

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SINGLE AUDIT REPORT
JUNE 30, 2014**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SINGLE AUDIT REPORT
JUNE 30, 2014**

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JUN 30 2014
 MUNICIPALITY OF CIALES
 OFFICE OF THE AUDITOR

**COMMONWEALTH OF PUERTO RICO
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SINGLE AUDIT REPORT
JUNE 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
And Municipal Legislature
Municipality of Ciales
Ciales, 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 Municipality of Ciales, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality of Ciales' basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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 of Ciales, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-12 and 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Ciales' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 combining and individual nonmajor fund financial statements 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.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015, on our consideration of the Municipality of Ciales' 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 the Municipality of Ciales' internal control over financial reporting and compliance.



ADVANCED CPA, LLC
Certified Public Accountants
(of Puerto Rico)



San Juan, Puerto Rico
March 27, 2015

License No. LLC-285 expires December 1, 2016
Stamp E104468 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Puerto Rico, Municipality of Ciales (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2014. The MD & A should be read in conjunction with the transmittal letter on page 12 and the Municipality's financial statements, which begin on page 13. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended June 30, 2014.

This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of GASB 34, and it has been designed accordingly with the following goals:

- a. Assist the reader in focusing on significant financial issues,
- b. Provide an overview of the Municipality's financial activity,
- c. Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d. Identify any material deviations from the financial plan (the approved budget), and
- e. Identify individual fund issues or concerns.

Fundamentals of Financial Statements Presentation

The new approach on the preparation of the Municipality's financial information consists of a series of new financial statements with a change in the focus from previous financial statements. Both perspectives (government-wide and major funds) allow the user address relevant questions about the municipality's performance broaden a basis for comparison (year to year or government to government) and enhance their municipality's accountability.

Because of the implementation of these new reporting standards, much of the information will not be easily comparable with prior year. However in future years, comparisons will be more meaningful and will provide a better understanding of the municipality's financial position and results of its operations.

General Fund

In spite of the difficult economic situation during fiscal year 2013-2014 and the budgetary deficit that the island of Puerto Rico has run through, our administration has worked very responsibly by paying attention to most urgent requests but without overlooking what is important and necessary. To that effect we have promoted and completed several projects related to permanent improvements in various areas that will provide quality facilities to the citizens of the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The property tax revenue represents 10% of total revenues of the municipality during the last five years. The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality of Ciales and for the levy, administration and collection of the corresponding taxes.

However, we deal with a deficit situation in the general fund of approximately \$6.4 million at June 30, 2014. The decrease in the deficit during fiscal year 2013-2014 is due mainly to the Government Redemption fund of sales and use taxes that was not realized as needed. Therefore, we expect that during fiscal year 2014-2015 the construction projects receive final endorsement from the appropriate authorities and, accordingly, our Municipality's Management will correct the deficit in the general fund with 2014-2015 revenue sources.

FINANCIAL HIGHLIGHTS

- The Net position of the Municipality exceeded its liabilities at the close of the current fiscal year by \$16.7 net assets decreased by \$143,309 when compared with prior year.
- Revenues were \$3.2 million less than last year; expenses were 1.5 million less than last year as reported in the Statement of Activities.
- The Municipality had reported in the General Fund a deficiency of revenues over expenditures amounting to \$6.4 million in the accompanying statement of revenues, expenditures and changes in fund balances.
- Loans principal payments were \$608,000 during fiscal year 2013-14.
- The actual revenues were \$2.2 million less and the expenditures were \$1.6 million less creating a deficiency of \$651,558 over the revenues in the Budgetary Schedule mainly due to unfavorable variances in revenues, (Volume of Business Tax, Municipal tax and other revenues).
- The Municipality government funds reported combined ending fund balances of (\$470,878) million in the accompanying statement of revenues, expenditures and changes in fund balances (deficit).
- The Municipality has reported a net unassigned fund balance deficit for the general fund amounting to \$6.4 million.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Statements Components

The basic financial statements consist of government wide financial statements, the major individual funds financial statements and notes to the financial statements that provide more details.

