COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT (WITH ADDITIONAL REPORTS REQUIRED BY THE SINGLE AUDIT ACT)

Year Ended June 30, 2014

Autonomous Municipality of Cayey
PO Box 371330, Cayey, Puerto Rico 00737
Hon. Rolando Ortíz Velázquez

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López-Vega, CPA, PSC
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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Cayey**, Puerto Rico (Municipality), as of and for the year ended June 30, 2014, 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 State 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.

Auditors' 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality's as of June 30, 2014, and the respective changes in financial position, 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 United States of America require that the Management's Discussion and Analysis on pages **4** through **12** and Budgetary Comparison information on page **57**, 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's basic financial statements. The accompanying supplementary information – Financial Data Schedule shown in pages **59** and **60** are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The Financial Data Schedule and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate 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 the 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 Financial Data Schedule and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2015, on our consideration of the Municipality's 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's internal control over financial reporting and compliance.

López-Vega CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 26, 2014

Stamp No.2675869 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

This discussion and analysis of the **Autonomous Municipality of Cayey** (Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2014. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2013. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;

2. acknowledgement of an overview of the Municipality's financial activities;

3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;

4. identification of uses of funds in the financing of the Municipality's variety of activities and;

5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

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

1. Total assets of the Municipality amounted to $179,218,793 which represents an increase of 11% compared to prior fiscal year, as restated.

2. At the end of fiscal year 2014, total liabilities amounted to $82,895,845. Out of said amount, $71,701,992 corresponded to long-term liabilities of which $45,563,000 represented the outstanding balance of bonds and notes issued. 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 $96,322,948 which represents an increase of 3% compared to prior fiscal year, as restated.

4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to $50,611,478 derived from the following sources: $3,744,086 charges for services; $11,536,638 from operating grants and contributions; $1,813,990 from capital grants and contributions obtained from other sources, and $33,516,774 from general revenues available.

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to $47,629,204.

FINANCIAL HIGHLIGHTS (CONTINUED)

6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Position figure by $2,982,274.

7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of $53,793,555.

8. As of the end of the current fiscal year, the Municipality's general fund balance amounted to $12,359,606, compared to a fund balance of $10,127,004 in the prior fiscal year, as restated.

9. The actual General Fund budgetary activities resulted in a favorable balance of $5,813,566.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

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

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

FINANCIAL STATEMENTS COMPONENTS

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

The Statement of Net Position reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net position. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net position figure either through additional borrowings or through internally generated funds. This in turn will benefit the welfare of the **Autonomous Municipality of Cayey**'s constituents.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net position at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

A brief review of the Statements of Activities of the Municipality at June 30, 2014, shows total expenses incurred to afford the cost of all functions and programs amounted to $47,629,204. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that $17,094,704 was derived from the following sources: $3,744,086 charges for services; $11,536,628 from operating grants and contributions; and $1,813,990 from capital grants and contributions obtained from other sources. General revenues for the year amounted to $33,516,774. When such figure is added to the $17,094,704 previously mentioned, total revenues available for the financing of activities amounted to $50,611,478. There was an excess of revenues over expenses in the amount of $2,982,274 which contributed with a decrease to the figure of net position attained at the end of the fiscal year.

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered through this Statement is limited to the Municipality's most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified-accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

The fund statement approach gives the user a short-term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

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 be better understand the long-term impact of the Municipality's near term financial decisions. The Government 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 significant group of infrastructure assets (such as roads, bridges, traffic signals, underground pipes not associated with utilities, etc.) have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. The Municipality implemented the capitalization of infrastructure since July 1, 2002.

INFRASTRUCTURE ASSETS (CONTINUED)

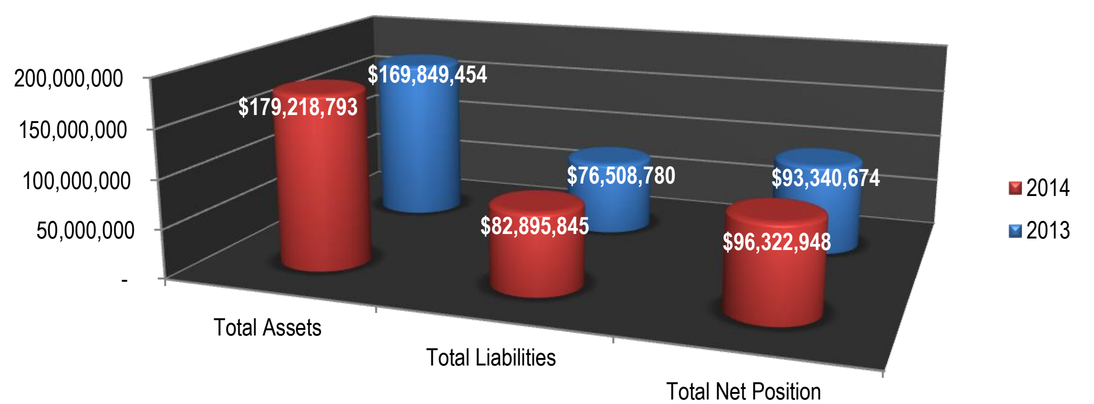
According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management 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 indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Autonomous Municipality of Cayey**, primary government assets exceeded total liabilities by $96,322,948 at the end of 2014, compared to $93,340,674 at the end of the previous year, as restated, as showed in the following condensed Statement of Net Position of the Primary Government.

Condensed Statement of Net Position	2014	2013	Change	%
Current and other assets	$ 53,255,090	$ 48,069,678	$ 5,185,412	11%
Capital Assets	125,963,703	121,779,776	4,183,927	3%
Total Assets	179,218,793	169,849,454	9,369,339	6%
Current and other liabilities	11,193,853	9,804,196	1,389,657	14%
Long-term liabilities	71,701,992	66,704,584	4,997,408	7%
Total Liabilities	82,895,845	76,508,780	6,387,065	8%
Net investment in capital assets	80,400,703	76,491,394	3,909,309	5%
Restricted	28,009,411	34,945,307	(6,935,896)	-20%
Unrestricted (deficit)	(12,087,166)	(18,096,027)	6,008,861	-33%
Total net position	$ 96,322,948	$ 93,340,674	$ 2,982,274	3%

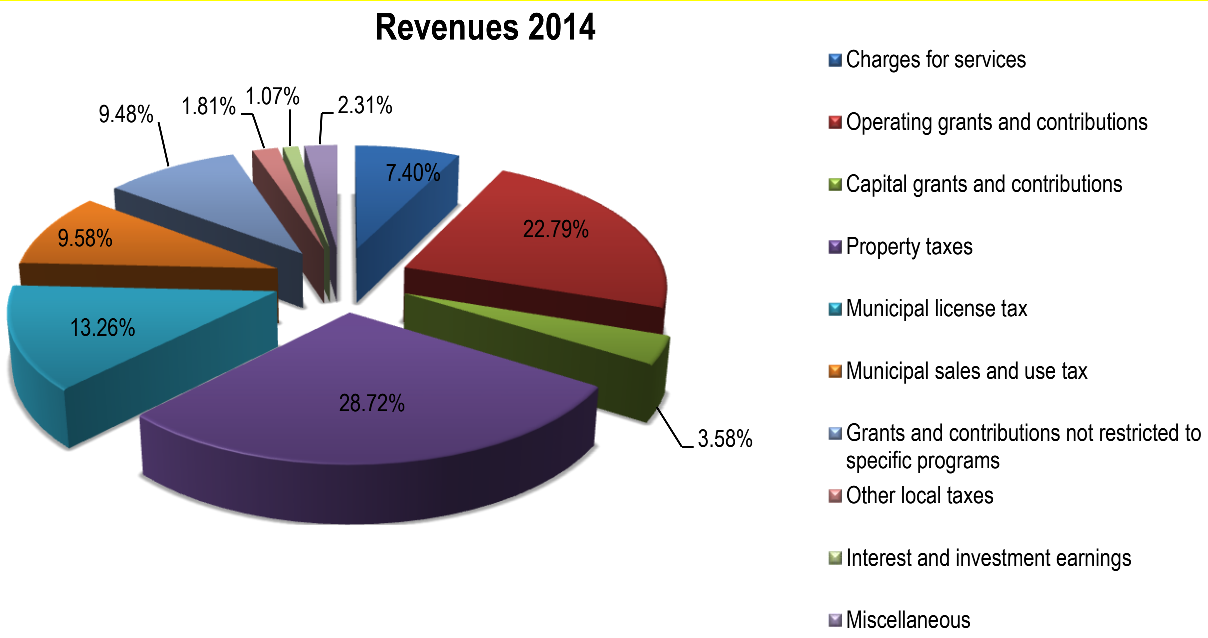


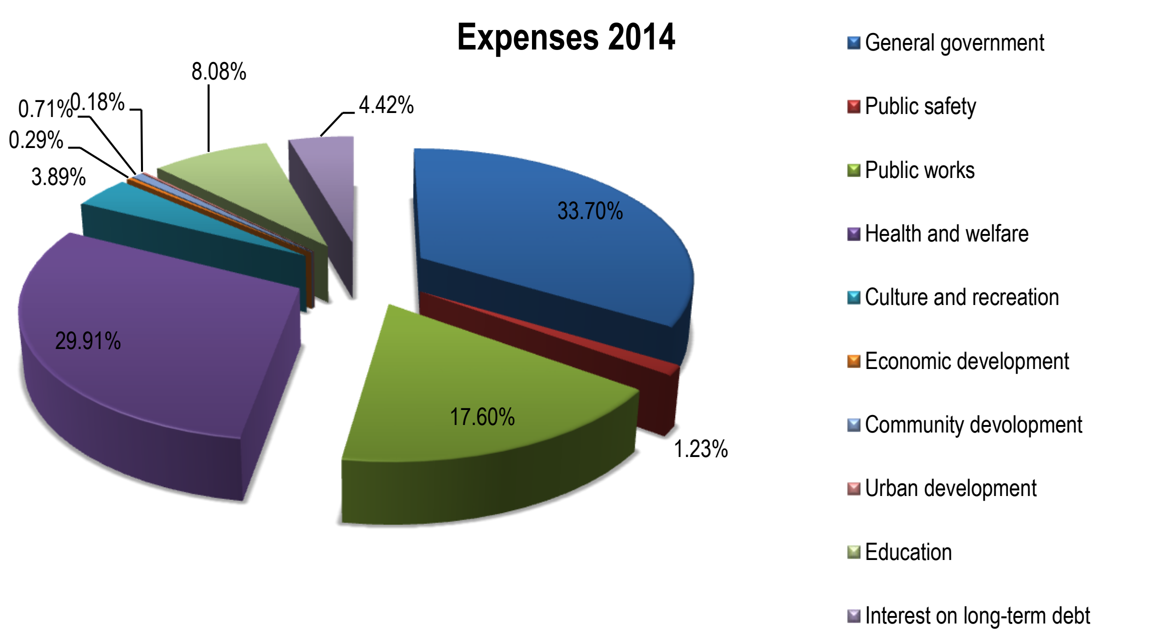
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Approximately 53 percent of the Municipality's total revenue came from taxes, while 36 percent resulted from grants and contributions, including federal aid. Charges for Services provide 1 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government 34 percent, and health and welfare services 30 percent. As follows, a comparative analysis of governmental-wide data is presented. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year, as restated, to current year.

