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

MUNICIPIO DE CATAÑO
AUDITORÍA 2012-2013

30 DE JUNIO DE 2013

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CATAÑO

FINANCIAL STATEMENTS

JUNE 30, 2013

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
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Fiscal Year Ended June 30, 2013

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INDEPENDENT AUDITOR REPORT

To the Honorable Mayor and the
Municipal's Assembly Members
Municipality of Cataño
Cataño, Puerto Rico

Report on the Financial Statements

We have audited the accompanying 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 Cataño, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor consider 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 Cataño as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof 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 Unites States of America require that the management's discussion and analysis on pages 4 to 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Cataño basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and is derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2014 on our consideration of the Municipality of Cataño internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Municipality of Cataño internal control over financial reporting and compliance.

Ramón L. Marrero
Certified Public Accountants
March 26, 2014

Stamp # 2698919 was affixed to the original of this report.

RAMON L. MARRERO
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

This discussion and analysis of the Municipality of Cataño (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2013. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2012. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provides for an evaluation of its financial condition as of the end of fiscal year 2012-2013 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2013 deserve special mention:

1. Total assets of the Municipality amounted to $151,528,488 which represents an increase of 5% compared to prior fiscal year.
2. At the end of fiscal year 2013, total liabilities amounted to $82,201,227. Out of said amount, $51,259,729 corresponded to long-term liabilities of which $43,623,000 represented the outstanding balance of bonds and notes issued (current portion of $4,045,000 not included). The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues.
3. Total net position of the Municipality amounted to $69,234,343 which represents an increase of 5% compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to $49,483,717, derived from the following sources: $395,111 from charges for services; and $3,233,022 from operating grants and contributions; and $637,947 from capital grants and contributions; and $45,217,637 from general revenues available.

FINANCIAL HIGHLIGHTS (CONTINUED)

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to $45,707,538, a decrease of 8% compared with previous year.

6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Position figure by $3,776,179.

7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund deficit of $6,747,630.

8. In the fund financial statements, the governmental activities revenue increased $1,691,017 (or 3%); governmental activities expenditures increased $32,346 (less than 1% of increase).

9. As the end of the current fiscal year, the Municipality's general fund deficit amounted to ($13,967,630) compared to a fund deficit of ($11,320,761) in the prior fiscal year.

10. The actual General Fund budgetary activities resulted in an unfavorable balance of ($2,619,354).

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2013. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Position reflects information of the Municipality as a whole on a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new 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.

GOVERNMEMENT – WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Position presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

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

FUND FINANCIAL STATEMENTS

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

FUND FINANCIAL STATEMENTS (CONTINUED)

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide 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 (the modified approach) which periodically (at least every third year), by category, measures and demonstrated 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.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

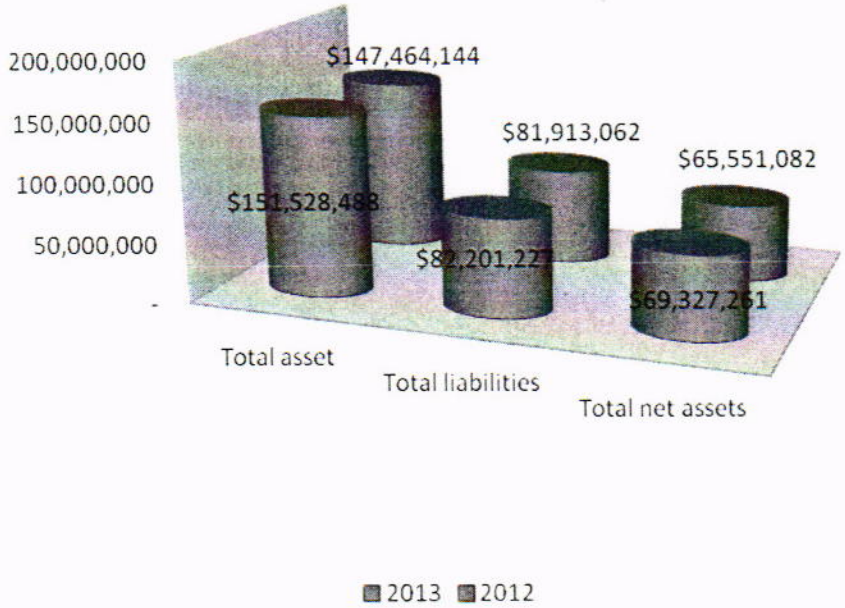
Net Position

The Statement of Net Position serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Cataño, primary government assets exceeded total liabilities by $69,327,261 at the end of 2013, as compared with $65,551,082 which reflect an increase of $3,776,179 over previous fiscal year. The following condensed Statement of Net Position of the Primary Government shows on a

comparative basis the most important components of the $3,776,179 increase reflected in the Net Position figure.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net Position	2013	2012	Increase (Decrease)	%
Current and other assets	$ 22,411,725	$ 24,046,657	($ 1,634,932)	(7%)
Capital assets	129,116,763	123,417,487	5,699,276	5%
Total assets	151,528,488	147,464,144	4,064,344	3%
Current and other liabilities	30,941,498	27,705,439	3,236,059	11%
Long-term liabilities	51,259,729	54,207,623	(2,947,894)	(5%)
Total liabilities	82,201,227	81,913,062	288,165	0.35%
Invested in capital assets, net of related debt	85,407,550	75,920,951	9,486,599	12%
Restricted	7,131,869	8,389,455	(1,257,586)	(15%)
Unrestricted deficit	(23,212,158)	(18,759,324)	4,452,834	23%
Total net position	$ 69,327,261	$ 65,551,082	$ 3,776,179	5%



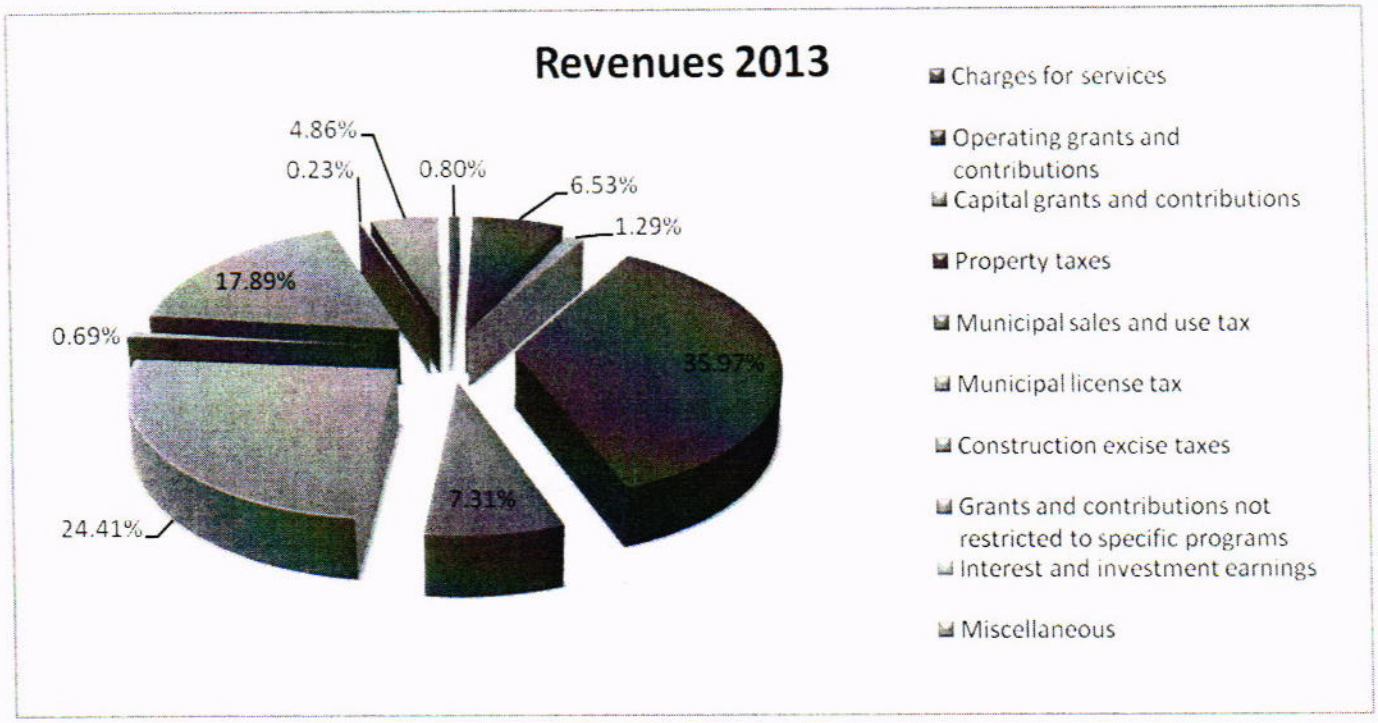
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