Governmental-wide financial statements - The government-wide financial statements which begin on page 13 of this report are designed to provide users with a broad overview of the Municipality's finances, in a manner similar to a private-sector business. The government wide statements provide short and long term information about the municipality's status as a whole.

The Statement of Net position reflects information of the Municipality as whole. Overtime increases or decreases of net assets may serve as a useful indicator of whether the municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Accrual of the current year revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Activities is focused on both gross and net cost of the various activities, which are supported by the Municipality's property tax, municipal licenses tax and other revenues. It is intended to summarize and simplify the user's analysis of the costs of governmental services.

The Statement of Net position and the Statement of Activities, on pages 12-13 report the Municipality net position and changes in them. One can analyze of the Municipality's net position, as the difference between assets, liabilities and deferred inflows or resources, as one way to measure the Municipality's financial position. The increases or decreases in the Municipality's net assets are one of the indicators of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered, such as changes in the Municipality's property tax base, and the condition of roads, to assess the overall health of the Municipality's of Ciales.

Fund Financial Statements – The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND**

The Governmental Funds provides a detail short-term view of the Municipality general governmental operations and the basic services it provides. Governmental funds information help you determine whether there are more or fewer financial resources that can be spent in the near future to finance Municipality programs. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund financial statements.

Analysis

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

Infrastructure Assets

The Municipality implemented the major model portions of GASB statement 34 during the prior years. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statements. The new statement required that this asset be valued and reported within the Governmental column of the Governmental Wide Statement.

Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets management system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

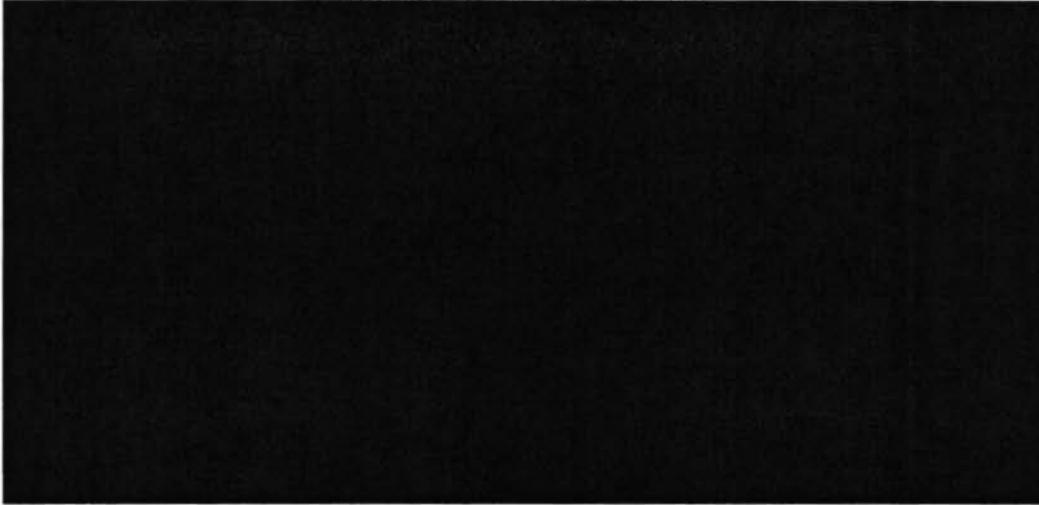
Government-Wide Financial Analysis

Statement of Net Position

The Statement of Net Position reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by \$16.7 million at the close of the recent fiscal year compared to \$15 million at the end of previous year, as restated and showed in the following condensed Statement of Net Position of the Primary Government.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Net Position
As of June 30, 2013 and 2014**



The increase of \$1.7 million in the current net position was mainly due to decrease in accounts Cash with fiscal agent; Non-current liabilities were reduce by \$1.1 million principally is reflected in the account due to government entities. The capital assets net decrease by \$1.5 same time created a decreased in the net invested in capital asset by \$1.5 million reflected principally in the Building and improvements, net.