Condensed Statement of Activities	2014	2013	Change	%
Program revenues:				
Charges for services	$ 3,744,086	$ 4,106,915	$ (362,829)	-9%
Operating grants and contributions	11,536,628	9,691,660	1,844,968	19%
Capital grants and contributions	1,813,990	5,579,462	(3,765,472)	-67%
General revenues:				
Property taxes	14,534,402	13,117,577	1,416,825	11%
Municipal license tax	6,710,076	6,407,713	302,363	5%
Municipal sales and use tax	4,850,765	4,234,034	616,731	15%
Grants and contributions not restricted to specific programs	4,796,995	5,079,615	(282,620)	-6%
Other local taxes	917,767	1,100,834	(183,067)	-17%
Interest and investment earnings	539,419	606,938	(67,519)	-11%
Miscellaneous	1,167,350	315,519	851,831	270%
Total revenues	50,611,478	50,240,267	371,211	1%
Expenses:				
General government	16,050,443	26,153,418	(10,102,975)	-39%
Public safety	584,387	394,465	189,922	48%
Public works	8,381,354	7,333,307	1,048,047	14%
Health and welfare	14,244,401	14,051,888	192,513	1%
Culture and recreation	1,850,680	1,690,480	160,200	9%
Economic development	138,438	145,685	(7,247)	-5%
Community development	340,136	1,654,498	(1,314,362)	-79%
Urban development	83,890	101,598	(17,708)	-17%
Education	3,849,935	1,047,910	2,802,025	267%
Interest on long-term debt	2,105,540	2,846,624	(741,084)	-26%
Total expenses	47,629,204	55,419,873	(7,790,669)	-14%
Change in net position	2,982,274	(5,179,606)	8,161,880	-158%
Net position, beginning, as restated	93,340,674	98,520,280	(5,179,606)	-5%
Net position, end of year	$ 96,322,948	$ 93,340,674	$ 2,982,274	3%

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)





FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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 balances of $40,369,018, an increase of $4,110,465 in comparison with the prior year, as restated. There are reservations of fund balance amounting to $35,869,999. The combined fund balances include restricted fund balance amounting to $26,339,314. 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 ($7,407,452); 2) to pay for capital projects ($14,201,842); 3) to pay debt services ($4,730,020). There are committed fund balance amounting to $1,127,091 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions 1) to pay for specific programs purpose ($1,025,633) and; 2) to pay for capital projects ($101,458). There are assigned fund balances amounting to $8,403,594 that represent resources for specific purposes but do not meet the definition to be classified as restricted or committed (generally executive orders approved by the Mayor) 1) to pay for specific programs purposes ($7,594,366); and 2) to pay for capital projects ($809,228).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2014, the general fund has an unassigned fund balance of $4,499,019.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Legislature revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

The actual General Fund budgetary activities resulted in a favorable balance of $5,813,566, caused mainly due to unexpected variances in revenue and expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2014, amounts to $176,386,990, with an accumulated depreciation of $50,423,287 (including depreciation charges for the year totaled $3,759,174), leaving a net book value of $125,963,703. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

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, 2014, the Municipality has $8,606,097 of unexpended proceeds mainly from bonds and notes issuances that are restricted, committed and/or assigned to future construction activities.

Debt Administration

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

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

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues.

Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET 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 also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2014-2015.

FINAL COMMENTS

The Municipality is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

The Municipality's management is committed to a continued improvement in the confection of a budget that will response to the needs of the public and private sectors in accordance with its permissible revenues levels. It further contemplates to maintain or improve its current levels of Net Position as indicative of a strong financial position which has been identified as one of the main short and long-term objectives of the Municipality.

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.

		Governmental Activities
Assets		
Cash and cash equivalents	$	32,534,261
Cash with fiscal agents		20,086,707
Accounts receivable:		
Municipal sales and use tax		215,052
Intergovernmental		350,742
Federal grants		21,927
Interest		441
Others		45,960
Capital assets		
Land, improvements, and construction in progress		49,841,332
Other capital assets, net of depreciation		76,122,371
Total capital assets		125,963,703
Total assets		179,218,793
Liabilities		
Accounts payable and accrued liabilities		3,731,044
Due to other governmental entities		1,221,246
Interest payable		1,005,014
Unearned revenues:		
Municipal license tax		5,236,549
Noncurrent liabilities:		
Due within one year		6,980,596
Due in more than one year		64,721,396
Total liabilities		82,895,845
Net position		
Net investment in capital assets		80,400,703
Restricted for:		
Capital projects		15,112,528
Debt service		4,730,020
Other purposes		8,166,863
Unrestricted (deficit)		(12,087,166)
Total net position	$	96,322,948

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	$ 16,050,443	$ 4,990	$ -	$ -	$ (16,045,453)
Public safety	584,387	23,513	26,356		(534,518)
Public works	8,381,354	121,095	34,808	1,137,999	(7,087,452)
Health and welfare	14,244,401	2,878,952	8,807,915		(2,557,534)
Culture and recreation	1,850,680	17,295	80,814		(1,752,571)
Economic development	138,438	698,241	163,430		723,233
Community development	340,136		624,096	626,150	910,110
Urban development	83,890			49,841	(34,049)
Education	3,849,935		1,799,209		(2,050,726)
Interest on long-term debt	2,105,540				(2,105,540)
Total governmental activities	$ 47,629,204	$ 3,744,086	$ 11,536,628	$ 1,813,990	(30,534,500)

General revenues:	
Property taxes	14,534,402
Municipal license tax	6,710,076
Municipal sales and use tax	4,850,765
Other local taxes	917,767
Grants and contributions not restricted to specific programs	4,796,995
Interest and investment earnings	539,419
Miscellaneous	1,167,350
Total general revenues	33,516,774
Change in net position	2,982,274
Net position - beginning, as restated	93,340,674
Net position - ending	$ 96,322,948

	Major Funds				
	General Fund	Special Revenue Fund Head Start	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 19,012,933	$ 339,826	$ -	$ 13,181,502	$ 32,534,261
Cash with fiscal agents			8,502,488	11,584,219	20,086,707
Accounts receivable:					
Municipal sales and use tax	215,052				215,052
Interest				441	441
Due from:					
Commonwealth Government	157,426		62,546	130,770	350,742
Federal Government				67,887	67,887
Other funds	397,314			141,151	538,465
Total assets	$ 19,782,725	$ 339,826	$ 8,565,034	$ 25,105,970	$ 53,793,555
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	$ 1,082,753	$ 330,519	$ -	$ 1,098,514	$ 2,511,786
Mature bonds, notes and interest payable			3,835,014		3,835,014
Due to:					
Commonwealth Government	962,965			258,281	1,221,246
Other funds	140,852			397,613	538,465
Unearned revenues:					
Municipal license tax	5,236,549				5,236,549
Total liabilities	7,423,119	330,519	3,835,014	1,754,408	13,343,060
Deferred Inflows of Resources:					
Unavailable revenues-Intergovernmental				81,477	81,477
Total deferred inflows of resources	-	-	-	81,477	81,477
Fund Balance					
Restricted	266,221	9,307	4,730,020	21,333,766	26,339,314
Committed				1,127,091	1,127,091
Assigned	7,594,366			809,228	8,403,594
Unassigned	4,499,019	-	-	-	4,499,019
Total fund balances	12,359,606	9,307	4,730,020	23,270,085	40,369,018
Total liabilities, deferred inflows of resources and fund balances (deficit)	$ 19,782,725	$ 339,826	$ 8,565,034	$ 25,105,970	$ 53,793,555