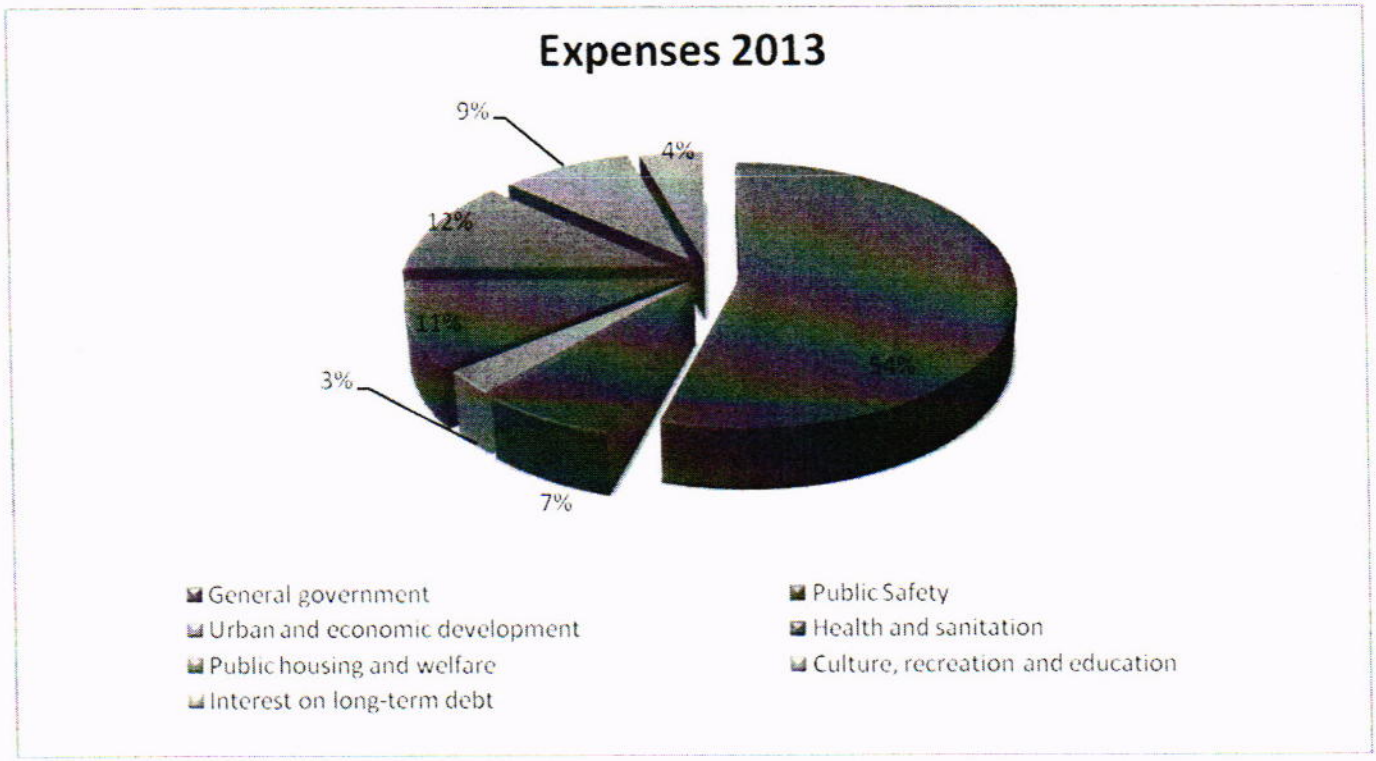
Changes in Net Position

The Municipality's net position increased by $3,776,179. Approximately sixty seven percent (67%) of the Municipality's total revenue came from taxes, while twenty five (25%) resulted from grants and contributions, including federal aid. Charges for Services provided less than one percent (1%), Interest and Investment earnings less than one percent (1%) and miscellaneous four percent (4%) of total revenues. The Municipality's largest expenses included items such as general government, health and sanitation services, public housing and welfare, culture, recreation and education and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2013 and 2012. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

Condensed Statement of Activities	2013	2012	Increase (Decrease)	%
Program revenues:				
Charges for services	$ 395,111	$ 319,220	$ 75,891	24%
Operating grants and contributions	3,233,022	2,051,943	1,181,079	58%
Capital grants and contributions	637,947	-		
General revenues:				
Property taxes	17,801,639	18,209,065	(407,426)	(2%)
Municipal license tax	12,080,619	11,598,728	481,891	4%
Municipal sales and use tax	3,617,977	4,469,537	(851,560)	(19%)
Construction excise tax	342,844	877,248	(534,404)	(61%)
Grants and contributions not restricted to specific programs	8,853,195	7,775,841	1,077,354	14%
Interest and investment earnings	115,536	146,027	(30,491)	(21%)
Miscellaneous	2,405,827	2,345,091	60,736	3%
Total revenues	49,483,717	47,792,700	1,691,017	4%
Expenses:				
General government	24,905,155	22,176,102	2,729,053	12%
Public safety	3,240,771	2,961,504	279,267	9%
Urban and economic development	1,316,584	10,418,675	(9,102,091)	(87%)
Health and sanitation	4,801,292	5,433,136	(631,844)	(12%)
Public housing and welfare	5,350,566	2,128,031	3,222,535	151%
Culture, recreation and education	4,101,896	4,578,386	(476,490)	(10%)
Interest on long term debt	1,991,274	2,436,018	(444,744)	(18%)
Total expenses	45,707,538	50,131,852	(4,424,314)	(8%)
Change in net position	3,776,179	(2,339,152)	6,115,331	261%
Net position, beginning of year	65,551,082	$ 67,890,234	(2,339,152)	(3%)
Net position, end of year	$ 69,327,261	$ 65,551,082	$ 3,776,179	5%

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)





FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted 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 balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund deficit amounting to $6,747,630, which represents a decrease of $4,446,545 when compared with the prior year. There are reservations of fund balance amounting to $7,345,000. Out of the indicated balance, $125,000 were classified as nonspendable. The combined fund balance also includes restricted fund balance amounting to $7,131,869. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes ($374,809), 2) to pay for capital projects ($5,730,101), 3), to pay debt services ($1,026,959). There are committed fund balance amounting to $88,131 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions, the $88,131 are completely to pay for specific programs purpose.

As of June 30, 2013, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of ($14,092,630).

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2012-2013, the Municipal Legislature does not approved revisions to the operational budget which. The resulted carryback represents the discrepancies between the executive and legislative branches. Despite these budgets readjustments, and as reflected in the Budgetary Comparison Schedule- General Fund, attached hereto, the net result of operating revenues and current expenditures produced a deficit of $(2,619,354).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2013, amounted to $198,627,009 which upon deduction of accumulated depreciation in the amount of $69,596,459 produced a net book value attributable to capital assets in the amount of $129,030,550. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. Depreciation charges for the year totaled $5,034,845.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2013, the Municipality has $5,885,077 of proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the Capital Project Fund- Local, State and Federal Grants.

Debt Administration

The Puerto Rico Legislative Assembly has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act requires a Municipality must has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a 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. In the particular case of the Municipality of Cataño, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2012-2013.

FINAL COMMENTS

On February 4, 2014, the Municipal Legislature approved the issuance of a special obligation bond for the amount of $3,415,000, for the payment of bonds and for construction and improvements. Repayment of said bond is scheduled from July 2014 through July, 2038.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

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

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	$ 6,013,280
Cash with fiscal agent	9,949,915
Accounts receivable:	
Property taxes	6,113,291
Intergovernmental grants and contributions	47,059
Federal grants	148,715
Due from other governmental entities	14,465
Inventories and other assets	125,000
Total current assets	22,411,725
Noncurrent assets:	
Capital assets, net of depreciation	129,030,550
Deferred charges, net of accumulated amortization	86,213
Total noncurrent assets	129,116,763
Total assets	$ 151,528,488
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	9,677,171
Due to other governmental entities	3,994,566
Deferred revenues:	
Municipal license tax	8,994,073
Federal grant revenues	332,055
Matured interest due and payable	2,116,490
Current portion of long-term obligations	5,827,143
Total current liabilities	30,941,498
Noncurrent liabilities (excluding current portion):	
Bonds payable	38,910,000
Notes payable	4,713,000
Compensated absences	5,229,707
Due to other governmetal entities	8,234,165
Less: Amount reported as current portion	(5,827,143)
Total noncurrent liabilities	51,259,729
Total liabilities	82,201,227
Net Position	
Invested in capital assets, net of related debt	85,407,550
Restricted for:	
Capital projects	5,730,101
Debt service	1,026,959
Federal and state funded programs	374,809
Unrestricted (deficit)	(23,212,158)
Total net position	$ 69,327,261

