leases | 5 to 20      |

Depreciation and amortization expense on capital assets are recorded as direct expenses 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 urban and economic development function.

**5. Long-term obligations**

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consists of general and special obligation bonds, liabilities for compensated absences, legal claims and judgments, long-term liabilities, and other governmental entities.

**6. Compensated absences**

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if; (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of Paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employees (such as systems and others). The vacation policy of the Municipality provides for the accumulation of regular vacations and sick leave. Employees at a rate of 1.5 times the overtime worked accumulate compensatory time. All vacations and sick leave days accumulated by employees in excess of 60 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.

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ day per month of sick pay and compensatory time up to a maximum of 60 days of vacations.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of sick leave, if the employee terminates his or her employment with the Municipality before reaching 10 years of service, such regular sick leave days is not paid to the employee. After 10 years of services any sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employees at any time and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

**7. Reservations of Fund balances and Net Position**

a. Reservations of Fund balances:

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balance represent portions of the fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

|                 |  |
|-----------------|--|
| Debt Service:   | Represents net assets available to finance future debt service payments.                                 |
| Other purposes: | Represent net assets available for specific use and/or legally segregated for other specific future use. |

b. Net position

In the government-wide statements net assets are segregated into three categories:

|                                   |   |
|-----------------------------------|---|
| Net investment in capital assets: | Consists of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.                                  |
| Restricted net position:          | Represents net assets that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).                              |
| Unrestricted net position:        | Represent net assets that do not meet the definition of net assets Invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets. |

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**8. Inter-fund transactions**

The Municipality reports certain transactions as operating transfers, which are legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.

**9. Risk financing**

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Costs of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2013 amounted to \$421,733. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$201,135 for workers compensation insurance covering all municipal employees.

**10. Use of estimates**

The preparation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**11. Future adoption of accounting pronouncements**

The Governmental Accounting Standards Board has issued the following statements that have effective dates on or after June 30, 2013:

| Statement Number | Statement Name   | Adoption Required Fiscal Year |
|------------------|--|-------------------------------|
| 65               | Items previously reporting as assets and liabilities   | 2013 – 2014                   |
| 66               | Technical corrections – 2012 – an amendment of GASB Statement No. 10 and 62                  | 2013 – 2014                   |
| 67               | Financial reporting for pension plans – an amendment of GASB Statement No. 25                | 2013 – 2014                   |
| 68               | Accounting and financial reporting for pension plans – an amendment of GASB Statement No. 27 | 2014 – 2015                   |

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

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**12. Reconciliation of Government-Wide and Fund Financial Statements**

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities are reported in the governmental-wide statement of net assets. The two elements of that reconciliation explains that "long-term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds, and that capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The detail of this reconciliation is as follow:

|  |                     | <u>Total Net Assets</u><br><u>Governmental Activities</u> |
|--|---------------------|---|
| <b><u>Net Assets invested in capital assets, net of related debt</u></b> |                     |   |
| Capital Assets   | \$ 38,087,150       |   |
| Deduct: Bonds Payable  | <u>(12,186,990)</u> | \$25,900,160  |
| <b><u>Assets restricted for Specific purpose</u></b>                     |                     |   |
| Fund Balance restricted for specific purpose                             |                     | 8,019,941   |
| <b><u>Net Assets restricted for Debt Service</u></b>                     |                     |   |
| Fund balance restricted for debt service                                 |                     | 2,947,827   |
| <b><u>Net Assets unrestricted (deficit)</u></b>                          |                     |   |
| General Fund – Total fund balance:                                       | \$ (1,932,842)      |   |
| Deduct:  |                     |   |
| Compensated absences   | (1,934,249)         |   |
| Advances from CRIM   | (861,876)           |   |
| Claims and Judgment  | (110,000)           |   |
| CRIM delinquent accounts - Law   | (81,193)            |   |
| Section 108  | <u>(3,799,000)</u>  | <u>(8,719,160)</u>  |
| Total net assets – governmental activities                               |                     | <u>\$ 28,148,768</u>                                      |

**NOTE B – CUSTODIAL CREDIT RISK - DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico.

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. The Secretary of Treasury of Puerto Rico in the Municipality's name holds all securities pledged as collateral by the Municipality. At year end the Municipality's bank balance in commercial banks amounts to \$9,849,883.