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	Major Funds				
	General Fund	Special Revenue Fund Head Start	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	$ 8,801,299	$ -	$ 5,733,103	$ -	$ 14,534,402
Municipal license taxes	6,710,076				6,710,076
Municipal sales and use tax	3,962,611		888,154		4,850,765
Licenses,permits and other local taxes	931,477				931,477
Charges for services	2,809,332				2,809,332
Intergovernmental	4,796,995			3,838,997	8,635,992
Fines and forfeitures	22,294				22,294
Rent of property	898,750				898,750
Interest	535,379			4,040	539,419
Federal grants		6,307,158		3,042,669	9,349,827
Miscellaneous	702,559			80,318	782,877
Total revenues	30,170,772	6,307,158	6,621,257	6,966,024	50,065,211
Expenditures					
Current:					
General government	16,706,914			224,979	16,931,893
Public safety	520,481			18,359	538,840
Public works	3,895,379			3,489,880	7,385,259
Health and welfare	5,487,637	6,352,096		3,707,049	15,546,782
Culture and recreation	1,036,393			145,597	1,181,990
Economic development				137,949	137,949
Community development	178,609			421,625	600,234
Urban development				49,841	49,841
Education	527,774			3,068,643	3,596,417
Debt service:					
Principal			2,895,000	520,000	3,415,000
Interest			1,896,618	208,923	2,105,541
Total expenditures	28,353,187	6,352,096	4,791,618	11,992,845	51,489,746
Excess (deficiency) of revenues over (under) expenditures	1,817,585	(44,938)	1,829,639	(5,026,821)	(1,424,535)
Other financing sources (uses)					
Transfers in	601,227	54,245	131,965	1,698,240	2,485,677
Transfers out	(186,210)		(1,693,766)	(605,701)	(2,485,677)
Long-term debt issued				5,535,000	5,535,000
Total other financing sources (uses)	415,017	54,245	(1,561,801)	6,627,539	5,535,000
Net change in fund balances	2,232,602	9,307	267,838	1,600,718	4,110,465
Fund balance, beginning as restated	10,127,004	-	4,462,182	21,669,367	36,258,553
Fund balance, ending	$ 12,359,606	$ 9,307	$ 4,730,020	$ 23,270,085	$ 40,369,018

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
For the Year Ended June 30, 2014

Total Fund Balances - Governmental Funds		**$ 40,369,018**
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	$ 49,841,332	
Depreciable Capital Assets	126,545,658	
Accumulated Depreciation	(50,423,287)	
Total Capital Assets		125,963,703
Accounts payable accumulated according to the accrual basis of accounting. In the current period those accounts payable amount to:		(1,219,258)
Other assets that are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds		81,477
Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:		
General Bonds and Notes Payable	42,733,000	
Advances from CRIM	3,819,568	
Due to other Governmental Entities	969,714	
Compensated Absences	3,287,372	
Claims and Judgments	13,000	
Governmental Development Bank of P.R.-Line of Credit	3,194,492	
Landfill Obligation	14,854,846	
Total Long-Term Liabilities		(68,871,992)
Total Net Position of Governmental Activities		**$ 96,322,948**

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

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, 2014

Net change in fund balances - total governmental funds		**$ 4,110,465**
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for capital assets	$ 7,487,403	
Less: current-year depreciation	(3,759,174)	3,728,229
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Intergovernmental	81,477	
Donated capital assets	464,790	546,267
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the book value of the disposed asset		(9,092)
Proceeds from general obligation bonds is an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position		(5,535,000)
Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:		
Matured bonds and notes principal payments (net change)		(340,000)
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:		
General obligation bonds and notes	3,380,000	
Other long-term debt	594,548	3,974,548
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:		
Accounts payable - net change	(56,187)	
Governmental Development Bank of P.R. line of credit	(1,574,110)	
Landfill	(1,854,846)	
Claims and judgments	(8,000)	(3,493,143)
Change in net position of governmental activities		**$ 2,982,274**

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Autonomous Municipality of Cayey** (Municipality) was founded on the year 1773. The Municipality's governmental system consists of an executive and legislature branch elected for a four-year term during the general elections of Puerto Rico. The Mayor is the executive officer and the legislative branch consists of sixteen members of the Municipal Legislature. The Municipality provides a comprehensive range of services to its citizens such as: general government administration; public works and sanitation; public safety; health; welfare programs; community, urban and economic development; culture and recreation activities and educational services.

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its governmental accounting and financial reporting standards which, along with subsequent GASB Statements and Interpretations, constitute GAAP for governmental entities.

A. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Autonomous Municipality of Cayey (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

1. The primary government appoints a voting majority of the entity's governing body, and either:
    - A financial benefit/ burden exist between the primary government and the entity or
    - The primary government can impose its will on the entity.
2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

In addition, "special criteria" applies when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

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

3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Legally separate, tax-exempt organizations that do not meet the above special criteria should still be included as a component unit if the financial statements of the primary government would be misleading without them.

There are two methods of presentation of the component unit in the financial statements: (a) *blending* the financial data of the component units' balances and transactions and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government (*"blended component units"*). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as blended if meets any of the following criteria:

1. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:

   - A financial benefit/ burden exist between the primary government and the entity or
   - Management of the primary government has operational responsibility for the primary government.

2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.

3. The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units does not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government (*"discretely component units"*). Legally separate, tax-exempt organizations that meet the special criteria should be included as *discretely component units*.

Based on the above criteria, there are no potential component units which should be included as part of the financial statements.

B. Financial statement presentation, measurement focus and basis of accounting

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

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

Management's Discussion and Analysis

It provides a narrative introduction and analytical overview of the Municipality's financial activities.

Basic financial statements

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

Government-wide Financial Statements (GWFS)

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the *economic resources* measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the *accrual basis of accounting*. Revenues are recognized in the period earned and expenses in the period in which the associated liability is incurred, regardless of the timing of related cash flows. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. As a policy, indirect expenses are not allocated in the Statement of Activities. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, rent, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

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

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

In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

Fund Financial Statements (FFS)

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

The Municipality reports the following major governmental funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for and report all financial resources not accounted for and reported in another fund.

Debt Service Fund – This fund is used to account for and report financial resources that are restricted for expenditure for the payment of principal and interest of general obligation bonds and notes issued by the Municipality. This fund accounts for the resources of three individual funds: 1) "CAE Fund," the sinking fund which accounts for the 2% of property taxes collected by the Municipal Revenue Collection Center (CRIM); 2) "Municipal Redemption Fund," the sinking fund that accounts for the 0.2% of the 0.5% collected from the sales and use tax that is, by law, deposited in the Governmental Development Bank (GDB) for the financing of loans to Municipalities; and 3) operational loans that are paid from the general fund's operating revenues.

Head Start Fund – This fund is used to account for and report revenues sources received from the U.S. Department of Health and Human Services that are restricted for expenditure for the activities performed under the Head Start program. These activities consist of providing services to pregnant women and children (birth to 5) and their families that are under the poverty line or are eligible for public assistance.

The FFS are accounted for using the *current financial resources* measurement focus and the *modified-accrual basis of accounting*. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both *measurable* and *available*).

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

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues susceptible to accrual include property taxes, recognized as revenue in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met; and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases, revenues are recognized at the time of receipt or earlier, if the susceptible-to-accrual criterion is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible-to-accrual criterion is met.

The Municipality reports unearned revenues in the governmental funds statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants, if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case, amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits, which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the GWFS, the expense and related accrual liability for long-term portions of debt must be included).

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 of the FFS. Likewise, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are also not accounted for in the FFS.

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

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

Notes to financial statements

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

Required Supplementary Information (RSI)

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

C. Financial reporting presentation

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:

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 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.

Special Revenue Funds – Is a governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

Capital Projects Funds – is a 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.

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

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.

D. Deposits and investments

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

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest 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 the GDB.

E. Restricted assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

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

F. Receivables and due from governmental entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from Commonwealth government in the general and debt service funds represent property tax revenues of the current fiscal year collected by the CRIM on the subsequent fiscal year. Amounts due from Commonwealth and federal governments reported in the special revenue or capital project funds represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

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

G. Interfund receivables and payables

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

Advances between funds, as reported in the fund financial statements, if any, are reported as "nonspendable" in the fund balance section of the Balance Sheet to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Position, as management believes is not significant.

I. Capital assets

Capital assets reported in the governmental activities in the Statement of Net Position include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items. The Municipality defines capital assets (except infrastructure assets) as assets with an individual cost of more than $25 and an estimated useful life in excess of one year. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Description	Useful Life
Buildings and site improvements	40 years
Infrastructure	40 years
Works of art	10 years
Vehicles	5 years
Furniture and fixtures	5 years
Machinery and equipment	3 to 5 years

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

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

J. Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met –** Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet of the governmental funds and in the government-wide Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

2. **Unavailable revenue reported under the modified-basis of accounting –** Amounts collected or to be collected after the availability period are recognized as *unavailable revenue* in the governmental funds Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

K. Long-term obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Position, include general and special obligation bonds and notes, liabilities for compensated absences, claims and judgments, landfill closure and post-closure costs and long-term liabilities to other governmental entities.

Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

L. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1)are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness).The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave.

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

Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

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

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

M. 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 they matured (generally, when payment is due). The accompanying government-wide financial statements include an amount estimated as a contingent liability for liabilities as incurred.

N. Net position

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted net position: The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

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

Unrestricted net position: Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is 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.

O. Net position flow assumption

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

P. Fund balances

The GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54") establish accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

Nonspendable: Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted: Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed: Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

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

Assigned: Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.

Unassigned: Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

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. 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, 2014.

Q. Fund balance flow assumptions

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

R. Accounting for pension costs

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.

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

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.

For the purpose of applying the requirements of GASBS No. 27, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing 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 Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the Commonwealth's financial reporting entity.

S. 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 "Transfers-in" by the recipient fund and as "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.

T. Risk financing

The Municipality carries commercial insurance that consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Under Law Num. 63 of June 21, 2010, the Legislature of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The Municipality's commercial insurance and health plan coverages are procured and negotiated through a single insurance broker. The broker obtains quotes from the different insurance companies and the Municipality's management makes the selection based on coverage and price. The total cost of the annual premiums is financed through a payment plan made with an insurance financing company, and the monthly payments are deducted from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM.

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. The annual premium is also deducted from the monthly advances by the CRIM.

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

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

The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks by each employee covered by law.

U. Use of Estimates

The preparation of the basic 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 basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

V. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

1. **GASB Statement No. 68 "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).

2. **GASB Statement No. 69 "Government Combinations and Disposals of Government Operations."** The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis (fiscal year ended June 30, 2015).

3. **GASB Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees."** The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013 (fiscal year ended June 30, 2015).

4. **GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date."** The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 (fiscal year ended June 30, 2015).

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

2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and in the 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, 2014.