Increase – (Decrease) net in Capital Assets was as follows:

	6/30/2014	%	6/30/2013	%	Change
Land	\$ 1,706,856	6%	\$ 1,706,856	6%	\$ -
Construction in progress	4,877,173	18%	3,269,161	12%	1,608,012
Building and improvements, net	9,080,210	34%	9,943,446	37%	(863,236)
Infrastructure	10,590,968	40%	10,999,096	41%	(408,128)
Furniture and equipment	126,351	0%	259,265	1%	(132,914)
Works of art	15,210	1%	30,420	1%	(15,210)
Motor vehicles	172,027	1%	463,964	2%	(291,937)
Total Net Capital Asset	\$ 26,568,795		\$ 26,672,208		\$ (103,413)

The net building improvements represent 32 percent and 34 percent of total asset and net capital assets respectively. Construction in progress represents 17 percent of total asset and 18 percent and net capital asset.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a condensed Statement of Activities of the Primary Government:

**Statements of Activities
For the year ended June 30, 2014 and 2013
Net Position**

	2014	2013	Changes	%
General Revenues				
Property tax	\$ 1,091,582	\$ 1,581,110	\$ (489,528)	-31%
Volume of Business Tax	373,183	357,289	15,894	4%
Intergovernmental revenue	8,389,282	8,382,604	6,678	0%
Rent	77,015	59,677	17,338	29%
Interest	39,907	12,435	27,472	221%
Other revenue	694,841	1,432,615	(737,774)	-51%
Municipal sales tax	930,213	1,464,196	(533,983)	-36%
Program revenues:				
Capital grants	741,360	1,500,961	(759,601)	-51%
Operating grant	529,616	1,094,167	(564,551)	-52%
Charges for Services	10,830	278,615	(267,785)	-96%
Total Revenues	12,877,829	16,163,669	(3,285,840)	
			-	
Expenditures			-	
General government	6,623,490	6,576,446	47,044	1%
Public safety	846,709	944,994	(98,285)	-10%
Public wok	1,824,543	3,422,598	(1,598,055)	-47%
Public Housing and Welfare	1,705,366	1,382,011	323,355	23%
Culture and recreation	997,723	1,197,524	(199,801)	-17%
Interest and fiscal charges	440,511	449,441	(8,930)	-2%
Total Expenditures	12,438,342	13,973,014	(1,534,672)	
Changes in Net Position	\$ 439,487	\$ 2,190,655	\$ (1,751,168)	

The Statement of Activities reflects for fiscal year 2014, the net effect of revenues derived from several programs plus current operating revenues. Total revenues compared to the total expenses, amounted to decrease by \$1.7 million in the Municipality's net position. Approximately 19 percent of the Municipality's total revenue came from taxes, while 9 percent resulted from Federal grants and 65 percent resulted from Intergovernmental Revenues. The Municipality's expenses cover a range of services like health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and improvements. The largest expenses were for general government, public works, education and training and culture and recreation. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

A brief review of the Statements of Activities of the Municipality at June 30, 2014, shows that total expenses incurred to afford the cost of all functions and programs amounted to \$13.9 million. Upon examining the sources of revenues for the financing of the programs, the Statement reflects the following; \$10,830 for charges for service, \$1.2 million from operating grants and contributions. General revenues for the year amounted to \$11.6 million. Expenses decreased by \$1.5 million or 10% when compared to prior year.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

The following is a condensed Balance Sheet of the Governmental Funds:

**Governmental Funds
Balance Sheets
June 30, 2014 and 2013**

	2014	2013	Changes	%
Assets:				
Cash	\$ 1,507,219	\$ 481,335	\$ 1,025,884	213%
Restricted Cash	1,715,299	2,113,265	(397,966)	-19%
Accounts Receivable	4,975,901	4,945,016	30,885	1%
Total Assets	\$ 8,198,419	\$ 7,539,616	\$ 658,803	9%
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and due to				
other funds	\$ 7,803,656	\$ 7,875,596	\$ (71,940)	-1%
General Obligations	552,000	522,000	-	
Deferred inflows of resources	313,641	668,551	(354,910)	-53%
Total Liabilities	8,669,297	9,066,147	\$ (426,850)	
Funds Balances	(470,878)	(1,526,531)	1,055,653	-69%
Total liabilities and Fund Balances	\$ 8,198,419	\$ 7,539,616	\$ 628,803	

The Governmental Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts 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 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

During 2014 the municipality had \$1.7 million of cash restricted, in the other funds \$299,073 and in the debt service was obligated by \$1.8 million. The accounts payable decreased by 1.5 million. Deferred revenues decreased by approximately \$ 354,910.

The most significant changes of this statement were as follows:

- Revenues from property tax decreased by \$489,528 due to an increase in property tax collection. The increase in Intergovernmental revenues of \$6,678 was the result of increase in funds received from central government. Revenue from volume business tax declaration was increase by \$15,894 when compared with prior year, reflected in sales reported in the municipal tax declaration. Other revenues decrease by \$1.4, principally for eventual income.
- Expenditures were decreased by approximately \$4.9 million reflected by a decrease in Capital outlays expense when compared the prior year. The expenditures decrease \$2.9 million in the mentioned account and Public works 1.5 million.

	2014	2013	Changes	%
Revenues:				
Property taxes	\$ 1,091,582	\$ 1,581,110	\$ (489,528)	-31%
Volume of business tax	373,183	357,289	15,894	4%
Licenses, permits and local tax	281,427	252,370	29,057	12%
Intergovernmental revenue	8,389,282	8,382,604	6,678	0%
Federal grants	1,270,976	2,595,128	(1,324,152)	-51%
Sales Tax	930,213	1,000,815	(70,602)	-7%
Interest, fines and penalties	39,907	12,435	27,472	221%
Other	501,259	1,981,918	(1,480,659)	-75%
Total Revenues	\$ 12,877,829	\$ 16,163,669	\$ (3,285,840)	-20%
Expenditures and Fund Balance				
Expenditures:				
General Government	\$ 5,958,021	\$ 5,904,948	\$ 53,073	1%
Public works	1,729,208	3,287,194	(1,557,986)	-47%
Public safety	759,700	857,985	(98,285)	-11%
Public housing and welfare	1,593,753	1,282,384	311,369	24%
Capital outlays	274,079	3,176,675	(2,902,596)	-91%
Culture and recreation	402,822	548,236	(145,414)	-27%
Bonds (principal and interest)	1,048,511	1,003,541	44,970	4%
Total Expenditures	\$ 11,766,094	\$ 16,060,963	\$ (4,294,869)	-27%
Excess of revenues (expenditures)				
under expenditures (revenues)	1,111,735	102,706	1,009,029	982%
Fund Balance, ending (deficit)	\$ (470,878)	\$ 1,526,531	\$ (1,997,409)	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Economic Factors and Next Year Budget

The Municipality is a political legal entity with full legislative and administrative powers in every area of the municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which has eleven (11) members, exercises the legislative power.

The Municipality relies primarily on property and intergovernmental revenues as well as federal and state grants to carry out the governmental activities. Federal and State grant revenues may vary if new grants are available. Those factors were considered when preparing the Municipality's budget for the fiscal year 2014-2015.

The Budget for Revenues and expenditures were \$10.5 million for the general fund, total revenues decreased \$2.2 million when comparing the budgeted revenues with the actual revenue. The other revenue decreased by \$1.2 million. The actual expenditures were \$1.6 less than budgeted expenditures. Excess of revenues under expenditures reflect a deficiency of \$651,558.

The Municipality provides a full range of services including public works, education Public safety, public housing, health, community development, culture, recreation and other administrative services. The Municipality's principal sources of revenues are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality's management is committed to a continued improvement in the confection of a budget that wills response to the need of the public and private sectors in accordance with its permissible revenues levels. Such has been the case of the financial operation corresponding to fiscal year 2014. It further contemplates to improve its current figure of net position, which has been identified as one of the main short and long-term objectives of the Municipality.