Deposits in governmental banks are uninsured and uncollateralized. At year end the Municipality's bank balance in governmental banks amounts to \$4,851,211.

**NOTE C - DUE FROM (TO) GOVERNMENTAL ENTITIES**

a) Amounts due from governmental entities as of June 30, 2013 follows:

|   |                    |
|---|--------------------|
| PR Power Electric Authority (PREPA)                   | \$1,824,226        |
| Office of Commissioner of Municipal Affairs<br>(OCAM) | 412,113            |
| U.S. Department of Agriculture                        | 9,328              |
| PR Department of Education                            | 162,861            |
| Other governmental funds                              | <u>164,215</u>     |
|   | <u>\$2,572,743</u> |

b) Amounts due to governmental entities as of June 30, 2013 follows:

|   |                    |
|---|--------------------|
| Puerto Rico Power Electric Authority<br>(PRPEA)     | \$1,802,862        |
| Puerto Rico Aqueduct and Sewer Authority<br>(PRASA) | 54,023             |
| Administration of General Services                  | 232,459            |
| PR Department of Treasury                           | 18,071             |
| Administration of Retirement System                 | <u>120,749</u>     |
|   | <u>\$2,228,164</u> |

**NOTE D - INTERFUND TRANSACTIONS**

1. *Due from/to other funds:*

Amounts due from/to other funds represent temporary advances or loans to other funds, as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u>      | <u>Amount</u>       |
|------------------------|--------------------------|---------------------|
| Non-Major fund         | Other Governmental Funds | \$ 1,060,431        |
| General Fund           | Other Governmental Funds | 2,657,112           |
| Joint Resolutions      | Other Governmental Funds | <u>1,604,270</u>    |
| Total                  |                          | <u>\$ 5,321,813</u> |

2. **Operating transfers:**

Transfers between individual funds were made for operational purposes. Transfers includes, among others, interest earned on restricted cash with fiscal agents in the debt service fund, which is transferred to the general fund; principal and interest payments of general long-term debts transferred from the general fund to the debt service fund.

| <u>Transfer In</u>    | <u>Transfer Out</u>                                   | <u>Amount</u>      |
|-----------------------|---|--------------------|
| Other Non-Major Funds | General and Permanent Improvement Fund                | \$ 624,500         |
| General Fund          | Non-Major and Debt Service Funds                      | 37,110             |
| Joint Resolutions     | Permanent Improvement, FPCE and Other Non-Major Funds | 1,505,509          |
| Loan Guarantee        | Non-Major Fund  | <u>287,000</u>     |
|                       |   | <u>\$2,454,119</u> |

**NOTE E - CAPITAL ASSETS**

Capital assets and depreciation activity as of and for the year ended June 30, 2013 is as follows:

|   | Balance<br>July 1,<br>2012 | Increases           | Decreases   | Balance<br>June 30,<br>2013 |
|---|----------------------------|---------------------|-------------|-----------------------------|
| <u>Governmental activities:</u>                 |                            |                     |             |                             |
| Capital assets, not being depreciated:          |                            |                     |             |                             |
| Land  | \$ 5,850,361               | \$ -                | \$ -        | \$ 5,850,361                |
| Construction in progress                        | -                          | 1,625,066           | -           | 1,625,066                   |
| Total capital assets not being depreciated:     | <u>5,850,361</u>           | <u>1,625,066</u>    | <u>-</u>    | <u>7,475,427</u>            |
| Capital assets, being depreciated:              |                            |                     |             |                             |
| Land Improvements                               | 3,519,047                  | -                   | -           | 3,519,047                   |
| Buildings, structures and building improvements | 23,021,665                 | 670,629             | -           | 23,692,294                  |
| Infrastructure                                  | 19,554,738                 | 3,213,053           | -           | 22,767,791                  |
| Furniture and Fixtures                          | 1,767,442                  | 189,158             | -           | 1,956,600                   |
| Vehicles and Equipment                          | <u>2,872,093</u>           | <u>-</u>            | <u>-</u>    | <u>2,872,093</u>            |
| Total capital assets being depreciated          | <u>50,734,985</u>          | <u>4,072,840</u>    | <u>-</u>    | <u>54,807,825</u>           |
| Less accumulated depreciation for:              |                            |                     |             |                             |
| Land Improvements                               | (1,937,071)                | (131,322)           | -           | (2,068,393)                 |
| Buildings, structures and building improvements | (4,667,357)                | (602,255)           | -           | (5,269,612)                 |
| Infrastructure                                  | (12,268,792)               | (834,636)           | -           | (13,103,428)                |
| Furniture & Fixtures                            | (1,279,532)                | (164,698)           | -           | (1,444,230)                 |
| Vehicles and Equipment                          | <u>(2,096,652)</u>         | <u>(213,787)</u>    | <u>-</u>    | <u>(2,310,439)</u>          |
| Total accumulated depreciation                  | <u>(22,249,404)</u>        | <u>(1,946,698)</u>  | <u>-</u>    | <u>(24,196,102)</u>         |
| Total capital assets being depreciated, net     | <u>28,485,581</u>          | <u>2,126,142</u>    | <u>-</u>    | <u>30,611,723</u>           |
| Governmental activities capital assets, net     | <u>\$ 34,335,942</u>       | <u>\$ 3,751,208</u> | <u>\$ -</u> | <u>\$ 38,087,150</u>        |

**NOTE E - CAPITAL ASSETS - Continued**

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

Governmental activities:

|   |                            |
|---|----------------------------|
| General government                                  | \$ 88,380                  |
| Culture and Recreation                              | 558,897                    |
| Public safety                                       | 108,820                    |
| Health  | 101,618                    |
| Public Housing & Welfare                            | 15,184                     |
| Community development                               | <u>1,073,799</u>           |
| Total depreciation expense, governmental activities | <u><u>\$ 1,946,698</u></u> |

**NOTE F - LONG TERM DEBT**

**1. Summary of long-term debt activity**

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2013:

|  | Balance at<br>June 30, 2012 | Increases                 | Decreases               | Balance at<br>June 30, 2013 | Due within<br>one year  |
|--|-----------------------------|---------------------------|-------------------------|-----------------------------|-------------------------|
| General, Special<br>Obligations Bonds<br>and Notes | \$ 11,613,000               | \$1,349,990               | \$776,000               | \$ 12,186,990               | \$699,000               |
| Notes Payable:                                     |                             |                           |                         |                             |                         |
| Advances from CRIM                                 | 884,210                     | -                         | 22,334                  | 861,876                     | -                       |
| Section 108 Loan                                   | 3,934,000                   | -                         | 135,000                 | 3,799,000                   | -                       |
| CRIM Delinquent<br>Accounts – Law                  | 104,122                     | -                         | 22,929                  | 81,193                      | -                       |
| Compensated<br>Absences                            | 1,818,297                   | 115,952                   | -                       | 1,934,249                   | -                       |
| Claims and<br>Judgments                            | <u>110,000</u>              | <u>-</u>                  | <u>-</u>                | <u>110,000</u>              | <u>-</u>                |
|  | <u><u>\$18,463,629</u></u>  | <u><u>\$1,465,942</u></u> | <u><u>\$956,263</u></u> | <u><u>\$18,973,308</u></u>  | <u><u>\$699,000</u></u> |

**2. General and special obligation bonds.**

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2013 amount to \$12,186,990. The Governmental Development Bank of Puerto Rico (GDB) maturing at various dates services all these bonds. As required by law, the Commonwealth Government is obligated to levy and collect property taxes for payment of principal and interest on bonds and notes. A debt service fund has been established for the bonds and notes at GDB with the proceeds of those property taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of long term debt issued for operational purposes are made through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM).