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

Commonwealth of Puerto Rico
Municipality of Cataño
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
General government	24,905,155	$ 364,480	$ 1,778,162	$ -	$ (22,762,513)
Public safety	3,240,771	30,631	193,981		(3,016,159)
Urban and economic development	1,316,584		258,642	637,947	(419,995)
Health and sanitation	4,801,292		937,577		(3,863,715)
Public housing and welfare	5,350,566				(5,350,566)
Culture,recreation and education	4,101,896		64,660		(4,037,236)
Interest on long-term debt	1,991,274				(1,991,274)
Total governmental activities	$ 45,707,538	$ 395,111	$ 3,233,022	$ 637,947	$ (41,441,458)

General revenues:	
Property taxes	17,801,639
Municipal license tax	12,080,619
Municipal sales and use tax	3,617,977
Construction excise taxes	342,844
Grants and contributions not restricted to specific programs	8,853,195
Interest and investment earnings	115,536
Miscellaneous	2,405,827
Total general revenues	45,217,637
Change in net position	3,776,179
Net position - beginning	65,551,082
Net position - ending	$ 69,327,261

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

Commonwealth of Puerto Rico
Municipality of Cataño
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 3,529,746	$ -	$ 1,137,904	$ 1,345,630	$ 6,013,280
Cash with fiscal agent		3,986,315	5,885,077	78,523	9,949,915
Accounts receivable:					
Municipal license tax					-
Property taxes	2,911,157	3,202,134			6,113,291
Municipal sales and use taxes					-
Intergovernmental grants and contributions				47,059	47,059
Federal grants				148,715	148,715
Due from other funds	870,431			171,536	1,041,967
Due from other governmental entities	14,465				14,465
Inventories and other assets	125,000				125,000
Total assets	$ 7,450,799	$ 7,188,449	$ 7,022,981	$ 1,791,463	$ 23,453,692
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	$ 8,258,254	$ -	$ 1,292,880	$ 126,037	$ 9,677,171
Due to other governmental entities	3,994,566				3,994,566
Due to other funds	171,536			870,431	1,041,967
Deferred revenues:					
Municipal license tax	8,994,073				8,994,073
Federal grant revenues				332,055	332,055
Matured bonds due and payable		4,045,000			4,045,000
Matured interest due and payable		2,116,490			2,116,490
Total liabilities	21,418,429	6,161,490	1,292,880	1,328,523	30,201,322
Fund balances:					
Nonspendable	125,000				125,000
Restricted		1,026,959	5,730,101	374,809	7,131,869
Committed				88,131	88,131
Unassigned	(14,092,630)				(14,092,630)
Total fund balances	(13,967,630)	1,026,959	5,730,101	462,940	(6,747,630)
Total liabilities and fund balances	$ 7,450,799	$ 7,188,449	$ 7,022,981	$ 1,791,463	$ 23,453,692

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

Commonwealth of Puerto Rico
Municipality of Cataño
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	$ 11,923,019	$ 5,878,620	$ -		$ 17,801,639
Municipal sales and use tax	2,955,231	662,746			3,617,977
Municipal license taxes	12,080,619				12,080,619
Construction excise taxes	342,844				342,844
Intergovernmental grants and contributions	8,853,195		637,947	1,952,141	11,443,283
Interest	115,536				115,536
Fines and forfeitures	30,631				30,631
Charge for services	364,480				364,480
Federal grants				1,280,881	1,280,881
Miscellaneous	2,405,827				2,405,827
Total revenues	$ 39,071,382	$ 6,541,366	$ 637,947	$ 3,233,022	$ 49,483,717
Expenditures					
Current:					
General government	22,539,095				22,539,095
Public safety	2,916,329			179,267	3,095,596
Urban and economic development	6,566,554			2,993,216	9,559,770
Health and sanitation	4,500,275		47,380		4,547,655
Public housing and welfare	1,997,247		2,769,972	300,673	5,067,892
Culture, recreation and education	3,066,694			17,286	3,083,980
Debt service:					
Principal		4,045,000			4,045,000
Interest		1,991,274			1,991,274
Total expenditures	41,586,194	6,036,274	2,817,352	3,490,442	53,930,262
Excess (deficiency) of revenues over (under) expenditures	(2,514,812)	505,092	(2,179,405)	(257,420)	(4,446,545)
Other financing sources (uses)					
Transfers in	19,341		945,691	151,398	1,116,430
Transfers out	(151,398)	(1,716)	(868,858)	(94,458)	(1,116,430)
Total other financing sources (uses)	(132,057)	(1,716)	76,833	56,940	-
Net changes in fund balances	(2,646,869)	503,376	(2,102,572)	(200,480)	(4,446,545)
Fund balance beginning, as restated	(11,320,761)	523,583	7,832,673	663,420	(2,301,085)
Fund balance, ending	$ (13,967,630)	$ 1,026,959	$ 5,730,101	$ 462,940	$ (6,747,630)

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

Commonwealth of Puerto Rico
Municipality of Cataño
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
For the Year Ended June 30, 2013

Total Fund Balances - Governmental Funds		$ (6,747,630)
Amounts reported for Governmental Activities in the statement of Net Position are different because:		
Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	$ 47,068,212	
Depreciable Capital Assets	151,558,797	
Accumulated Depreciation	(69,596,459)	
Total Capital Assets		129,030,550
Debt issued by the Municipality has associated costs (debt issuance costs) that are paid from current available financial resources in the governmental funds. However, these costs are deferred in the statement of net assets and reported net of accumulated amortization.		86,213
Long term liabilities are not due in the current fiscal year, therefore, are not reported in the governmental funds, less current maturity which is considered in the governmental funds.		(53,041,872)
Total Net Position of governmental activities		$ 69,327,261

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

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

Net Change in Fund Balances - Total Governmental Funds	$ (4,446,545)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays ($11,453,193) exceed depreciation expense ($5,034,845).	6,418,348
Amortization of deferred charges reported in the statement of activities does not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds.	(24,323)
Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Position, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Change in Net Position.	(694,749)
Bonds and notes proceeds provide current financial resources to Governmental Funds. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Position.	3,763,000
Principal payment on General Obligation Bonds Payable due within one year was accumulated as payable on the Governmental Fund Financial Statements, and for Governmental Wide Fiancial Statement was included as part of Non-current liabilities. This is the amount by which the debt service principal payment for the next year exceed debts service principal payment recognized in Goverment Wide Statement of Net Position.	282,000
Some expenses, net, reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds, including the net change in accrued compensated absences in the current year.	(1,521,552)
Net changes in net position reported for governmental activities	$ 3,776,179

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Cataño (the Municipality) is a local municipal government constituted in 1927 in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991 .as amended, known as Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81). The Municipality is one of seventy eight municipalities legally separated from the Commonwealth's government.

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

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

A. Financial Reporting Model

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2013, in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States Of America (US GAAP).

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (I) government wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI, consisting of a Management's Discussion and Analysis (MD&A), is information presented along with, but separate from, Municipality's basic financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2013, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

Other supplementary information presented in this report for purposes of additional analysis consists of: (1) combining and individual non-major governmental fund financial statements, (2) budgetary comparison schedule - debt service fund, and (3) schedules of capital assets used in the operations of governmental funds, as listed in the accompanying table of contents.

The Municipality adopted the provisions of GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes accounting principles-related party transactions, going concern considerations, and subsequent events.

In fiscal year 2012, the Municipality adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB No. 54), which modified the interpretations of certain terms within the definition of special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The provisions of the GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, an amendment of Statements No. 14 and 34, were considered in the evaluation of the potential component units. This statement modifies certain requirements for inclusion of components units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government under certain circumstances.

The GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

In current year, the Municipality adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position establishing a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Municipality's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position".

The following is a summary of the significant accounting policies of the Municipality:

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASB Statement No. 14, as amended. The basic, but not the only criterion for including a potential component unit within the reporting entity is if a primary government is financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria, the Municipality does not have component units to include within its reporting entity.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

2. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

   The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

   Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Pursuant to the provisions set forth by GASB No. 54, the Municipality reported the following governmental funds in the accompanying GFFS:

   General Fund – is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund
other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Debt Service Fund –is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

Capital Project Funds – is a major governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

The other governmental funds of the Municipality account for grants and other resources whose use is restricted to a particular purpose.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports.

Consequently, all superfluous funds and some internal funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar internal funds have been combined into single funds in the accompanying fund financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The various capital improvement bond issues outstanding have been reported as a single major capital projects fund, the capital improvements bond fund. Numerous less significant capital project and special revenue funds have been combined into single non major capital project and special revenue funds, respectively. These funds are reported as supplementary information in the accompanying combining and individual non-major governmental fund financial statements.

Program-specific capital grants awarded by the Legislature of the Commonwealth of Puerto Rico have been combined into a single non major capital projects fund, the legislative joint resolutions fund.

The accompanying GFFS are accompanied by the following schedules required by GAAP: (1) the reconciliation of the balance sheet - governmental funds to the statement of net position, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances (deficits) - governmental funds to the statement of activities.

3. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.

4. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.