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, 2014, 2) limiting the weighted average maturity of its investments to three months or less, and 3) keeping most of its bank deposits in interest-bearing accounts generating interests at prevailing market rates. At June 30, 2014, 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, 2014, 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. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits with the GDB are uninsured and uncollaterized. However, no losses related to defaults by the GDB on deposit transactions have been incurred by the Municipality through June 30, 2014.

Therefore, the Municipality's management has concluded that, at June 30, 2014, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2014.

Deposits – At year-end, the Municipality's bank balance of deposits in commercial banks amounting to $32,534,261 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), amounts to $20,086,707 as of June 30, 2014.

3. RECEIVABLES

A. Sales and use taxes

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

On July 29, 2007, the Commonwealth Legislature approved Act No. 80 (Act 80) which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .1% of the .5% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80. Effective January 1, 2011 the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050 the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue $3,962,611 in the general fund corresponding to the 1% imposition and $888,154 in the debt service fund corresponding to the Municipal Redemption Fund.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10th day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable of $215,052 represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 10, net of uncollectible accounts.

On June 30, 2013, the Commonwealth approved Act No. 40 which among other things, reduces the municipal sales and use tax from 1.5% to 1% and increasing the Commonwealth sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

3. RECEIVABLES (CONTINUED)

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014 the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

Act No. 18 of January 24, 2014

The purpose of this Act is to create a special fund called Municipal Administration Fund (FAM) under custody of the Governmental Development Bank of Puerto Rico ("GDB") that permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

The 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds during a transitory period from February 1, 2014 to June 30, 2014 the Commonwealth will deposit $43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

After July 1, 2014 the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The Autonomous Municipality of Cayey signed the agreement to be covered.

For municipalities covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,

- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities has the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions)

- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

For municipalities not covered by the agreement the .5% will be distributed as follows:

3. RECEIVABLES (CONTINUED)

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

Act No. 19 of January 24, 2014

The purpose of this Act is to create the Municipal Finance Corporation (COFIM) a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be $65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

4. DUE FROM (TO) GOVERNMENTAL ENTITIES

A. Amounts due from governmental entities as of June 30, 2014 are as follows:

	Commonwealth Government	Federal Government
Major fund – General fund:		
PR Department of Transportation and Public Work	$ 143,386	$ -
Municipal Revenue Collection Center (CRIM)- property taxes and intergovernmental subsidy	14,040	
Major fund – Debt service fund:		
Municipal Revenue Collection Center (CRIM) – property taxes	62,546	
Other Governmental Funds:		
P.R. Department of Labor	81,477	
P.R. Department of Treasury	49,293	
U.S. Department of Housing and Urban Development – CDBG		21,473
P.R. Public Housing Administration		45,960
Other		454
	$ 350,742	**$ 67,887**

4. DUE FROM (TO) GOVERNMENTAL ENTITIES (CONTINUED)

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related Note 8.

B. Amounts due to governmental entities as of June 30, 2014 follows:

Description	Commonwealth Government
General Fund:	
P.R. Department of Treasury	$ 532,043
P.R. Electric Power Authority	317,396
P.R. Aqueduct and Sewer Authority (PRASA)	92,991
P.R. Telephone Company	18,119
Others	2,416
Other Governmental Funds:	
P.R. Department of Education	258,281
	$1,221,246

5. INTERFUND TRANSACTIONS

A. Due from/to other funds

Amounts due from/to other funds in the general fund represent advances to other funds to finance payroll, payroll taxes and other expenditures as follows:

Receivable Funds	Payable Funds	Amount
General Fund	**Other Governmental Funds:**	
	Special Revenue State & Local – Law Num. 52	$ 123,503
	Special Revenue Federal – Section 8 HCVP	18,463
	Special Revenue Federal – Community Development Block Grant	3,668
	Special Revenue Federal – Housing Opportunities For Person With Aids	4,263
	Special Revenue Federal – Emergency Shelter Grants Program	36,989
	Special Revenue Federal - Homeland Security Grant Program	5,466
	Special Revenue State & Local – Others	204,962
Other Governmental Funds:		
Section 108 Loan Guarantee	**General Fund**	129,406
Commonwealth Legislative Resolutions	**General Fund**	11,446
	Other Governmental Funds:	
Section 108 Loan Guarantee	Special Revenue Federal – Community Development Block Grant	299
		$ 538,465

5. INTERFUND TRANSACTIONS (CONTINUED)

B. Transfers-in (out)

Transfers among individual funds were made for operational purposes as follows:

Originating Fund	Receiving Fund	Purpose	Amount
General Fund	Special Revenue Fund-Head Start	Commitments of funds for special purposes	$ 54,245
General Fund	Debt Service Fund	Transfer of funds for debt retirement.	131,965
Debt Service Fund	Other Governmental Funds	Reversal of commitments of funds for special purposes	1,693,766
Other Governmental Funds	Other Governmental Funds	Commitments of funds for special purposes	4,474
Other Governmental Funds	General Fund	Reversal of commitments of funds for special purposes	601,227
Total			**$ 2,485,677**

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6. FUND BALANCE

The governmental fund balance classifications and amounts a June 30, 2014 are shown in the following table:

	General Fund	Special Revenue Fund Head Start	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Restricted					
General government	$ -	$ -	$ -	$ 407,980	$ 407,980
Public safety				349,953	349,953
Public works				8,086,930	8,086,930
Health and welfare		9,307		596,114	605,421
Culture and recreation				412,847	412,847
Economic development	266,221			1,179,510	1,445,731
Community development				6,073	6,073
Education				4,260,443	4,260,443
Debt service			4,730,020		4,730,020
Capital projects				6,033,916	6,033,916
Committed					
General government				163,974	163,974
Public safety				55,000	55,000
Public works				129,300	129,300
Health and welfare				1,406	1,406
Culture and recreation				97,566	97,566
Education				587,635	587,635
Capital projects				92,210	92,210
Assigned					
General government	6,661,598				6,661,598
Public works	932,768				932,768
Culture and recreation				120,506	120,506
Education				60,000	60,000
Capital projects				628,722	628,722
Unassigned	4,499,019	-	-	-	4,499,019
Total fund balances	$ 12,359,606	$ 9,307	$ 4,730,020	$ 23,270,085	$ 40,369,018

7. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2014 is as follows:

Governmental Activities:	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital asset, not being depreciated:				
Construction in progress	$ 21,784,634	$ 5,582,499	$ (3,124,528)	$ 24,242,605
Land	25,154,182	444,545		25,598,727
Total capital assets not being depreciated	46,938,816	6,027,044	(3,124,528)	49,841,332
Capital assets, being depreciated:				
Buildings and buildings improvements	76,241,255	1,046,070		77,287,325
Infrastructure and infrastructure improvements	25,986,668	3,012,975		28,999,643
Equipment	7,956,026	521,820	(26,810)	8,451,036
Works of art	7,350	468,812		476,162
Vehicles	11,331,492			11,331,492
Total capital assets being depreciated	121,522,791	5,049,677	(26,810)	126,545,658
Less accumulated depreciation for:				
Buildings and buildings improvements	(20,131,279)	(1,690,165)		(21,821,444)
Infrastructure and infrastructure improvements	(10,506,238)	(1,138,738)		(11,644,976)
Equipment	(5,735,333)	(516,889)	17,718	(6,234,504)
Works of art	(5,022)	(735)		(5,757)
Vehicles	(10,303,959)	(412,647)		(10,716,606)
Total accumulated depreciation	(46,681,831)	(3,759,174)	17,718	(50,423,287)
Total capital assets being depreciated, net	74,840,960	1,290,503	(9,092)	76,122,371
Governmental activities capital assets, net	**$ 121,779,776**	**$ 7,317,547**	**$ (3,133,620)**	**$ 125,963,703**

7. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	Amount
General government	$ 796,830
Public safety	89,912
Public works	1,287,511
Community development	161,415
Urban Development	33,098
Culture and recreation	871,238
Health and welfare	166,767
Economic development	489
Education	351,914
Total depreciation expense-governmental activities	**$ 3,759,174**

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014 are summarized as follows:

Description	General Fund	Special Revenue Fund– Head Start	Debt Service Fund	Other Governmental Fund	Total
Accounts payable	$ 590,665	$ 330,519	$ -	$ 1,098,514	$ 2,019,698
Accrued liabilities	492,088	-	-	-	492,088
Total	**$ 1,082,753**	**$ 330,519**	**$ -**	**$ 1,098,514**	**$ 2,511,786**

9. UNEARNED REVENUES

The amounts reported as unearned revenues as of June 30, 2014 are detail as follows:

	Amount
Major fund – General fund:	
Municipal license taxes collected in the fiscal year 2013-2014 that correspond to the 2014-2015 fiscal year budget	$ 5,236,549
	$ 5,236,549

10. LONG-TERM LIABILITIES

A. Summary of long-term debt activity

Long-term liability activity for the year ended June 30, 2014, was as follows:

Description	Beginning Balance, as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
General and special obligation bonds payable	$ 41,368,000	$ 4,320,000	$ (3,015,000)	$ 42,673,000	$ 2,618,000
General and special obligation notes payable	1,395,000	1,215,000	(365,000)	2,245,000	435,000
Section 108 Loan Guarantee notes payable	1,020,000		(375,000)	645,000	395,000
Advances from CRIM	3,936,081		(116,513)	3,819,568	122,765
Compensated Absences	3,293,045		(5,673)	3,287,372	125,000
Due to other governmental entity	1,048,018		(78,304)	969,714	77,339
Claims and judgments	24,058	8,000	(19,058)	13,000	13,000
Landfill obligation	13,000,000	1,854,846		14,854,846	
Governmental Development Bank-Line of Credit	1,620,382	1,574,110	-	3,194,492	3,194,492
Total	**$ 66,704,584**	**$ 8,971,956**	**$ (3,974,548)**	**$ 71,701,992**	**$ 6,980,596**

B. Legal debt margin

For general obligation debt, the Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment if 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 if 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.