**NOTE F - LONG TERM DEBT - Continued**

A detail of the general and special obligation bonds and notes as of June 30, 2013 follows:

| <b>General Obligations</b>  | <u>Outstanding<br/>Amount</u> |
|---|-------------------------------|
| 1996 serial notes, original amount of \$125,000 due in annual installments from \$5,000 to \$10,000 plus interests, due in semiannual installments at variable rates not to exceed 6.58% through July 1, 2015.                              | \$ 30,000                     |
| 2001 serial bonds, original amount of \$1,675,000, due in annual installments ranging from \$25,000 to \$145,000 plus interests, due in semiannual installments at variable rates not to exceed 6.50% through July 1, 2026.                 | 1,295,000                     |
| 2012 serial bonds, original amount of \$925,000, due in annual installments ranging from \$25,000 to \$90,000 plus interests, due in semiannual installments at variable rates not to exceed 7.50% through July 1, 2031.                    | 925,000                       |
| 2010 serial bonds, original amount of \$424,990 due in annual installments ranging from \$64,000 to \$78,990 plus interests, due in annual installments at rates of 4.25 through January 1, 2018.   | 360,990                       |
| 2008 serial bonds, original amount of \$1,825,000 due in annual installments ranging from \$130,000 to \$245,000 plus interests, due in semiannual installments at variable rates not to exceed 7.50% through July 1, 2018.                 | 1,245,000                     |
| 2011 serial bonds, original amount of \$560,000 due in annual installments ranging from \$5,000 to \$45,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2029.  | 530,000                       |
| 2010 serial bonds, original amount of \$180,000 due in annual installments ranging from \$20,000 to \$35,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2017. | 140,000                       |
| 2011 serial bonds, original amount of \$290,000 due in annual installments ranging from \$5,000 to \$25,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2035.  | 280,000                       |

**NOTE F - LONG TERM DEBT - Continued**

**Special Obligations**

2005 serial notes, original amount of \$2,950,000 due in annual installments ranging from \$60,000 to \$205,000 plus interests, due in semiannual installments at variable rates not to exceed 6.50% through July 1, 2029. 2,360,000

2008 serial notes, original amount of \$3,645,000 due in annual installments ranging from \$85,000 to \$335,000 plus interests, due in semiannual installments at variable rates not to exceed 7.50% through July 1, 2028. 3,270,000

2010 serial notes, original amount of \$305,000 due in annual installments ranging from \$5,000 to \$30,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2035. 295,000

2011 serial notes, original amount of \$735,000 due in annual installments ranging from \$10,000 to \$65,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2035. 715,000

2011 serial notes, original amount of \$405,000 due in annual installments ranging from \$45,000 to \$75,000 plus interests, due in semiannual installments at variable prime rate plus 1.50% with a minimum of 6.00% through July 1, 2018. 360,000

**Public Improvement Bonds**

1998 serial bonds, original amount of \$280,000 due in annual installments ranging from \$7,000 to \$21,000 plus interests, due in annual installments at variable rates not to exceed 5.25% through July 1, 2019. 111,000

1998 serial bonds, original amount of \$ 310,000, due in annual installments ranging from \$7,000 to \$23,000 plus interests, due in annual installments at rates of 5.12% through July 1, 2020. 140,000

**Special Fund - Emergency Obligations**

1995 serial bonds, original amount of \$400,000 due in annual installments ranging from \$10,000 to \$40,000 plus interests, due to semiannual installments at variable rates not to exceed 8%(5.40% at June 30, 2009) through July 1, 2016. 130,000

Total Bonds Payable \$ 12,186,990

**NOTE F - LONG TERM DEBT - Continued**

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2013 follows:

| <u>June 30</u> | <u>Principal</u>    | <u>Interest</u>    |
|----------------|---------------------|--------------------|
| 2014           | \$ 699,000          | \$ 376,000         |
| 2015           | 754,000             | 716,115            |
| 2016           | 789,000             | 693,135            |
| 2017           | 844,000             | 665,002            |
| 2018           | 859,990             | 621,192            |
| 2019-2023      | 2,941,000           | 2,397,913          |
| 2024-2028      | 3,435,000           | 1,297,475          |
| 2029-2033      | 1,340,000           | 268,670            |
| 2034-2036      | 525,000             | 44,538             |
| Totals         | <u>\$12,186,990</u> | <u>\$7,080,040</u> |