5. Notes to the budgetary comparison schedule-general fund.

The accompanying statement of activities presents the Municipality's results of operations by showing how the Municipality's net position changed during the fiscal year ended June 30, 2013, using a net (expense) revenue format.

This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in two broad categories: (1) program revenues and (2) general revenues.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities reports the following categories of program revenues for the fiscal year ended June 30, 2013:

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

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

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

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues.

Property taxes, municipal license taxes, municipal sales and use taxes and construction excise taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses. The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality.

Even though some of these costs have been charged to certain funds in the GFFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

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

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

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

C. Governmental Fund Financial Statements

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund- Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds – Local, State and Federal Grants - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities

Other Governmental Funds – The other governmental funds are non-major governmental funds used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes.

D. Measurement focus, basis of accounting and financial presentation

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned (deferred) revenues.

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

Governmental fund financial statements- The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (60) days after June 30, 2013. At June 30, 2013, all revenues sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses, and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2013.

Pursuant to the provisions of GASB Interpretation No.6, *"Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements"* (GASBI. No. 6; in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below), the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources.

GASB No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet governmental funds generally reflect only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet governmental funds. At the same time, long-term liabilities (generally, those un matured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet governmental funds.

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

Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1, 2013, which are recorded as governmental fund liabilities at June 30, 2013 which is the date when resources were available in the debt service fund.

Notes payable, obligations under capital leases, compensated absences, and legal claims and judgments are recorded only when they mature (when payment is due).

Certain accounts payable intergovernmental payables and other accrued liabilities not due and payable (no matured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature. Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

E. Assets, liabilities and net position

1. Cash and cash equivalents, and cash with fiscal agent- The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

   Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

2. Receivables and payables- Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

   Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

   Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the General Fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

3. Inventories- Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net position.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Capital assets- Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than $25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

   The cost 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.

   Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

Description	Useful Life
Land improvements	20 years
Buildings and site improvements	30 to 50 years
Infrastructure	20 to 50 years
Vehicles	8 years
Furniture and fixtures	5 to 20 years
Machinery and equipment	3 to 5 years

5. Deferred revenues – In the GFFS, deferred revenues arises when one of the following situations occur:

   a. Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2013 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.

   b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Long-term obligations- The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities and landfill closure and post closure care costs.

   In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

   Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables, issued by the Accounting Principles Board* (APB No. 21).

   According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net position, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses during the current period.

7. Compensated absences- Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

8. Claims and judgments- The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.

9. Fund balances- In fiscal year 2012, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered restricted, committed, assigned, and unassigned, based on the relative strength of the constrains that control how specific amounts can be spent, as described as follows:

a. *Nonspendable – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.*

b. *Restricted* – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

c. *Committed* – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.

d. *Unassigned* – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2013.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources.

Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

10. Net Position

Net Position has been reported pursuant to the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Net Position represents the difference between all assets plus deferred outflows of resources and all liabilities plus deferred inflows of resources. The Net Position consists of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net position for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net position identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Internally imposed designation of resources, including earmarking, are not reported as restricted net position. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

In the government-wide statements, net position is segregated into three categories:

a. Net Investment in capital assets: Represent the component of the net position that consist of capital asset balances net of accumulated depreciation and amortization reduced by the 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 assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

b. Restricted net position: Represents the component of the net position that is subject to restrictions beyond the Municipal'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).

c. Unrestricted net position: Represents the component of the net position that do not meet the definition of net position 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 Position.

11. Accounting for Pension Costs- On July 1, 2007, the Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No. 27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the purpose of applying the requirements of GASBS No. 27, the state Government of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing define benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate.

The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government of Puerto Rico.

12. Interfund and intra-entity transactions- The Municipality has the following types of transactions among funds:

a. Operating Transfers- Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
b. Intra-Entity Transactions- Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

13. Risk financing

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2013 to $666,844. The current insurance policies have not been cancelled or terminated.

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

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2013 amounted to $595,139.

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

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

14. Use of Estimates

The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual amounts could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

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

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2013, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2013, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of $250,000 per depositor.

In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013. Therefore, the Municipality's management has concluded that at June 30, 2013 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant.

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2013.

Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

	Major Governmental Funds				
Description	General Fund	Debt Service Fund	Capital Improvement Bond Fund	Other Governmental Funds	Total
Cash and cash equivalents commercial banks	$ 3,529,746	$ -	$ 1,137,904	$ 1,345,630	$ 6,013,280
Cash with fiscal	-	3,986,315	5,885,077	78,523	9,949,291
Total carrying amount of deposits	$ 3,529,746	$ 3,986,315	$ 7,022,981	$ 1,791,463	$ 15,963,195

3. RECEIVABLES

a. *Property Taxes* – Property taxes receivable recorded in the general and debt service fund amounted to $2,911,157 and $3,202,134 respectively.

b. *Intergovernmental Receivables* - Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows:

Program Description:	Amount
Law No. 52	$ 34,751
OMEB (Information Network Infrastructure)	12,193
TAPI – ("Transportación Alterna Personas con Impedimentos")	115
Total	$ 47,059

c. *Federal Grants Receivable*- Federal grants receivable in other governmental funds represents expenditures incurred not yet reimbursed by the pass-through grantor.

3. RECEIVABLES (CONTINUED)

Following is a detail of the federal grants receivable:

Governmental Entity	Amount
Child Care - SENDEC	$ 112,505
Governor's Authorized Representative	23,820
American Recovery and Reinvestment Act - Child Care	3,850
Traffic Safety Commission	8,540
Total	$ 148,715

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2013 are summarized as follows:

a. Due from/to other fund:

Fund	Receivable Fund	Payable Fund
General Fund	$ 870,430	$ 171,536
Other Governmental Fund	171,536	870,430
Total	$ 1,041,966	$ 1,041,966

b. Transfer in/out to other fund

Following is a summary of interfund transfers for the year:

Transfer out	Transfer in	Purpose	Amount
Capital Projects Fund	Capital Projects Fund	Transfers funds to cover capital projects and improvements	$ 868,858
General Fund	Other Governmental Funds	Transfers funds to cover payroll and related expenses.	151,398
Debt Service Fund	General Fund	Transfers funds to cover operating expenses	1,716
Other Governmental Funds	Capital Projects Fund	Transfers funds to cover capital projects and improvements	76,833
Other Governmental Funds	General Fund	Transfers funds to cover operating expenses	17,625
Total			$ 1,116,430

5. CAPITAL ASSETS

Capital assets those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of $25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2012	Additions	Retirements/ Reclassifications	Balance June 30, 2013
Capital asset, not being depreciated:				
Construction in progress	$ 25,784,496	$ 9,677,759	$ (692,998)	$ 34,769,257
Land	12,298,955	-	-	12,298,955
Total capital assets not being depreciated	38,083,451	9,677,759	(692,998)	47,068,212
Capital assets, being depreciated:				
Buildings and building improvements	65,147,396	334,000		65,481,396
Infrastructure and Infrastructure improvements	73,694,791	722,694		74,417,485
Machinery, Equipment and furniture	5,884,225	463,545	(86,393)	6,261,377
Computers	531,711	123,895	(2,230)	653,376
Vehicles	5,097,749	131,300	(483,886)	4,745,163
Total capital assets being depreciated	150,355,872	1,775,434	(572,509)	151,558,797
Less accumulated depreciation for:				
Buildings and building improvements	(22,321,833)	(1,908,162)		(24,229,995)
Infrastructure and Infrastructure improvements	(32,617,411)	(2,567,149)		(35,184,560)
Machinery, Equipment and furniture	(5,167,763)	(297,410)	(85,280)	(5,379,893)
Computers	(246,882)	(119,300)	(1,593)	(364,589)
Vehicles	(4,778,483)	(142,824)	(483,885)	(4,437,422)
Total accumulated depreciation	(65,132,372)	(5,034,845)	(570,758)	(69,596,459)
Total capital assets being depreciated, net	85,223,500	(3,259,411)	(1,751)	81,962,338
Governmental activities capital assets, net	$123,306,951	$ 6,418,348	$ (694,749)	$129,030,550

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	Amount
General government	$ 2,039,774
Public safety	36,365
Urban and economic development	1,828,747
Health and sanitation	38,505
Public housing and welfare	71,953
Culture, recreation and education	1,019,501
Total depreciation expense-governmental activities	$ 5,034,845

6. MUNICIPAL LICENSE TAX

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of $3,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2013, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues.

7. PROPERTY TAXES

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the Municipal Revenue Collection Center (CRIM), a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

7. PROPERTY TAXES (CONTINUED)

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections, as modified by the quarterly revisions of estimates required law. The CRIM is required by law to prepare a liquidation statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its Independent Auditors. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the final liquidation noting that the collections exceeded advances by $196,401.

On January 26, 2000, Public Law No. 42 was enacted, which authorized the CRIM to obtain a loan up to $200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000.

The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico 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, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

7. PROPERTY TAXES (CONTINUED)

On June 26 1997, Public Law No. 21 was enacted, which authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables.