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10. LONG-TERM LIABILITIES (CONTINUED)

C. General and special obligation bonds and notes

The Municipality issues general and special obligation bonds to provide funds for the acquisition of equipment and construction of major capital facilities. During the current year, the Municipality issued bonds for $1,010,000, $1,670,000 and $1,640,000. Bonds payable outstanding at June 30, 2014 are as follows:

Bonds Payable

Description	Balance at June 30, 2014
1994 Serial bond for infrastructure construction with an original amount of $663,000 due in annual installments of $15,000 to $47,000, through January 1, 2018, with interest of 5.0%	174,000
1994 Serial bond for infrastructure construction with an original amount of $465,000 due in annual installments of $12,000 to $32,000 through January 1, 2018, with interest of 5.0%	120,000
1998 General obligation bond for the acquisition of a capital asset with an original amount of $1,015,000 due in installments of $10,000 to $85,000, through July 1, 2022, with interest ranging from 4.9% to 6.7%	585,000
1999 General obligation bond for the acquisition of a capital asset with an original amount of $685,000 due in installments of $10,000 to $60,000 through July 1, 2023, with interest ranging from 2.7% to 7.8%	415,000
2000 General obligation bond for improvements of a capital asset with an original amount of $355,000 due in installments of $5,000 to $30,000 through July 1, 2019, with interest ranging from 2.7% to 7.8%	165,000
2000 General obligation bond for infrastructure construction and acquisition of property with an original amount of $1,765,000 due in installments of $65,000 to $185,000 through July 1, 2014, with interest ranging from 2.7% to 7.8%	185,000
2001 General obligation bond for construction of capital assets with an original amount of $270,000 due in installments of $5,000 to $25,000 through July 1, 2025, with interest ranging from 2.7% to 6.1%	190,000
2001 General obligation bond for the acquisition of property with an original amount of $1,010,000 due in installments of $15,000 to $90,000 through July 1, 2025, with interest ranging from 2.7% to 6.1%	715,000
2002 General obligation bond for construction of infrastructure and improvements to a capital asset with an original amount of $255,000 due in installments of $10,000 to $30,000 through July 1, 2016, with interest ranging from 2.7% to 5.0%	80,000
2002 General obligation bond for construction and improvements of capital assets with an original amount of $1,120,000 due in installments of $45,000 to $125,000 through July 1, 2016, with interest ranging from 2.7% to 5.0%	335,000

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2014
2002 General obligation bond for improvements of capital assets with an original amount of $835,000 due in installments of $25,000 to $85,000 through July 1, 2018, with interest ranging from 2.7% to 5.1%	360,000
2002 General obligation bond for improvements of a capital asset with an original amount of $125,000 due in installments of $5,000 to $20,000 through July 1, 2016, with interest ranging from 2.7% to 5.0%	40,000
2002 General obligation bond for improvements of a capital asset with an original amount of $255,000 due in installments of $5,000 to $20,000 through July 1, 2026, with interest ranging from 2.7% to 5.6%	185,000
2003 General obligation bond for improvements of a capital asset with an original amount of $235,000 due in installments of $10,000 to $25,000 through July 1, 2017, with interest ranging from 4.2% to 5.0%	85,000
2003 General obligation bond for improvements of a capital asset with an original amount of $325,000 due in installments of $15,000 to $35,000 through July 1, 2017, with interest ranging from 4.2% to 5.0%	120,000
2003 General obligation bond for the acquisition of a capital asset with an original amount of $85,000 due in installments of $5,000 to $10,000 through July 1, 2017, with interest ranging from 4.2% to 5.0%	30,000
2003 General obligation bond for construction and improvements of various capital assets with an original amount of $1,110,000 due in installments of $15,000 to $85,000 through July 1, 2027, with interest ranging from 4.2% to 5.3%	820,000
2003 General obligation bond for infrastructure construction and improvements with an original amount of $1,415,000 due in installments of $25,000 to $115,000 through July 1, 2027, with interest ranging from 4.2% to 5.3%	1,050,000
2003 General obligation bond for the construction of a capital asset with an original amount of $205,000 due in installments of $5,000 to $15,000 through July 1, 2027, with interest ranging from 4.2% to 5.3%	150,000
2004 General obligation bond for infrastructure improvements with an original amount of $205,000 due in installments of $10,000 to $25,000 through July 1, 2018, with interest ranging from 2.4% to 4.8%	85,000
2004 General obligation bond for acquisition of property with an original amount of $140,000 due in installments of $5,000 to $10,000 through July 1, 2028, with interest ranging from 2.4% to 5.3%	90,000
2005 General obligation bond for construction of capital assets with an original amount of $140,000 due in installments of $10,000 to $15,000 through July 1, 2014, with interest ranging from 3.3% to 4.7%	15,000
2005 General obligation bond for property acquisition with an original amount of $160,000 due in installments of $5,000 to $10,000 through July 1, 2029, with interest ranging from 3.3% to 5.3%	115,000
2005 General obligation bond for infrastructure improvements with an original amount of $330,000 due in installments of $10,000 to $25,000 through July 1, 2024, with interest ranging from 4.2% to 5.3%	220,000
2005 General obligation bond for acquisition of a capital asset with an original amount of $1,210,000 due in installments of $25,000 to $80,000 through July 1, 2029, with interest ranging from 4.2% to 5.3%	935,000
2005 General obligation bond for infrastructure improvements with an original amount of $1,230,000 due in installments of $95,000 to $150,000 through July 1, 2014, with interest ranging from 3.3% to 4.7%	150,000
2005 Special obligation bond for the payment of debt with an original amount of $1,698,000 due in installments of $75,000 to $145,000 through July 1, 2019, with interest ranging from 1.53% to 6.62%	799,000

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2014
2006 General obligation bond for improvements of a capital asset with an original amount of $125,000 due in installments of $5,000 to $15,000 through July 1, 2020, with interest ranging from 1.5% to 6.6%	75,000
2006 General obligation bond for property acquisition with an original amount of $135,000 due in installments of $5,000 to $10,000 through July 1, 2030, with interest ranging from 4.2% to 5.3%	95,000
2006 General obligation bond for acquisition of a capital asset with an original amount of $145,000 due in installments of $5,000 to $10,000 through July 1, 2030, with interest ranging from 4.2% to 5.3%	105,000
2006 General obligation bond for acquisition of a capital asset with an original amount of $305,000 due in installments of $5,000 to $25,000 through July 1, 2030, with interest ranging from 4.2% to 5.3%	255,000
2006 General obligation bond for the construction and improvements of capital assets with an original amount of $905,000 due in installments of $25,000 to $75,000 through July 1, 2025, with interest ranging from 4.2% to 5.3%	655,000
2006 General obligation bond for infrastructure improvements with an original amount of $1,010,000 due in installments of $45,000 to $95,000 through July 1, 2020, with interest ranging from 4.2% to 4.8%	570,000
2006 General obligation bond for acquisition of a capital asset with an original amount of $5,755,000 due in installments of $95,000 to $445,000 through July 1, 2030, with interest ranging from 1.5% to 6.6%	4,770,000
2007 General obligation bond for infrastructure construction with an original amount of $1,010,000 due in installments of $70,000 to $135,000 through July 1, 2016, with interest ranging from 1.5% to 7.0%	375,000
2008 General obligation bond for acquisition of capital assets with an original amount of $1,235,000 due in installments of $20,000 to $100,000 through July 1, 2032, with interest ranging from 1.53% to 7.25%	1,100,000
2009 General obligation bond for the construction and improvement of infrastructure with an original amount of $1,010,000 due in installments of $70,000 to $135,000 through July 1, 2018, with interest ranging from 1.53% to 7.25%	595,000
2010 General obligation bond for the construction of a capital asset with an original amount of $1,335,000 due in installments of $95,000 to $185,000 through July 1, 2019, with interest ranging from 5.0% to 7.5%	915,000
2010 General obligation bond for the construction of a capital asset with an original amount of $650,000 due in installments of $5,000 to $55,000 through July 1, 2034, with interest ranging from 5.0% to 7.5%	615,000
2010 General obligation bond for construction of infrastructure with an original amount of $505,000 due in installments of $20,000 to $55,000 through July 1, 2024, with interest ranging from 5.0% to 7.5%	420,000
2010 General obligation bond for the acquisition of various capital assets with an original amount of $3,750,000 due in installments of $50,000 to $315,000 through July 1, 2034, with interest ranging from 6.0% to 7.5%	3,505,000
2010 General obligation bond for the construction of a capital asset with an original amount of $3,165,000 due in installments of $40,000 to $265,000 through July 1, 2034, with interest ranging from 6.0% to 7.5%	2,965,000
2011 General obligation bond for infrastructure construction with an original amount of $2,015,000 due in installments of $40,000 to $185,000 through July 1, 2030, with interest ranging from 6.0% to 7.5%	1,870,000
2011 General obligation bond for construction of a capital asset with an original amount of $630,000 due in installments of $10,000 to $60,000 through July 1, 2035, with interest ranging from 6.0% to 7.5%	600,000

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2014
2011 General obligation bond for acquisition of a capital asset with an original amount of $1,015,000 due in installments of $10,000 to $85,000 through July 1, 2035, with interest ranging from 6.0% to 7.5%	975,000
2011 Special obligation bond for infrastructure improvements with an original amount of $6,030,000 due in installments of $230,000 to $640,000 through July 1, 2025, with interest ranging from 6.0% to 7.5%	5,285,000
2011 Special obligation bond for construction and improvements of infrastructure with an original amount of $505,000 due in installments of $20,000 to $55,000 through July 1, 2025, with interest ranging from 6.0% to 7.5%	445,000
2012 Special obligation bond for construction and improvements of infrastructure with an original amount of $3,420,000 due in installments of $145,000 to $330,000 through July 1, 2027, with interest ranging from 6.0%	3,275,000
2013 General obligation bond for construction and improvement of infrastructure with an original amount of $685,000 due in installments of $10,000 to $55,000 through July 1, 2037, with interest ranging from 6.0% to 7.5%	675,000
2014 General obligation bond for construction and improvement of infrastructure with an original amount of $1,010,000 due in installments of $40,000 to $105,000 through July 1, 2028, with interest ranging from 6.0% to 7.5%	1,010,000
2014 General obligation bond for construction and improvement of infrastructure with an original amount of $1,670,000 due in installments of $20,000 to $140,000 through July 1, 2038, with interest ranging from 6.0% to 7.5%	1,670,000
2014 General obligation bond for construction and improvement of infrastructure with an original amount of $1,640,000 due in installments of $20,000 to $140,000 through July 1, 2039, with interest ranging from 6.0% to 7.5%	1,640,000
Total	**$ 42,673,000**

These bonds are payable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes, except the 2005 Series $ 1,698,000 bond, which is payable with General Fund resources. The Series 2011 and 2012, amounting $6,030,000 and $505,000, respectively, are payable with the revenues generated from the collection of the .3% of the municipal sales and use tax imposed by the Municipality and collected by the Commonwealth of Puerto Rico Treasury Department.