3. **Advances from CRIM** – This amount represents the balance owed to CRIM at June 30, 2004 and will be repaid through a financing obtained by the CRIM with GDB.
4. **Compensated absences** – The government-wide statement of net assets includes approximately \$1,934,249 of accrued vacation and sick leave benefits, representing the Municipality's commitment to fund such costs from future operations.
5. **Note Payable to CRIM** – Act. No. 42 of January 26, 2000 was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement allows for the financing for a debt that the municipalities of Puerto Rico have with CRIM, arising from the final settlement of property tax advances versus actual collections through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238 of August 15, 1999.

In addition, on December 16, 2002, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining \$1,040,424 of excess of property tax advances from fiscal year 2000 and 2001. CRIM retains the principal and interests from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The repayment agreement bears interests at variable rates determined by GDB but not exceeding 8.00%. The outstanding principal and accrued interest balances of the note payable to CRIM amounted to \$861,876 at June 30, 2013.

6. **Loan Guarantee (HUD)** – On August 29, 2006 The Municipality entered into a agreement with the U.S. Department of Housing and Urban Development (HUD) for a loan guarantee assistance under the section 108 of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. §5308 for the original amount of \$4,264,000. Loan payments mature every February 1 and October 1 of every fiscal year, which interest is approximately 4.0% annually. These funds are pledged with Municipality's property or the HUD can use the CDBG to pay-off the related payments mentioned above.

## NOTE G - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1<sup>st</sup> and January 1<sup>st</sup>. The tax rates in force as of June 30, 2013 are 8.83% for real property (of which 8.63% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department) and 6.83% for personal property (of which 6.63% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department). For both tax rates 1.03% belongs to the Commonwealth and 8.00% and 6.00%, respectively, belongs to the Municipality. Of the portion belonging to the Municipality, 6.00% on real property and 4.00% on personal property represents the Municipality's portion which is appropriated for general purposes and accounted in the general fund. The remaining portion of 2.00% on both tax rates belonging to the Municipality is restricted for debt service and accounted in the debt service fund.

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded.

## NOTE H – MUNICIPAL LICENSE TAXES

The Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially assesses municipal License taxes annually. Exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15.

During the fiscal year ended June 30, 2013 the tax rates were as follows:

Financial business - 1.50% of gross revenues

Non-financial business – ranging from 0.30% to 0.40% of gross revenues

**NOTE H – MUNICIPAL LICENSE TAXES - Continued**

The tax is due in two equal installments on July 1 and January 1 of each fiscal year, if the taxpayer does not pay the full amount due on April 15 of each year, applying the 5% discount. A discount of 5% is allowed when full payment is made on or before the next five (5) working days after April 15. Municipal license tax returns collected prior to June 30, 2013, but pertaining to the next year is recorded as deferred revenues. Municipal License tax collected in advance for the next fiscal year 2013 - 2014 amounted \$658,619, as of June 30, 2013.

**NOTE I – SALES AND USE TAXES**

On July 4, 2006, the Legislature of the Commonwealth of Puerto Rico approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose municipal sales and use tax of 1.5%. This municipal sales and uses tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers.

This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over the all sales transactions of taxable items and combined transactions (as defines by the municipal internal regulation) taken place within municipal limits. The Municipal Sales Tax is also specifically imposed over the all purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return of the Municipality. Tax is due each 10<sup>th</sup> day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

**NOTE J - INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues in the General Fund are comprised of the following:

|   | <u>Amount</u>             |
|---|---------------------------|
| Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)                               | \$1,824,226               |
| Compensation from the Department of Treasury for the concept of the half-percent of the Christmas Bonus Payment | 143,403                   |
| Compensation from the Municipal Revenue Collection Center from the State subsidy and Lottery Fees               | <u>4,954,151</u>          |
| Total   | <u><u>\$6,921,780</u></u> |

## NOTE K - RETIREMENT PLAN

### 1. *Plan description*

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service.