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

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (lien; levy date) and reporting such taxable value through a personal property tax return filed on May 15 (due date and collection date) subsequent to the assessment date. The total personal property tax rate in force at June 30, 2013 was 6.83 percent (of which taxpayers pay 6.63 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed every January 1 (lien; levy date) and are based on estimated current values of the property, deflated to 1957 market prices. Real property taxes are due and collectible on January 1 and July of every fiscal year. The total real property tax rate in force at June 30, 2013 was 8.83 percent (of which 8.63 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first $15,000 of the assessed value (at 1957 market prices).

For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively), except for property assessed for less than $3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

7. PROPERTY TAXES (CONTINUED)

Included within the total personal and real property tax rates of 6.83 percent and 8.83 percent, respectively, there is a portion of the tax rate in the amount of 1.40 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

Property tax revenues in the general and debt service funds amounted to $11,923,019 and $5,878,620, respectively, for the fiscal year ended June 30, 2013.

8. MUNICIPAL SALES AND USE TAX

The Municipality imposes a sales and use tax pursuant to the provisions of the Puerto Rico Internal Revenue Code, as amended. The tax consists of one percent (1.0%) on the sales price of taxable items or on the purchase prices of all usage, storage, or consumption of taxable items, excluding wholesales. The sales and use tax is a self-assessed tax collected by the Municipality through monthly tax returns due on the twentieth day of the immediate following month. The tax returns are filed by the respective businesses that are required by law to withhold the tax from consumers on each taxable product or service.

Sales and use tax revenues in the general fund amounted to $2,955,231 for the fiscal year ended June 30, 2013.

The Commonwealth of Puerto Rico imposes a separate state sales and use tax of 0.5%, which is imposed and collected by the Puerto Rico Treasury Department (PRTD) through monthly tax returns due on the twentieth day of the immediate following month. This 0.5% tax is administered by the Government Development Bank for Puerto Rico for the following purposes: (1) 0.2% is deposited in the new "Municipal Debt Service Fund", strictly for granting loans to the municipalities of Puerto Rico, (2) 0.2%. for the creation of the "Municipal Development Fund" % which will be distributed among all municipalities pursuant to a statutory formula, and (3) 0.1 % for the creation of the "Permanent Improvements Fund", to be distributed by the Legislature of the Commonwealth of Puerto Rico to carry out public works and permanent improvement projects in the municipalities of Puerto Rico.

Accordingly, during the fiscal year ended June 30, 2013, the Municipality recorded municipal sales and sales tax revenues in the debt service fund amounting to $662,746, which represents the contributions collected from PRTD arising from the 0.2% portion of the state sales tax to be used to cover future debt service payments of the Municipality's bonds.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013 are summarized as follows:

Description	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Fund	Total
Accounts payable	$ 7,412,483	$ -	$ 1,292,880	$ 126,037	$ 8,831,400
Accrued liabilities	845,771	-	-	-	845,771
Total	$ 8,258,255	$ -	$ 1,292,880	$ 126,037	$ 9,677,171

10. DUE TO OTHER GOVERNMENTAL ENTITIES

The amounts due to other governmental entities in the general fund include the following:

Governmental Entity	Amount
General Services Administration	$ 1,000
Retirement System Administration	669,231
Puerto Rico Aqueduct and Sewer Authority	100,758
Department of Labor-Unemployment Program	90,641
Internal Revenue Service	92,918
Puerto Rico Treasury Department	2,839,057
Commonwealth of Puerto Rico Employee Association	200,961
Total	$ 3,994,566

11. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of $8,994,073 in the general fund relates to municipal license tax collected in fiscal year 2012-13 that will be earned in fiscal year 2013-14.

B. Federal Grants- The deferred revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

Program Description	Amount
Federal Program	$ 108,024
Food Program	193,789
Even Start	24,159
Community Service Block Grant	3,777
Child Care (SENDEC)	2,306
Total	$ 332,055

12. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2013, was as follows:

Description	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	$ 42,575,000	$ -	$ (3,665,000)	$ 38,910,000	$3,940,000
Notes Payable	4,811,000	-	(98,000)	4,713,000	105,000
Property tax debt	611,051		(410,745)	200,306	69,999
Advances from CRIM – Law No. 42	5,952,488	-	(156,953)	5,795,535	166,814
Puerto Rico Aqueduct and Sewer Authority repayment plan		2,238,324		2,238,324	895,330
Compensated Absences	5,378,781	464,937	(614,011)	5,229,707	650,000
Total	$59,328,320	$2,703,261	$(4,944,709)	$57,086,872	$5,827,143

1. Legal Debt Margin- The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.

12. LONG-TERM LIABILITIES (CONTINUED)

2. Bonds and notes payable- The Municipality issues general and special obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. Bonds and notes payable outstanding at June 30, 2013 are as follows:

Description	Balance at June 30, 2013
1995 Public improvements bond for the construction of a capital asset with an original amount of $14,520,000 due in installments of $315,000 to $1,370,000 through July 1, 2014, with interest ranging from 6.11% to 7.71%	$ 2,640,000
1998 General obligation bond for infrastructure construction with an original amount of $18,825,000 due in installments of $260,000 to $1,635,000 through July 1, 2022, with interest ranging from 4.86% to 8.00%	11,830,000
2000 General obligation bond for construction or acquisition of capital assets with an original amount of $11,850,000 due in installments of $315,000 to $1,170,000 through July 1, 2018, with interest ranging from 2.70% to 6.13%	5,845,000
2001 General obligation bond for construction or acquisition of capital assets with an original amount of $7,240,000 due in installments of $195,000 to $715,000 through July 1, 2019, with interest ranging from 2.70% to 5.19%	4,020,000
2004 General obligation bond for construction or acquisition of capital assets with an original amount of $10,450,000 due in installments of $315,000 to $800,000 through July 1, 2024, with interest ranging from 4.17% to 5.28%	7,430,000
2008 Special obligation note for construction or acquisition of capital assets with an original amount of $5,067,000 due in installments of $79,000 to $407,000 through July 1, 2033, with interest ranging from 1.53% to 7.00%	4,713,000
2009 General obligation bond for operational expenses with an original amount of $7,405,000 due in installments of $125,000 to $610,000 through July 1, 2034, with interest ranging from 5.00% to 7.00%	7,145,000
Total	$ 43,623,000

These bonds are payable from the special ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

The special obligation note of $5,067,000 for the construction of various projects, due annual principal installments ranging from $79,000 to $407,000, plus interest due in semiannual installments at variable rates (1.5% to 7.0%) through July 1, 2033. This note is payable with the revenues generated from the collection of the .03% of the municipal sales and use tax imposed by the Municipality and collected by the Puerto Rico Treasury Department.

12. LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for bonds and notes payable are as follows:

Year Ending June 30,	Principal	Interest
2014	$ 4,045,000	$ 2,116,490
2015	4,352,000	2,259,529
2016	3,210,000	2,040,855
2017	3,454,000	1,859,655
2018	3,710,000	1,662,057
2019-2023	14,905,000	5,457,632
2024-2028	4,390,000	2,550,810
2029-2033	3,975,000	1,287,125
2034-2036	1,582,000	98,250
Total	$ 43,623,000	$ 19,332,403

3. Puerto Rico Aqueduct and Sewer Authority repayment plan- During the fiscal year 2012-203 the Municipality entered into a financing agreement with the Puerto Rico Aqueduct and Sewer for the payment of the Municipality's debt for water service billed. The balance at June 30, 2013 of this agreement was $2,238,324.

4. Property Taxes Debts- These amounts represents the balance owned to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2013 as described in Note 7.

5. Advances from CRIM- This amount represents the balance owed to the CRIM at June 30, 2013 will be repaid through a financing obtained by the CRIM with GDB.

6. Compensated Absences- The government-wide statement of net position includes approximately $3,421,278 of accrued sick leave benefits, and approximately $1,808,429 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

13. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plans sponsored by,

13. PENSION PLAN (CONTINUED)

and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service, members who have attained 58 years of age and have completed ten years of creditable service or policemen and firemen members who have attained 50 years of age and have completed at least 25 years of creditable service, are entitled to an annual benefit payable monthly for life.

Members are eligible for monthly benefit payments determined by the application of the 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 member is eligible, is limited to a minimum of $300 per month and a maximum of 75 percent of the average compensation.

Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total Municipality contributions during the year ended June 30, 2013 amounted to approximately $995,864 this amount represented 100% of the required contribution.

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age.