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

Year Ending June 30,	Principal	Interest
2015	$ 2,618,000	$ 2,284,726
2016	2,391,000	2,623,188
2017	2,613,000	2,467,246
2018	2,446,000	2,308,105
2019	2,470,000	2,148,832
2020-2024	11,455,000	8,478,948
2025-2029	10,500,000	4,595,466
2030-2034	5,855,000	1,829,744
2035-2039	2,325,000	317,647
Total	$ 42,673,000	$ 27,053,902

10. LONG-TERM LIABILITIES (CONTINUED)

Notes Payable

The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

Type of notes	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2014
2009 Series	7-1-16	505,000	1.53% to 7.25%	$ 175,000
2010 Series	7-1-16	1,115,000	5% to 7.5%	550,000
2011 Series	7-1-18	155,000	6% to 7.5%	95,000
2013 Series	7-1-19	230,000	6% to 7.5%	210,000
2014 Series	7-1-20	1,010,000	6% to 7.5%	1,010,000
2014 Series	7-1-20	205,000	6% to 7.5%	205,000
Section 108 – 2000 Series	8-1-14	1,670,000	6.2% to 6.5%	130,000
Section 108 – 2000 Series	8-1-15	4,225,000	6.2% to 6.5%	515,000
Total notes payable				$ 2,890,000

Except for the Section 108 notes, which are payable with Community Development Block Grant – Entitlement Program and General Fund sources of revenues, these notes are payable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. During the current year, the Municipality issued notes for $230,000.

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

Year Ending June 30,	Principal	Interest
2015	$ 830,000	$ 135,005
2016	730,000	116.937
2017	420,000	84,000
2018	235,000	59,437
2019	225,000	42,188
2020-2024	450,000	32,625
Total	$ 2,890,000	$ 470,192

D. Advances from CRIM- This amount represents the balance owed to the CRIM at June 30, 2014 will be repaid through a financing obtained by the CRIM with GDB.

E. Compensated Absences- The government-wide statement of net assets includes approximately $1,702,148 of accrued sick leave benefits, and approximately $1,585,224 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

F. Due to Other Governmental Entity- This amount represents the balance owed to the Puerto Rico Electric Power Authority (PREPA) at June 30, 2014, resulting from prior year's excess of electricity consumption over in lieu of payment of taxes.

10. LONG-TERM LIABILITIES (CONTINUED)

G. Landfill Obligation- State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations.

Based on this study, the Municipality has recognized $14,854,846 as the Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2014. The annual estimate of post closure costs has been assessed approximately to be $700,000 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and post-closure costs are reported in the government-wide statement of net assets.

H. GDB-Line of Credit - Improvements to the Municipal Hospital**-**The Municipality established a non-revolving line of credit with the Government Development Bank of Puerto Rico (GDB), for up to $4,850,000 as defined in the GDB loan agreement with the Municipality. The line of credit was made available to finance the improvements of the Municipal Hospital. Amounts drawn against the line of credit are repayable at the credit line maturity date. The credit line bears interest at a fixed interest rate of 4.625%. Maturity date is due on September 10, 2014. As of June 30, 2014, outstanding credit line balance was $3,194,492. Interest expense incurred on the credit line was $24,286 during the year ended on June 30, 2014.

11. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund's financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	Other Governmental Funds
Other governmental funds:	
P.R. Department of Labor – Law No. 52	$81,477
	$81,477

12. PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2014 are 8.58% for personal property and 10.58% for real property. The distribution of these rates follows:

12. PROPERTY TAXES (CONTINUED)

Description	Personal Property	Real Property
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	3.75%	3.75%
Total tax rate:	8.78%	10.78%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	**8.58%**	**10.58%**

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

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government.

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. This amount is recorded as long term debt.

On December 9, 2013, Law No. 145 "Getting Caught Up with Past Due CRIM Taxes – Incentive Plan for the Payment of Due Taxes" was approved granting an amnesty from the payment of interest, surcharges and penalties on real and personal property taxes owed from the fiscal years prior to 2013-2014. This amnesty/incentive plan was available from December 18, 2013 to March 27, 2014. This plan also awarded CRIM the faculty to grant payment plans to taxpayers up to a maximum of four years. During the fiscal year 2013-14, the Municipality received revenues from this property tax amnesty in the amount of $468,584.

13. MUNICIPAL LICENSE TAXES

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

During the fiscal year ended June 30, 2014, the tax rates were as follows:

- Financial business – 1.50% of gross revenues
- Other organizations - .50% of gross revenues

13. MUNICIPAL LICENSE TAXES

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of $5,236,549 is recorded as unearned revenues.

14. PENSION PLAN

A. Act 447 and System 2000 (until June 30, 2013)

As of June 30, 2014 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The system operates under *Act 447, approved on May 15, 1951* effective on January 1, 1952 and *Act 1 of February 16, 1990* for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of $200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Act No. 305 of September 24, 1999 amended *Act. No. 447 of 1951* and *Act 1 of February 16, 1990* to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan. There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was $10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

14. PENSION PLAN (CONTINUED)

The Act 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to $6,600 plus 8.275% of gross salary in excess of $6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the

System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 11.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

B. Act 3 of 2013 (beginning July 1, 2013)

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.

- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment)

- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.

- Increased employee contributions from 8.275% to a minimum of 10.000%.

- After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.

14. PENSION PLAN (CONTINUED)

- Retirement age was modified as follows:

  ✓ Act 447 regular employees: age 58 to 61,

  ✓ Act 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,

  ✓ Act 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).

  Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).

- Due to changes to Special Laws (see note 15), the minimum monthly pension for current retirees was increased from $400 to $500.

- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of $5,000. Therefore, the maximum monthly employee contribution will be $12.50 ($5,000 x .25%).

- Survivor benefits were modified.

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

Fiscal year ended:	Law No. 447	System 2000	Law No. 3
2014	$ -	$ -	$ 322,526
2013	$ 290,097	$ 67,156	$ -
2012	$ 308,079	$ 69,637	$ -

C. Act 32 of 2013 (beginning July 1, 2013)

On June 25, 2013, Act 32 was approved in order to amend Act 447 of 1957 by creating a new Article 5-117 *Additional Uniform Contribution* (AUC), with the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer.

14. PENSION PLAN (CONTINUED)

Act 32 defines the concept of the AUC as follows:

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars ($140,000,000)

- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars ($1,000,000,000). If, for any fiscal, the certified AUD is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year.

For the fiscal year 2013-2014, $41.142 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)).

15. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 12, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from $600 to $200 (current retirees),

- Elimination of summer bonus of $100 (current retirees),

- No change in medical plan contribution of up to $1,200 and medicine bonus of $100 (current retirees)

- Eliminated all Special Law benefits to future retirees.

15. POSTEMPLOYMENT BENEFITS (CONTINUED)

Act 3 also established that employers will contribute $2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

For the fiscal year 2013-2014, $20 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of net incremental cost of the $2,000 contribution per retiree for any municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on the same two parameters evaluated for the Additional Uniform Contribution (AUC) subsidy (financial indicators and population).

16. 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, 2014, 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 a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately $13,000 for awarded or anticipated unfavorable judgments in the Government–Wide financial statements. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

c. Other Commitments:

At June 30, 2014, the general fund had commitments of approximately $7,594,366 for executory purchase orders or contracts that will be honored during the subsequent year.

17. RESTATEMENT OF FUND BALANCE AND NET POSITION

The following table disclosed the net change in fund balances and net position at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

a. Fund Financial Statements

Description	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Head Start	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Fund balance, beginning	$ 10,127,004	$ 6,702,199	$ -	$ 12,871,423	$ 347,184	$ 8,441,253	$ 223,468	$ 38,712,531
Understatement of matured bonds and interest payable						(4,101,125)		(4,101,125)
Net understatement of cash – bonds and notes						122,054		122,054
Understatement of revenues, Federal Government					1,237,893		425,766	1,663,659
Overstatement of cash				(138,566)				(138,566)
Reclassification of funds to other governmental funds		(6,702,199)		(12,732,857)	(1,585,077)		21,020,133	
Fund balance, beginning as restated	$ 10,127,004	$ -	$ -	$ -	$ -	$ 4,462,182	$ 21,669,367	$ 36,258,553

b. Government-Wide Financial Statements

Description	Government-Wide Statement
Net position, beginning	$ 92,739,649
Overstatement of cash	(138,566)
Net understatement of cash – bonds and notes	122,054
Understatement of revenues, Federal Government	1,663,659
Understatement of Bonds and notes payable	(115,000)
Understatement of interest payable	(931,122)
Net position - beginning, as restated	$ 93,340,674

18. SUBSEQUENT EVENTS

A. Implementation of Acts 18 and 19 of 2014

The dispositions established by Acts 18 and 19 of 2014 related to the municipal sales and use tax became effective on July 1, 2014 (see note 3). The most significant changes are the creation of the Municipal Finance Corporation (COFIM) and, for the municipalities covered by these Acts, the new collection method of the 1% municipal sales and use tax and the establishment of a monthly advances system for the transfers of the .2% destined for the Municipal Development Fund (FDM) and of the .2% related to the Municipal Redemption Fund (FRM).