Disability retirement benefits are available to members of occupational and non occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS.

The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. 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 up 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 a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program.

The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

### 2. *Funding policy*

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

**NOTE L - COMMITMENTS**

***Operating leases***

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Management believes that the summary of the future minimum rental commitments under non-cancelable equipment leases with terms exceeding one year is not significant.

**NOTE M – CONTINGENCIES**

**1. *Federal and State grants***

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

**2. *Judgments and legal claims***

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of one case settled subsequent to June 30, 2013 and a legal claim in which an unfavorable outcome is probable and a reasonable estimate of the amount was determined, and not to be covered by insurance, the Municipality accrued \$110,000 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

**3. *Committed Funds***

The Municipality has reported, outstanding encumbrances amounting to \$272,810 in the general fund at June 30, 2013. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into subsequent fiscal year.

**NOTE N – RESTATEMENT**

The beginning balance of net position and fund balance as of July 1, 2012 has been restated, as follows, to correct certain long-term debts balances in the debt service fund.

|   |                      |
|---|----------------------|
| Net position at beginning of year, as previously reported | \$ 19,986,049        |
| Adjustment to long-term debts balances                    | <u>548,937</u>       |
| Net position at beginning of year, as restated            | <u>\$ 20,534,986</u> |

#### **NOTE N – SUBSEQUENT EVENTS**

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through March 26, 2014, the date the financial statements were issued. Based on such analysis, management decided that no additional significant disclosure is necessary.

On May 29, 2013, the Government Development Bank of Puerto Rico (GDB) approved the issuance of \$340,000 general obligation bond to the Municipality for the acquisition of land. The loan was disbursed by the GDB on August 28, 2013.

**Commonwealth of Puerto Rico**  
**Municipality of Camuy**  
**Budgetary Comparison Schedule - General Fund**  
**(See Notes to Budgetary Comparison Schedule)**  
**June 30, 2013**

|  | Budgeted Amounts |              | Actual<br>amounts<br>(budgetary<br>basis)<br>(See Note 1) | Variance<br>with final<br>budget<br>over (under) |
|--|------------------|--------------|---|--|
|  | Original         | Final        |   |  |
| <b>Revenues:</b>   |                  |              |   |  |
| Property tax   | \$ 2,010,302     | \$ 2,010,302 | \$ 2,010,302  | \$ -   |
| Municipal license taxes  | 701,500          | 701,500      | 886,292   | 184,792  |
| Sales tax  | 1,000,000        | 1,000,000    | 1,058,308   | 58,308   |
| Licenses, permits and other local taxes  | 635,000          | 635,000      | 440,009   | (194,991)  |
| State and intergovernmental  | 6,735,780        | 6,735,780    | 6,921,780   | 186,000  |
| Rent of property   | 30,000           | 30,000       | 30,315  | 315  |
| Fines and forfeitures  | 5,000            | 5,000        | 11,378  | 6,378  |
| Interests  | 50,000           | 50,000       | 131,709   | 81,709   |
| Miscellaneous  | 492,228          | 492,228      | 72,912  | (419,316)  |
| Charge for services and other contributions  | 4,000            | 4,000        | 4,921   | 921  |
| Total revenues   | 11,663,810       | 11,663,810   | 11,567,926  | (95,884)   |
| <b>Expenditures:</b>   |                  |              |   |  |
| General government   | 5,817,731        | 6,084,058    | 6,047,494   | 36,564   |
| Culture and recreation   | 705,701          | 566,890      | 542,794   | 24,096   |
| Public safety  | 725,662          | 624,431      | 576,783   | 47,648   |
| Health   | 1,757,513        | 1,625,014    | 1,547,262   | 77,752   |
| Public works   | 2,657,203        | 2,763,417    | 2,724,208   | 39,209   |
| Total expenditures   | 11,663,810       | 11,663,810   | 11,438,541  | 225,269  |
| <b>Excess (Deficiency) of revenues over expenditures</b>   | <b>\$ -</b>      | <b>\$ -</b>  | <b>\$ 129,385</b>   | <b>\$ 129,385</b>                                |
| <b><u>Explanation of Differences:</u></b>  |                  |              |   |  |
| <b><u>Sources/in-flow of financial resources:</u></b>  |                  |              |   |  |
| Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule   |                  |              |   | \$ 11,567,926                                    |
| Adjustments to reconciled actual amounts per budgetary basis to amounts reported on the statement of revenues, expenditures and changes in fund balances - Transfer - in |                  |              |   | (37,110)   |
| Total Revenues as reported on the statement of revenues, expenditures and changes in fund balances   |                  |              |   | \$ 11,530,816                                    |
| <b><u>Uses/outflows of financial resources:</u></b>  |                  |              |   |  |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule  |                  |              |   | \$ 11,438,541                                    |
| Differences - budget basis to GAAP:  |                  |              |   |  |
| Current year encumbrances recognized this year for financial purposes  |                  |              |   | (272,810)  |
| Prior year encumbrances recognized this year for financial purposes  |                  |              |   | 251,685  |
| Total expenditures and other financial uses as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds                     |                  |              |   | \$ 11,417,416                                    |