13. PENSION PLAN (CONTINUED)

The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to 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 ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

If at the time of retirement accumulated benefits amount to $10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

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

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to $6,600 8.275% of gross salary over $6,600
Hired on or before April 1, 1990	8.275% of gross salary

Annual Contribution

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

Fiscal year	Law No. 447	System 2000
2013	$ 481,830	$ 514,034
2012	$ 555,608	$ 592,887
2011	$ 653,958	$ 649,239

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special

13. PENSION PLAN (CONTINUED)

laws and cost of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2013, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

14. RISK MANAGEMENT

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2013:

a. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*). The requirements of this statement are effective for periods beginning after December 15, 2012.

b. GASB Statement No. 66, *Technical corrections-2012 – an amendment of GASB Statements No. 10 and No.62*. The requirements of this statement are effective for periods beginning after December 15, 2012.

c. GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The requirements of this statement are effective for periods beginning after June 15, 2013.

d. GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The requirements of this statement are effective for periods beginning after June 15, 2014.

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

16. FUND BALANCE (DEFICIT)

As of June 30 2013, fund balance (deficit) is comprised of the following:

Fund Balance (Deficit)	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Inventories	$ 125,000	$ -	$ -	$ -	$ 125,000
Restricted for					
General Government				130,827	130,827
Culture, Recreation and Education			225,630	95,901	321,531
Health and Sanitation			18,238	2,093	20,331
Urban and Economic Development			5,486,233	5,108	5,491,341
Public Housing and Welfare				19,544	19,544
Public Safety				121,336	121,336
Debt Service		1,026,959			1,026,959
Committed:					
General Government				11,186	11,186
Culture, Recreation and Education				8,250	8,250
Health and Sanitation				13,500	13,500
Urban and Economic Development				875	875
Public Housing and Welfare				54,320	54,320
Public Safety					
Unassigned	(14,092,630)				(14,092,630)
Total Fund Balance (Deficit)	$ (13,967,630)	$ 1,026,959	$ 5,730,101	$ 462,940	$ (6,747,630)

17. COMMITMENTS AND CONTINGENCIES

A. Federal Grants:

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2013, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, not to be material.

B. Claims and lawsuits:

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying basic financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

18. SUBSEQUENT EVENTS

On February 4, 2014, the Municipal Legislature approved the issuance of a special obligation bond for the amount of $3,415,000, for the payment of bonds and for construction and improvements. Repayment of said bond is scheduled from July 2014 through July, 2038.

19. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

19. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

Description	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total
Fund balance beginning	$(11,320,761)	$ 523,583	$ 7,797,720	$ 698,373	$ (2,301,085)
Fund balance reclassification	-	-	34,953	(34,953)	-
Fund balance, beginning as restated	$(11,320,761)	$ 523,583	$ 7,832,673	$ 663,420	$ (2,301,085)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2013

	Budgeted Amount		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	$ 16,922,718	$ 16,922,718	$ 17,200,347	$ 277,629
Municipal license tax	18,000,000	18,000,000	11,400,136	(6,599,864)
Licenses, permits and other local taxes	1,120,600	1,120,600	348,580	(722,020)
Sales and use tax	4,011,500	4,011,500	2,955,232	(1,056,268)
Charges for services	1,700,500	1,700,500	1,311,689	(388,811)
Intergovernmental grants and contributions	2,873,058	2,873,058	3,575,868	702,810
Interest on deposits and investments	45,000	45,000	65,378	20,378
Rent of property	311,386	311,386	340,313	28,927
Fines and forfeitures	75,000	75,000	30,632	(44,368)
Miscellaneous	1,090,000	1,090,000	952,410	(137,590)
Total revenues	46,149,762	46,149,762	38,180,585	(7,969,177)
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	24,581,756	24,809,281	21,879,787	2,929,494
Urban and economic development	7,396,776	7,046,082	6,340,277	705,805
Public safety	3,658,474	3,612,316	2,916,329	695,987
Health and sanitation	4,962,260	4,990,645	4,500,275	490,370
Culture, recreation and education	3,205,164	3,324,886	3,066,024	258,862
Public housing and welfare	2,097,332	2,182,070	1,997,247	184,823
Operating transfer to other funds	248,000	184,482	100,000	84,482
Total expenditures, encumbrances and other financing uses	$ 46,149,762	$ 46,149,762	$ 40,799,939	$ 5,349,823
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)			$ (2,619,354)	$ (2,619,354)

Explanation of Differences:

Sources/inflows of resources:	
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	$ 38,180,585
Differences-budget to GAAP:	
GAAP adjustments to revenues	890,797
Non-budgeted transfer in	19,341
Total revenues and other financing sources as reported on the statement of revenues, expenditures and changes in fund balance	$39,090,723
Uses/outflows of resources:	
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	$ 40,799,939
Differences-budget to GAAP:	
Non-budgeted transfer out	51,398
Non-budgeted expenditures	886,255
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	$ 41,737,592

NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2013

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund. For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558		$ 71,480
Total U.S. Department of Agriculture			71,480
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Emergency Shelter Grant Program	14.231		2,457
Pass-through the Office of the Commissioner for Municipal Affairs:			
Community Development Block Grant – State's Program	14.228	Not Available	1,469,110
Pass-through the Puerto Rico Family Department:			
Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257	Not Available	18,300
Total U.S. Department of Housing and Urban Development			1,489,867
U.S. DEPARTMENT OF TRANSPORTATION:			
Direct Program:			
Federal Transit – Formula Grants	20.507		74,266
Total U.S. Department of Transportation			74,266
U.S. ENVIRONMENTAL PROTECTION AGENCY:			
Direct Program:			
Brownfield Training, Research, and Technical Assistance Grants and Cooperative Agreement	66.814		16,601
Total U.S. Environmental Protection Agency			16,601
U.S. DEPARTMENT OF EDUCATION:			
Pass-through Puerto Rico Department of Education:			
Even Start – State Educational Agencies	84.213		34,127
Total U.S. Department of Education			34,127

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF ENERGY:			
Pass-through the Commonwealth of Puerto Rico Administration of Energy Affairs:			
Energy Efficiency Conservation Block Grant (Recovery Act Funded)	81.128	Not Available	3,000
Total U.S. Department of Energy:			3,000
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Puerto Rico Family Department:			
Child Care and Development Block Grant	93.575	Not Available	103,780
Total U.S. Department of Health and Human Services			103,780
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,793,121

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Cataño and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the funds financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Other Governmental Funds
Per Schedule of Expenditures of Federal Awards	$ 1,793,121
Non federal programs expenditures	1,697,321
Total expenditures in the basic financial statements	$ 3,490,442

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INDEPENDENT AUDITOR'S REPORT

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 FOR MUNICIPALITY OF CATAÑO

To the Honorable Mayor and the
Municipal's Assembly Members
Municipality of Cataño
Cataño, Puerto Rico

We have audited 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, the financial statements of the Municipality of Cataño as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Municipality of Cataño basic financial statements, and have issued our report thereon dated March 26, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. A deficiency in internal control exists when the design or

operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as item 13-FS-02.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Cataño 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 or our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 13-FS-03.

Municipality of Cataño Response to Findings

Municipality of Cataño response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Municipality of Cataño response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Ramón L. Marrero
Certified Public Accountants
March 26, 2014

Stamp # 2698920 was affixed to the original of this report.

Ramón L. Marrero Rosado
Certified Public Accountants & Consultants
P.O. Box 50764 Toa Baja, PR 00950-0764 Tel. (787)-269-6911 Fax: (787)-269-6915

INDEPENDENT AUDITOR'S REPORT

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

To the Honorable Mayor and the
Municipal's Assembly Members
Municipality of Cataño
Cataño, Puerto Rico

Report on Compliance for Each Major federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

examining, on a test basis, evidence about Municipality of Cataño compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Mayor Federal Programs

As described in findings13-04,13-05,13-06 and 13-07 in the accompanying schedule of findings and questioned costs, the Municipality did not comply with requirements regarding the following:

Finding #	CFDA #	Program(or Cluster) Name	Compliance Requirement
13-04	14.228	CDBG	Cash Management
13-05	93.575	Child Care	Cash Management
13-06	84.213	Even Start	Cash Management
13-07	10.558	Food Program	Cash Management

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

Qualified Opinion on Identified Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Municipality's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CDBG, Child Care, Even Start and Food Program for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Program

In our opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are describe in the accompanying schedule of findings and questioned costs as items 13-FS-01, 13-FS-02 and 13-FS-03.

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

Report on Internal Control Over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 13-FS-02.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 13-FS-01.

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

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.

Report on Schedule of Expenditure of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Municipality of Cataño as of and for the year ended June 30, 2013, and have issued our report thereon dated March 26, 2014, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ramón L. Marrero
Certified Public Accountants
March 26, 2014

Stamp # 2698921was affixed to original of this report.