For those municipalities that signed the agreement to be covered by these Acts (including the Autonomous Municipality of Cayey), the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM and FRM with the monthly advances made to each municipality. If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act 19, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be $65,541,281 and, thereafter, 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the FRM as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act.

On September 1, 2014, the sixteen municipalities that collect their sales and use tax through the P.R. Department of Treasury (Aguadilla, Aibonito, Arroyo, Barranquitas, Ciales, Culebra, Hatillo, Juncos, Lajas, Lares, Maricao, Maunabo, Naguabo, Patillas, Peñuelas and Rincon) began participating on a pilot program for the collection of the 1% municipal sales and use tax through COFIM. In this program, a standard monthly sales and use tax return was created to be used by the retailers of these municipalities. The monthly returns were filed in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico (BPPR). BPPR would electronically process the returns and submit their data to COFIM. However, beginning November 1, 2014, the retailers also had the option of using COFIM's internet portal to electronically file and pay the return.

On the other hand, the Governing Board of COFIM has not established an implementation date for the remaining 62 municipalities. However, for those municipalities that voluntary decided to use COFIM's internet portal or collection process through the BPPR, their implementation date was December 1, 2014. For those municipalities that want to be certified as collection agents for COFIM, the implementation date is January 1, 2015. As collection agents for COFIM, the retailers of these municipalities have the option of filing and paying the monthly sales and use tax in the municipality's Collection Office. The Collection Office's personnel have the responsibility to deposit the daily sales and use tax collections in the bank account designated by COFIM, and also submit electronically the returns' data to the agency for processing in COFIM's data base. The Autonomous Municipality of Cayey's application to be a certified collection agent was denied by COFIM and therefore, its sales and use collections will be through COFIM's internet portal or through BPPR, once the final implementation date has been established by the agency.

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
REVENUES:				
Property taxes	$ 8,355,979	$ 8,355,979	$ 8,801,299	$ 445,320
Municipal license tax	7,000,000	7,000,000	6,734,897	(265,103)
Municipal sales and use tax	3,630,000	3,630,000	3,895,316	265,316
Licenses, permits and other local taxes	1,574,237	1,574,237	931,477	(642,760)
Charges for services	4,043,959	4,043,959	2,812,400	(1,231,559
Intergovernmental	4,029,995	4,029,995	4,796,995	767,000
Fines and forfeiture	225,000	225,000	22,294	(202,706)
Rent of property	973,000	973,000	898,750	(74,250)
Interest	330,000	330,000	535,379	205,379
Miscellaneous	695,000	695,000	702,559	7,559
Total revenues	30,857,170	30,857,170	30,131,366	(725,804)
Budget carryover		3,767,223	3,767,223	
Total revenues	30,857,170	34,624,393	33,898,589	(725,804)
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	16,655,828	20,038,677	15,899,530	4,139,147
Public safety	736,836	772,848	527,262	245,586
Public works	4,546,903	4,678,251	4,021,775	656,476
Health and welfare	6,339,958	6,531,557	5,711,497	820,060
Culture and recreation	1,217,676	1,221,391	1,041,845	179,546
Community development	338,380	336,896	178,609	158,287
Education	861,639	884,823	572,540	312,283
Operating transfer to other funds	159,950	159,950	131,965	27,985
Total expenditures, encumbrances and other financing uses	30,857,170	34,624,393	28,085,023	6,539,370
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	$ -	$ -	$ 5,813,566	$ 5,813,566

Explanation of Differences:

Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 33.898,589
Differences-budget to GAAP:	
Budget Carryover	(3,767,223)
Non-budgeted transfer in	601,227
GAAP adjustments to revenues	39,406
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	$ 30,771,999
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 28,085,023
Differences-budget to GAAP:	
Non-budgeted expenditures	3,653,793
Non-budgeted transfer out	54,244
Prior year encumbrances recorded as current year expenditures for GAAP basis	83,306
Current year encumbrances recorded as expenditures for budgetary purposes	(3,336,969)
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	$ 28,539,397

See notes to the Budgetary Comparison Schedule-General Fund.

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, 2014 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2014.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
	BALANCE SHEET	
Assets	**Current Assets Cash:**	
111	Cash - Unrestricted	$ 147,221
113	Cash - Other Restricted	25,423
100	**Total Cash**	172,644
150	**Total Current Assets**	172,644
	Non-Current Assets	
	Fixed Assets:	
164	Furniture, Equipment & Machinery - Administration	29,228
166	Accumulated Depreciation	(29,228)
160	**Total Capital Assets, Net of Accumulated Depreciation**	-
180	**Total Non-Current Assets**	-
190	**Total Assets**	172,644
290	**Total Assets and Deferred Outflow of Resources**	$ 172,644
Liabilities and Equity	**Liabilities**	
	Current Liabilities:	
312	Accounts Payable <= 90 days	$ 2,871
333	Accounts Payable - Other Government	18,463
310	**Total Current Liabilities**	21,334
	Non-Current Liabilities:	
353	Non-current Liabilities - Other	$ 22,552
310	**Total Non-Current Liabilities**	22,552
300	**Total Liabilities**	43,886
Equity	**Equity**	
508.4	Net Investment in Capital Assets	-
511.4	Restricted Net Position	-
512.4	Unrestricted Net Position	128,758
513	**Total Equity - Net Assets/Position**	128,758
600	**Total Liab., Def. Inflow of Res., and Equity - Net Assets/Position**	$ 172,644

See notes to the Financial Data Schedule.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
	INCOME STATEMENT	
70600	HUD PHA Operating Grants	$ 1,121,645
71400	Fraud Recovery	4,729
71500	Other Revenues	71,872
70000	**Total Revenues**	1,198,246
	Expenses Administrative:	
91100	Administrative Salaries	98,768
91200	Auditing Fees	2,930
91500	Employee Benefit Contributions - Administrative	26,227
91900	Other	3,057
91000	**Total Operating - Administrative**	130,982
96900	**Total Operating Expenses**	130,982
97000	**Excess of Operating Revenue over Operating Expenses**	1,067,264
97300	Housing Assistance Payments	1,072,447
97350	HAP Portability-In	54,424
97400	Depreciation Expense	7
90000	**Total Expenses**	1,257,860
10000	**Excess (Deficiency) of Total Revenues Over (Under) Total Expenses**	$ (59,614)
	Memo Account Information:	
*11030	Beginning Equity	$ 188,372
*11170	Administrative Fee Equity	$ 128,758
*11180	Housing Assistance Payments Equity	$ -
*11190	Unit Months Available	2,712
*11210	Number of Unit Months Available	2,667

See notes to the Financial Data Schedule.

1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) presents the financial position of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by the Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC) as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Rural Housing Preservation Grant	10.433		$ 13,175
Pass-through the Commonwealth of Puerto Rico – Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	576,875
Total U.S. Department of Agriculture			**590,050**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Community Development Block Grants – Entitlement Grants	14.218		620,077
Emergency Shelter Grants Program	14.231		188,670
Section 108 Loan Guarantee	14.248		191,671
Public and Indian Housing	14.850		719,110
Section 8 Housing Choice Voucher	14.871		1,121,645
Pass-through the Commonwealth of Puerto Rico – Municipality of San Juan:			
Housing Opportunities for Persons with AIDS	14.241	Not Available	17,553
Total U.S. Department of Housing and Urban Development			**2,858,726**
U.S. DEPARTMENT OF TRANSPORTATION:			
Direct Programs:			
Federal Transit – Formula Grants	20.507		49,841
Total U.S. Department of Transportation			**49,841**

The accompanying notes are an integral part of this schedule.

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF EDUCATION:			
Pass-through the Commonwealth of Puerto Rico – Department of Education:			
Twenty-First Century Community Learning Centers	84.287		1,540,678
Total U.S. Department of Education			**1,540,678**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico – Governor's Office (Elderly Office):			
Special Program for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	Not Available	69,301
Pass-through the Commonwealth of Puerto Rico – Family Department:			
Child Care and Development Block Grant	93.575	Not Available	144,195
Head Start Program	93.600	Not Available	5,730,168
Total U.S. Department of Health and Human Services			**5,943,664**
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico – Governor's Authorized Representative Office (GAR):			
Disaster Grants-Public Assistance	97.036	Not Available	222,978
Total U.S. Department of Homeland Security			**222,978**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 11,205,937**

The accompanying notes are an integral part of this schedule.

A. BASIS OF PRESENTATION:

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

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

B. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

Description	Special Revenue Fund Head Start	Debt Service Fund	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	$ 6,297,851	$ -	$ 4,908,086	$ 11,205,937
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program			(139,340)	
Non-federal awards expenditures	54,245	4,791,618	7,224,099	11,930,622
Total expenditures in the fund financial statements	$ 6,352,096	$ 4,791,618	$ 11,992,845	$ 23,136,559

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

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

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

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item **14-01**, that we consider to be significant deficiencies.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

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

Compliance and Other Matters

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

Autonomous Municipality of Cayey's Response to Findings

Autonomous Municipality of Cayey's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Autonomous Municipality of Cayey**'s 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

López-Vega CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 10, 2015

Stamp No. 2675870 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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

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

Report on Compliance for Each Major Federal Program

We have audited **Autonomous Municipality of Cayey**'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Autonomous Municipality of Cayey**'s major federal programs for the year ended June 30, 2014. The **Autonomous Municipality of Cayey**'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, the **Autonomous Municipality of Cayey** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **14-02** through **14-06**. Our opinion on each major federal program is not modified with respect to these matters.

The **Autonomous Municipality of Cayey**'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Autonomous Municipality of Cayey**'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 **Autonomous Municipality of Cayey** 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 **Autonomous Municipality of Cayey**'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Cayey**'s internal control over compliance.