The notes to the financial statement are an integral part of this statement

Commonwealth of Puerto Rico  
Municipality of Camuy  
SCHEDULE OF FEDERAL AWARD  
FOR THE YEAR ENDED JUNE 30, 2013

| Federal Grantor Pass/ Through<br>Grantor/Program Title   | CFDA<br>Number | Federal<br>Disbursements<br>Expenditures |
|--|----------------|--|
| <b>U.S. Department of Housing and Urban<br/>Development:</b>   |                |  |
| <b>Direct Programs</b>   |                |  |
| Housing Choice Voucher   | 14.871         | \$<br>810,178                            |
| Loan Guarantee - Section 108   | 14.248         | 7,888                                    |
| Emergency Shelter Grants (ESG)   | 14.231         | 8,107                                    |
| Housing Opportunities for Person with AIDS (HOPWA)<br>Homelessness Prevention and Rapid Re-Housing<br>Program (HPRP) | 14.241         | 13,948                                   |
|  | 14.262         | 11,655                                   |
| <b>Indirect Programs</b>   |                |  |
| Pass-Through Puerto Rico Office of Municipal<br>Affairs State Block Grant Programs (SBGP)                            | 14.228         | 1,408,695                                |
| Pass-Through The Puerto Rico Housing Department<br>Housing Rehabilitation Program                                    | 14.872         | <u>344,408</u>                           |
| Sub-Total HUD  |                | 2,604,879                                |
| <b>U.S. Department of Education:</b>   |                |  |
| <b>Direct Programs</b>   |                |  |
| Twenty First Century Community Learning Centers  | 84.287         | 432,100                                  |
| <b>U.S. Department of Homeland Security</b>  |                |  |
| <b>Direct Programs</b>   |                |  |
| Flood Mitigation Assistance  | 97.029         | 62,775                                   |
| <b>U.S. Department of Health and Human Services (HHS)</b>  |                |  |
| Passed through Administration of Families and<br>children-Child Care and Development Grant                           | 93.575         | 405,915                                  |

Commonwealth of Puerto Rico  
Municipality of Camuy  
SCHEDULE OF FEDERAL AWARD  
FOR THE YEAR ENDED JUNE 30, 2013

|  |        |                         |
|--|--------|-------------------------|
| <b>U.S. Department of Energy Office of Energy Efficiency &amp; Renew Forrestral Building</b> |        |                         |
| <b>Direct Programs</b>   |        |                         |
| Energy Efficiency and Conservation Block Grant   |        |                         |
| Program (EECBG)  | 81.128 | 147,067                 |
| <b>U.S. Department of Agriculture</b>  |        |                         |
| Passed through Education Department  |        |                         |
| Child and Adult Care Food Programs   | 10.558 | 111,146                 |
| <b>U.S. Department of Justice</b>  |        |                         |
| <b>Direct Programs</b>   |        |                         |
| Edward Byrne Memorial Justice Assistance Grant (JAC Program)                                 | 16.803 | 99,950                  |
| <b>U.S. Department of Agriculture</b>  |        |                         |
| <b>Direct Programs OR INDIRECT PASS TROUGH...</b>  |        |                         |
| USDA   | 10.253 | 87,280                  |
| <b>U.S. Department of Transportation</b>   |        |                         |
| Passed through   |        |                         |
| Formula Grants for Other Than Urbanized Areas  | 20.509 | <u>112,349</u>          |
| <b>TOTAL</b>   |        | <u>\$<br/>4,063,461</u> |