Commonwealth of Puerto Rico
Municipality of Cataño
Schedule of Finding and Questioned Costs
June 30, 2013

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? _x_ yes __no
- Reportable condition(s) identified that are not considered to be material weaknesses _x_ yes __none reported
- Noncompliance material to financial statements noted? _x_ yes __no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? _x_ yes __no
- Reportable condition (s) identified that are not considered to be material weakness (es)? _x_ yes __none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510 9a) of Circular A-133? _x_ yes __no

Commonwealth of Puerto Rico
Municipality of Cataño
Schedule of Finding and Questioned Costs
June 30, 2013

Section I – Summary of Auditor's Results - Continued

Identification of major programs:

CFDA #	Name of Federal Programs or Cluster
14.228	CDBG
10.558	Child Care Food Program
84.213	Even Start
93.575	Child Care Development Block Grant
20.507	Federal Transit Formula Grants

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Auditee qualified as low-risk auditee? _yes _x_no

Section II Financial Statements Findings
Reportable Conditions
"Material Weaknesses"

13-FS-01 General Fund Deficit

Statement of Condition:
During the past fiscal years, municipal deficit presented in the general fund has been as follows:

Fiscal Years	Deficit Presented	Increase	Decrease
2008-2009	$ 5,385,935		$ 77,163
2009-2010	5,937,683	$ 551,748	
2010-2011	5,843,839		93,844
2011-2012	11,320,761	5,476,922	
2012-2013	13,967,630	2,646,869	

Cause of Condition:
When the municipal budget is presented for the fiscal year, for some budgetary items in the revenue section of the budget, the estimation of the actual revenue to be collected for the fiscal year is overstated, and therefore, the expenditure section of the budget will include more balance available for expenditures, since it is estimated revenue in excess of real collections later made during fiscal year. This is done even knowing that in prior fiscal years the collections for this budgetary items (mainly in the areas of license and permits and construction taxes) do not reach the original revenues estimated in the budget. Therefore, historical trend of collections and budget estimations are not considered when budget is prepared each year.

13-FS-01 General Fund Deficit (Continued)

Criteria:
Sound management requires proper estimation of balances for budgetary purposes. These balances should be based on facts and tendencies based on available documents and prior year experiences.

Effect of Condition:
Commitments and expenditures are made based on revenues that are not reasonably estimated for budget, creating an increase in the deficit. Also, Law #81 named municipal autonomous law of August 1991, requires that each year a portion of the budget be segregated to cover any budget deficit from prior fiscal years. If deficit continues to increase, the portion to be segregated each year will also increase, leaving less balance available to municipality for expenditures.

Recommendation:
To implement a more careful process of estimating this revenue items, based on historical trends of collections. Finance Department should apply a more careful process of estimation on those items. This estimation process should be documented, and used as a reference each fiscal year.

Auditee Response:
Management agrees with the finding and the recommendation, and established an account, setting aside a portion of the 2012-2013 budget, for prior years General Fund Deficit. Additionally, an increase in real and personal actual tax rate was approved during 2013 and the general fund operations budget for fiscal years beginning after June 30, 2014 will be prepared according to revenues reported in prior year operations and fully identified new income sources. Also, an economic incentive programs for new business, granted by the Municipality's legislature, is actually in effect.

13-FS-02 Unauthorized use of next fiscal year's municipal license revenue

Statement of Condition

Municipal license tax revenues for fiscal year 2013-2014, which were collected in advance from taxpayers between January 1 and June 30, 2013 (Know in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30, 2013. Such unearned municipal license tax revenues amounted to $8,994,073 and were related to the Volume of Business Declaration Returns for fiscal year 2013-2014 which were filed by taxpayers between January and June 2013.

Those unearned revenues collected in advance pertain to the general fund's operating budget for fiscal year 2013-2014, and should not be used to pay obligations of the fiscal year 2012-2013 and accordingly were not authorized by a municipal ordinance or resolution.

The foregoing condition is primarily due to the following reasons:

- During prior fiscal years, the general fund's expenditures have exceed its revenues consistently, which have lead the Municipality to also consistently consume in each fiscal year, the unearned municipal license revenues collected in advance for the next fiscal year.

- The Municipality does not prepare cash flows forecasts and projections to anticipate any cash flows shortage.

- The Municipality is appropriating expenditures assuming that budgeted revenues have been actually collected.

The continued occurrence of this situation may result in possible significant general fund limitations and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities. The aforementioned condition represent a material weakness in the Municipality's internal controls over financial reporting.

Criteria:

Article 8.004(b) of Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81) states that the Municipality cannot use or obligate any amount in a given fiscal year that exceeds the appropriations and the resources authorized by ordinance or resolution for such fiscal year. In addition, the Municipality cannot be committed, in any form, to any contract or negotiation for the future payment of amounts that exceed the current fiscal year's budgeted resources.

13-FS-02 Unauthorized use of next fiscal year's municipal license revenue (Continued)

Recommendation:
We recommend the Municipality to prepare cash flows forecasts and projections in accordance and compared with budgeted amounts to anticipate any cash flows shortages and to avoid using financial resources of future fiscal years to cover the operating needs of the current fiscal year.

Auditee Response:
Management is working over the condition, which is similar as in June 30, 2012 audit. New economic policies and programs has been initiated in order to provide more funds to Municipality's General Fund Operations which will minimize cash flows shortages. An increase in real and personal actual tax rate was approved during 2013 and the general fund operations budget for fiscal years beginning after June 30, 2014 will be prepared according to revenues reported in prior year operations and fully identified new income sources. Also, an economic incentive programs for new business, granted by the Municipality's legislature, is actually in effect.

13-FS-03 Due to Other Governmental Entities

Condition:
As more fully explained in Note 10 to the financial statements, at June 30, 2013 the Municipality has amounts outstanding with other public corporations or agencies of the Commonwealth of Puerto Rico amounting to $3,994,566, this amount represents amounts due for payroll withholdings, utilities, excise taxes and other related services.

Criteria:
Laws and regulations require that amounts due to other entities of the Commonwealth of Puerto Rico be settled in the normal course of operations. In addition, laws and regulations required that taxes withheld be paid as required.

Cause of Condition:
Cash flows problem has precluded the Municipality from making payments to reduce such liabilities, which in certain cases results in the accumulation of interest, and penalties.

13-FS-03 Due to Other Governmental Entities (Continued)

Effect of Condition:
The Municipality is not in compliance with applicable laws and regulations. In addition, the Municipality could be exposed to a significant amount of accumulated interest, and penalties on the accumulated debt.

Recommendation:
Management should look for financing alternatives to comply and pay these liabilities when due in accordance with laws and regulations in order to avoid the payment of interest and penalties.

Auditee Response:
Management accepted the condition and is working on a Corrective Plan toward the timely payment of these debts.

Section III Federal Awards Programs

Schedule of Findings and Questioned Costs

Commonwealth of Puerto Rico
Municipality of Cataño
Schedule of Finding and Questioned Costs
June 30, 2013

CDBG 13-SA-04 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA # 14. 228

Criteria:
Federal regulations require that grantees shall conform to the standards of timing and amounts as applicable to advances by federal agencies. Amounts requested should be limited to the program's immediate cash needs.

Condition:
The Municipality has not established effective cash management procedures.
Effect:
As part of my test, the program had an average cash balance of approximately $21,018.63 during the fiscal year. There were months which reported balances as high as $ 128,037.45.

Cause:
Cash balances remained high because usually the funds received during the month are expended during the following months.

Recommendation:
In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.

Auditee Response:
The Municipality of Cataño Federal Program Office is aware of all federal and local regulations. The accounting system implemented, at the Finance, and Federal Programs Offices of the Municipality provides for daily reconciliation of all funds, including checks deposits, and wire transfers from federal programs to the Municipality accounts, representing an effective tool to monitor the incomes of federal proceeds. During 2013 remained some system procedures and conditions that are been revised and or corrected.

Commonwealth of Puerto Rico
Municipality of Cataño
Schedule of Finding and Questioned Costs
June 30, 2013

Child Care 13-SA-05 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA # 93. 575

Criteria:
Federal regulations require that grantees shall conform to the standards of timing and amounts as applicable to advances by federal agencies. Amounts requested should be limited to the program's immediate cash needs.

Condition:
The Municipality has not established effective cash management procedures.

Effect:
As part of my test, the program had an average cash balance of approximately $6,541.22 during the fiscal year. There were months which reported balances as high as $9,085.42.

Cause:
Cash balances remained high because usually the funds received during the month are expended during the following months.

Recommendation:
In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.

Auditee Response:
The Municipality of Cataño Federal Program Office is aware of all federal and local regulations. The accounting system implemented, at the Finance, and Federal Programs Offices of the Municipality provides for daily reconciliation of all funds, including checks deposits, and wire transfers from federal programs to the Municipality accounts, representing an effective tool to monitor the incomes of federal proceeds. During 2013 remained some system procedures and conditions that are been revised and or corrected.

Commonwealth of Puerto Rico
Municipality of Cataño
Schedule of Finding and Questioned Costs
June 30, 2013

Even Start 13-SA-06 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA #84. 213

Criteria:
Federal regulations require that grantees shall conform to the standards of timing and amounts as applicable to advances by federal agencies. Amounts requested should be limited to the program's immediate cash needs.

Condition:
The Municipality has not established effective cash management procedures.