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as items **14-02** through **14-05**, which we consider to be significant deficiencies.

The **Autonomous Municipality of Cayey**'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Autonomous Municipality of Cayey**'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.

López-Vega CPA PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 10, 2015

Stamp No. 2675871 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Section I – Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant – Entitlement Program
14.871	Section 8 Housing Choice Voucher Program
84.287	Twenty-First Century Community Learning Centers
93.600	Head Start Program
97.036	Disaster Grants-Public Assistance

Dollar threshold used to distinguish between Type A and Type B programs	$336,178	
Auditee qualified as low-risk auditee?	Yes	No X

Section II – Financial Statements Findings

Finding Reference **14-01**

Requirement **Financial Reporting – Accounting Records**

Statement of Condition

During our examination of the Municipality's accounting system, we noted that the Municipality's accounting record for Local, State and Federal funds does not provide modified-accrual basis financial statements. Also, the accounting system does not offer subsidiaries to produce government-wide financial statements. The computerized system provided by the Office of the Commissioner for Municipal Affairs (OCAM) and manual system maintained by finance department personnel do not provide financial information to generate the basic financial statements since the beginning balances were not properly presented in the accounting system.

Therefore, the Municipality's hires the professional services of local accounting firms to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and compile the necessary information as required by GAAP and the Law No. 81.

Criteria

Chapter VIII, Article 8.010 of State Act Number 81 of August 30, 1991, states that the Municipality should maintain an effective and updated accounting system.

Cause of Condition

The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry General Ledger record.

Effect of Condition

The Municipality's accounting system did not provide updated and complete financial information that presents the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.

Recommendation

We recommend the Municipality's Management to implement internal control and procedures in order to maintain a double entry accounting system that contains accurate information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

Section II – Financial Statements Findings

Finding Reference **14-01 (Continued)**

Questioned Costs None

Management Response and Corrective Action

The Municipality maintains two set of accounting records; a manual system and a computerized system provided by the Office of the Commissioner for Municipal Affairs (OCAM). Actually, all of the transactions were recorded in both systems, but the manual system is the primary financial record for financial statements preparation purposes at the end of each fiscal year due to the fact that the computerized system real accounts balances carried forward from prior years were affected by accounting errors in the first years of the system operation.

Nevertheless, as part of the corrective action plan, the Commissioner for Municipal Affairs ("OCAM") considers alternatives to improve the accounting system, including the acquisition of new accounting software, and therefore, we will hope to solve our accounting system condition in a near future.

Implementation Date: Not available at this moment

Responsible Person: Mr. Edwin Quiles Rosario
Finance Department Director

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	**14-02**
Program	**Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development**
Requirement	**Special test-Waiting List**
Statement of Condition	We performed a Waiting List – Compliance Test and after our procedures, we could not validate the process performed by the program staff for the selection of the new participants from the waiting list during the program year 2013-2014. Also, one participant admitted to the program was not included in the Waiting List.
Criteria	24 CFR, Subpart E, Sec. 982.204 (c) (1) states that the PHA administrative plan must state PHA policy on when applicant names may be removed from the waiting list. The policy may provide that the PHA will remove names of applicants who do not respond to PHA requests for information or updates.
Cause of Condition	The Municipality did not follow the policy stated in the Section 8 Administrative Plan with regarding the process of updating the waiting list.
Effect of Condition	The Municipality is not in compliance with the Housing Choice Voucher Program Guidebook, Chapter 4, Section, 4.6.
Recommendation	We recommend to the Municipality's Management improve its procedures in order to ensure that the Program maintains a complete and accurate waiting list and that the updating process of the waiting list will be in accordance with the Municipality's Section 8 Administrative Plan, and explanations are given when an applicant is removed from the list or skipped.
Questioned Costs	None
Management Response and Corrective Action	As part of our corrective action plan, the Program's Management will be instructed according to the auditor's recommendation.

Implementation Date:	Immediately
Responsible Person:	Mr. Ramon Figueroa Cortés Federal Programs Department Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **14-03**

Program **Section 8 Housing Choice Vouchers Program CFDA (14.871); U.S. Department of Housing and Urban Development**

Requirement **Special Test – Utility Allowance Schedule**

Statement of Condition The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2014. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten (10) percent or more in the utility rate.

Criteria Code of Federal Regulations 24, Subpart K, Section 982.517 states that the PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility rate data for each utility category on a yearly basis and must adjust its allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time utility allowance was revised.

Cause of Condition The PHA did not follow the procedures established to review utility rate date each year.

Effect of Condition The PHA is not in compliance with the Code of Federal Regulations 24, Subpart K, and Section 982.517.

Recommendation The PHA should evaluate utility allowance rates each year as established in the federal regulations.

Questioned Costs None.

Management Response and Corrective Action As part of our corrective action plan, the Program's Management will be instructed according to the auditor's recommendation.

Implementation Date: March, 2015

Responsible Person: Mr. Ramon Figueroa Cortés
Federal Programs Department Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**14-04**
Program	**Twenty-First Century Community Learning Centers (CFDA No. 84.287); U.S. Department of Education; Pass–through Commonwealth of Puerto Rico–Department of Education**
Requirement	**Equipment – Inventory report and management**
Statement of Condition	The equipment were relocated to the schools served, but the Equipment Report was not updated to present the new location. Also, we found no evidence of the Commonwealth of Puerto Rico Department of Education (DE) authorizing the relocation of the equipment as established by the contract agreement and Fiscal Procedures Guide.
Criteria	Clause sixteen of the contract agreement for program year 2013-2014 established the information that needs to be disclosed in the Inventory Report and the requirement requesting approval to relocate the equipment. Fiscal Procedures Guide establishes that a written notification must be submitted to the Secretary and Coordinator of the DE.
Cause of Condition	Internal procedures are not established to safeguard the equipment and the program staff is not implementing the Fiscal Procedures Guide.
Effect of Condition	The Municipality is in noncompliance with the clause sixteen of the contract agreement.
Recommendation	We recommend to the Municipality to follow the control procedures to safeguard and manage the equipment.
Questioned Costs	None
Management Response and Corrective Action	As part of our corrective action plan, the Program's Management will be in communication with the person in charge of the property to update the Inventory Report according to the internal documents generated that confirm the actual location of the equipment. The personnel assigned to the school will be the person in custody of the equipment located in the school. Implementation Date: Immediately Responsible Person: Wanda I Colón Vega Program Coordinator

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**14-05**
Program	**Public Assistance Grant (CFDA No. 97.036); U.S. Federal Emergency Management Agency; Pass through Commonwealth of Puerto Rico - Office of Governor Authorized Representative (GAR)**
Requirement	**Reporting–Quarterly Reports**
Statement of Condition	During our examination of the fiscal year Quarterly Reports – Percentage of Completion Reports, we noted the reports did not agree with the accounting and projects records.
Criteria	Code of Federal Regulation 44 Section 13.41 Financial Reports, Subpart C, Reports, Records Retention and Enforcement. Except as provided in paragraphs (a) (2) and (5) of this section, grantees will use only the forms specified in paragraphs (a) through (e) of these section, and such supplementary or other forms as may from time to time be authorized by the OMB.
Cause of Condition	The Municipality accounting controls and procedures fail to ensure accurate, current and complete disclosure of the financial results of federal assisted activities.
Effect of Condition	The Municipality is in noncompliance with Code of Federal Regulation 44 Section 13.41 Financial Report, Subpart C.
Recommendation	We recommend the Municipality's Management to reconcile differences between the quarterly reports and the accounting records before their submission to the pass-through grantor.
Questioned Costs	None
Management Response and Corrective Action	Instructions were given to the Municipality's staff in order to correct the indicated condition. All projects will be documented with (1) a before and after picture of the works, (2) and a monthly and final inspection report. Municipality's Departments in charge of developing the projects will have to present a report with pictures and a breakdown of the costs. Implementation Date: March, 2015 Responsible Person: Cesar J. Rodríguez, PE Planning and Development Department Director

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
13-02	14.218	During our Davis-Bacon Act test, we verified (5) construction project files. The following will summarize the exceptions noted: (a) In four (4), we noted that during the fiscal year 2012-2013, the Municipality did not apply adequate monitoring procedures to required on-site visits to monitor the classifications of workers and wage rates paid; (b) In one (1) construction project, the contractor did not submit the entire documents required for the weekly payroll. A similar situation was not identified during fiscal year ended June 30, 2014.
13-03	14.871	We performed a Waiting List – Compliance Test and after our procedures, we could not validate the process performed by the program staff for the selection of the new participants from the waiting list during the program year 2012-2013. No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 14-02.
13-04	14.871	During our audit, we noted that the Voucher for Payment of Annual Contributions and Operating Statement submitted electronically to HUD via the VMS monthly does not agree with its annual financial submission to HUD through the FASS-PH system. Corrective action was taken.
13-05	97.036	During our examination of the fiscal year Quarterly Reports – Percentage of Completion Reports we noted the reports did not agree with the accounting records. No corrective action was taken. See Finding Reference 14-05.
12-02	14.218	During our earmarking test over the funds used over the three year period, we found that the Municipality has not complied with the seventy percent (70%) of the funds that must be used over a period of up to three years for activities that benefit low – and moderate – income persons. The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.
12-04	14.871	We performed a Cash Management Test and after our procedures, we found that during the current fiscal year, the Program maintained a monthly average cash

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		balance in books of approximately $392,793. In addition, the PHA maintained an average leasing rate of 83% instead a 95%, as required. This means that the Program did not use all vouchers approved to the Municipality. The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.
12-05	14.871	We performed a Waiting List – Internal Control and Compliance Test and after our procedures, we found that the current Waiting List does not contain the following information: (a) Family unit size; (b) Racial or ethnic designation; (c) Qualification for any local preference. Also, the admission of new participants to the program does not follow Regulation as established by the Administrative Plan. The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.