# ***Gil Alberto Ortiz Cabrera***

***Certified Public Accountants & Professional Consultants***

*Members of: The American Institute of Certified Public  
Accountants (AICPA)  
Puerto Rico Board of Certified Public  
Accountants*

## **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**

**Honorable Major and Members**

**of the Municipal Assembly**

**Municipality of Camuy**

**Camuy, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Camuy, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Municipality of Camuy's basic financial statements, and have issued our report thereon dated March 26, 2014

### **Internal Control over Financial Reporting<sup>9</sup>**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

CPA Gil Alberto Ortiz Cabrera

License 1332

Stamp # 2671147 was affixed

to the original report.

San Juan, Puerto Rico

March 26, 2014

---

---

***Gil Alberto Ortiz Cabrera***

***Certified Public Accountants & Professional Consultants***

*Members of: The American Institute of Certified Public Accountants (AICPA)  
Puerto Rico Board of Certified Public Accountants*

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

**Honorable Major and Members**

**of the Municipal Assembly**

**Municipality of Camuy**

**Camuy, Puerto Rico**

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

We have audited Municipality of Camuy's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of [Name of Governmental Entity or Nonprofit Organization] 's major federal programs for the year ended June 30, 2013. Municipality of Camuy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

---

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

### ***Opinion on Each Major Federal Program***

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

### ***Other Matters***

The results of our auditing procedures disclosed 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. Our opinion on each major federal program is not modified with respect to these matters.

Municipality of Camuy's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality of Camuy's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

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

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

---

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CPA Gil Alberto Ortiz Cabrera

License 1332

Stamp # 2671148 was affixed

to the original report.

San Juan, Puerto Rico

March 26, 2014

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF CAMUY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statement

- a. Type of auditor's report issued: Unqualified
- b. Internal Control over financial reporting:
- Material weakness (es) identified? \_\_\_ Yes \_\_\_ X No
  - Significant deficiency (ies) identified that is (are) not considered to be material weakness (es)? \_\_\_ Yes \_\_\_ X No
- c. Material noncompliance to financial statements noted? \_\_\_ Yes \_\_\_ X No

Federal Awards

- a. Internal Control over major programs:
- Material weakness (es) identified? \_\_\_ Yes \_\_\_ X No
  - Significant deficiency (ies) identified that is (are) not considered to be material weakness (es)? \_\_\_ Yes \_\_\_ X No
- b. Type of auditor's report issued on compliance for major programs: Unqualified
- c. Any audit findings disclosed that are required to be reported in accordance of Circular A-133? \_\_\_ Yes \_\_\_ X No

d. The programs tested as major program are:

| <u>CFDA Numbers</u> | <u>Name of Federal Program of Cluster</u>              |
|---------------------|--|
| 93.575              | Child Care and Development Grant                       |
| 81.128              | Energy Efficiency and Conservation Block Grant Program |
| 81.287              | Twenty-First Century Community Learning Centers        |

- e. The threshold for distinguishing Type A and B programs was \$300,000.
- f. Municipality qualifies as low risk auditee? \_\_\_ X \_\_\_ Yes \_\_\_ No

---

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAMUY  
CURRENT YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION II – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Our audit of revealed that the Municipality of Camuy has maintained an effective system of internal control over compliance with requirements of law, regulations, contracts and grants applicable to federal programs. No Federal Award Findings and Questioned Costs were detected during the audit.

---

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAMUY  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION II – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

There are no prior year findings pending to be corrected.