Effect:
As part of my test, the program had an average cash balance of approximately $14,321.55 during the fiscal year. There were months which reported balances as high as $40,113.69.

Cause:
Cash balances remained high because usually the funds received during the month are expended during the following months.

Recommendation:
In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.

Auditee Response:
The Municipality of Cataño Federal Program Office is aware of all federal and local regulations. The accounting system implemented, at the Finance, and Federal Programs Offices of the Municipality provides for daily reconciliation of all funds, including checks deposits, and wire transfers from federal programs to the Municipality accounts, representing an effective tool to monitor the incomes of federal proceeds. During 2013 remained some system procedures and conditions that are been revised and or corrected.

Commonwealth of Puerto Rico
Municipality of Cataño
Schedule of Finding and Questioned Costs
June 30, 2013

Food Program 13-SA-07 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA #10. 558

Criteria:
Federal regulations require that grantees shall conform to the standards of timing and amounts as applicable to advances by federal agencies. Amounts requested should be limited to the program's immediate cash needs.

Condition:
The Municipality has not established effective cash management procedures.

Effect:
As part of my test, the program had an average cash balance of approximately $138,325.14 during the fiscal year. There were months which reported balances as high as $175,417.89.

Cause:
Cash balances remained high because usually the funds received during the month are expended during the following months.

Recommendation:
In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.

Auditee Response:
The Municipality of Cataño Federal Program Office is aware of all federal and local regulations. The accounting system implemented, at the Finance, and Federal Programs Offices of the Municipality provides for daily reconciliation of all funds, including checks deposits, and wire transfers from federal programs to the Municipality accounts, representing an effective tool to monitor the incomes of federal proceeds. During 2013 remained some system procedures and conditions that are been revised and or corrected.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

For all prior year findings and questioned costs the Municipality has filed The Corrective Action Plan.

During the current audit, we inquired about the status of the prior year's audit findings and questioned costs, communicated to the Municipality of Cataño. It was noted that corrective action has been taken, except for certain conditions that still exists.

SINGLE AUDIT REPORTS FOR THE
YEAR ENDED JUNE 30, 2012

PROGRAM FINDINGS/NONCOMPLIANCE
SBGP 12-04 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA # 14. 228

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-04.

Child Care 12-05 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA # 93. 575

Statement of Condition:

The Municipality has not established effective cash management procedures.

Child Care 12-05 – FEDERAL CASH MANAGEMENT SYSTEM (CONTINUED)
CFDA # 93. 575

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-05

Even Start 12-06 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA #84. 213

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-06.

Food Program 12-07 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA #10. 558

Statement of Condition:

The Municipality has not established effective cash management procedures.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Food Program 12-07 – FEDERAL CASH MANAGEMENT SYSTEM (CONTINUED)
CFDA #10. 558

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-07

SINGLE AUDIT REPORTS FOR THE
YEAR ENDED JUNE 30, 2011

PROGRAM FINDINGS/NONCOMPLIANCE
SBGP 11-04 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA # 14. 228

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-04.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Child Care 11-05 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA # 93. 575

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-05

Even Start 11-06 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA #84. 213

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-06.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Food Program 11-07 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA #10. 558

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-07

SINGLE AUDIT REPORTS FOR THE
YEAR ENDED JUNE 30, 2010

PROGRAM FINDINGS/NONCOMPLIANCE
SBGP 10-06 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA # 14. 228

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-04.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Child Care 10-07 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA # 93. 575

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-05.

Even Start 10-08 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA #84. 213

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-06.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Food Program 10-09 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA #10. 558

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-07.

SINGLE AUDIT REPORTS FOR THE
YEAR ENDED JUNE 30, 2009

PROGRAM FINDINGS/NONCOMPLIANCE
SBGP 09-07 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA # 14. 228

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-04.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Child Care 09-08 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA # 93. 575

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-05.

Even Start 09-09 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA #84. 213

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-06.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Food Program 09-10 – FEDERAL CASH MANAGEMENT SYSTEM
CFDA #10. 558

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-07.

FOR THE FISCAL YEAR ENDED JUNE 30, 2012
SINGLE AUDIT REPORTS FOR THE
YEAR ENDED JUNE 30, 2008

PROGRAM FINDINGS/NONCOMPLIANCE
Child and Care
Food Program
CFDA No. 10.558 08-09 – FEDERAL CASH MANAGEMENT SYSTEM

Statement of Condition:
The Municipality has not established effective cash management procedures.

Recommendation:
In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:
Condition still prevail. Similar finding in current year. See finding 13-07.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

PROGRAM	FINDINGS/NONCOMPLIANCE
Child Care CFDA No. 93.575	08-11 – FEDERAL CASH MANAGEMENT SYSTEM

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-05.

PROGRAM	FINDINGS/NONCOMPLIANCE
SBGP Program CFDA No. 14.228	08-12 – FEDERAL CASH MANAGEMENT SYSTEM

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-04

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

PROGRAM	FINDINGS/NONCOMPLIANCE
SBGP Program CFDA No. 14.228	08-14 – INADEQUATE DOCUMENTATION OF PARTICIPANT FILES

Statement of Condition:

Incomplete accounting records.

Still remain 21 files that do not presented for examination the inspection of the rehabilitation work upon completion and 1 file that do not contain evidence of construction material return.

Recommendation:

The Municipality must inspect the rehabilitation work upon completion to assure that it is carried out in accordance with the contract specifications.

Current Status:
Condition still prevail.

PROGRAM	FINDINGS/NONCOMPLIANCE
Even Start CFDA No. 84.213	08-16 FEDERAL CASH MANAGEMENT SYSTEM

Statement of Condition:

The Municipality has not established effective cash management procedures.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Current Status:

Condition still prevail. Similar finding in current year. See finding 13-06.

Commonwealth of Puerto Rico
Municipality of Cataño
Summary schedule of prior years audit findings
Fiscal year 2006-2007

The following schedule contains the finding number and title of each of the findings included in the report on compliance and internal control based on the audit of the general purpose financial statements for performed in accordance with government auditing standards for the fiscal year ended June 30, 2007. Under the heading corrective action taken there will be the following:

PR – Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2007-2008, 2008-2009, 2009-2010, 2010-2011 and 2011-2012).

NR – Not resolved yet. Findings repeated in fiscal year 2007-2008, 2008-2009, 2009-2010, 2010-2011 and 2011-2012.

R - Resolved

Finding Number	Title	Corrective Action Taken
07-02 09-02	Inactive and Unnecessary Funds	NR
07-06	Disbursement test	NR

Commonwealth of Puerto Rico
Municipality of Cataño
Summary schedule of prior years audit findings
Fiscal year 2006-2007

The following schedule contains the finding number and title of each of the findings included in the report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 for the fiscal year ended June 30, 2007. Under the heading corrective action taken there will be the following:

R – Resolved

PR – Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2007-2008, 2008-2009, 2009-2010, 2010-2011 and 2011-2012).

NR – Not resolved yet. Some Findings repeated in fiscal year 2007-2008, 2008-2009, 2009-2010, 2010-2011 and 2011-2012.

Finding Number	Title	Corrective Action Taken
07-13 09-07	Federal cash management system	NR
07-14 09-08	Federal cash management system	NR
07-15 09-09	Federal cash management system	NR
09-10	Federal cash management system	NR
07-17	Inadequate documentation of participant files	NR

Commonwealth of Puerto Rico
Municipality of Cataño
Summary schedule of prior years audit findings
Fiscal year 2005-2006

The following schedule contains the finding number and title of each of the findings included in the report on compliance and internal control based on the audit of the general purpose financial statements for performed in accordance with government auditing standards for the fiscal year ended June 30, 2007. Under the heading corrective action taken there will be the following:

PR – Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2007-2008, 2008-2009, 2009-2010, 2010-2011 and 2011-2012).

NR – Not resolved yet. Some Findings repeated in fiscal year 2007-2008, 2008-2009, 2009-2010, 2010-2011 and 2011-2012.

Finding Number	Title	Corrective Action Taken
06-02 09-02	Inactive and Unnecessary Funds	NR
06-06	Personnel files and related payroll procedures	NR

Commonwealth of Puerto Rico
Municipality of Cataño
Summary schedule of prior years audit findings
Fiscal year 2005-2006

The following schedule contains the finding number and title of each of the findings included in the report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 for the fiscal year ended June 30, 2007. Under the heading corrective action taken there will be the following:

R – Resolved

PR – Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2007-2008, 2008-2009, 2009-2010, 2010-2011 and 2011-2012).

NR – Not resolved yet. Some Findings repeated in fiscal year 2007-2008, 2008-2009, 2009-2010, 2010-2011 and 2011-2012.

Finding Number	Title	Corrective Action Taken
06-12 09-07	Federal cash management system	NR
06-13 09-08	Federal cash management system	NR
06-14 09-09	Federal cash management system	NR
09-10	Federal cash management system	NR
06-16	Inadequate documentation of participant files	NR