Contacting the Municipality's Financial Management

The Municipality's financial statements are designed to present users with general overview of the Municipality's finances. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance.

Finance Director, PO Box 1408, Ciales Puerto Rico, 00638. Telephone (787) 871-3500, Fax (787) 871-3743.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities	Component Unit Colinas de Jaguas I
<u>ASSETS</u>		
Cash and investments	\$ 1,507,219	\$ 9,528
Cash with fiscal agent	1,715,299	-
Accounts receivable (Municipal Sales Tax)	18,709	-
Accounts receivable (Rent)	-	27,151
Accounts receivable from government	7,912	-
Other Assets	-	1,487
Restricted deposited	-	122,416
Capital assets, net of accumulated depreciation	26,568,795	168,361
Total assets	\$ 29,817,934	\$ 328,943
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 932,229	\$ 17,960
Accrued interest	245,405	11,648
Due to government entity	1,676,742	-
Non-current liabilities:	-	-
Due within one year	1,001,859	37,935
Due in more than one year	8,874,938	1,376,592
Total liabilities	12,731,173	1,444,135
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenues - Volume of Business Tax	\$ 313,641	\$ -
<u>Net Position</u>		
Invested in capital assets	24,305,247	-
Restricted for:		
Debt service	917,894	-
Capital project activity	5,060,194	-
Unrestricted (deficit)	(13,510,215)	(1,115,192)
Total Net Position	16,773,120	(1,115,192)
Total Liabilities and Net Position	\$ 29,817,934	\$ 328,943

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Primary	Component
					Governmental Activities	Unit Colinas de Jaguas I Project
<u>EXPENDITURES:</u>						
General government	\$ 6,623,490	\$ -	\$ (741,360)	\$ (529,616)	\$ 5,352,514	\$ -
Public works	1,824,543	(10,830)	-	-	1,813,713	-
Public safety	846,709	-	-	-	846,709	-
Health	933,723	-	-	-	933,723	-
Culture and recreation	997,499	-	-	-	997,499	-
Education and training	404,146	-	-	-	404,146	-
Other	367,721	-	-	-	367,721	-
Interest on long-term debt	440,511	-	-	-	440,511	-
Total governmental activities	<u>\$ 12,438,342</u>	<u>\$ (10,830)</u>	<u>\$ (741,360)</u>	<u>\$ (529,616)</u>	<u>\$ 11,156,536</u>	<u>\$ -</u>
Component Units:						
Colinas de Jaguas I	\$ 360,253	\$ (350,249)	\$ -	\$ -	\$ -	(10,004)
Total Component Activities	<u>\$ 360,253</u>	<u>\$ (350,249)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,004)</u>
<u>GENERAL REVENUES:</u>						
Property taxes					\$ 1,091,582	\$ -
Volume of Business Taxes					373,183	-
Intergovernmental revenues					8,389,282	-
Rent of properties					77,015	-
Interests income					39,907	-
Transportation services					380,013	-
Other Revenues					314,828	-
Municipal sales tax					930,213	-
Total general revenues					<u>11,596,023</u>	<u>-</u>
Change in net position					439,487	10,004
Net position at beginning of year					13,468,342	1,105,188
Prior period adjustments (note 18)					2,865,291	-
Beginning balance restated					16,333,633	1,105,188
Net position at ending of year					<u>\$ 16,773,120</u>	<u>\$ 1,115,192</u>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

<u>ASSETS</u>	General Fund	Canalización Dos Rios	Joint Resolution	HUD Programs	Debt Service Fund	Other Funds	Total Governmental Funds
Cash and investments	\$ 57,787	\$ 204	\$ 316,503	\$ 24,105	\$ -	\$ 1,108,620	\$ 1,507,219
Cash with fiscal agent and other	-	-	-	-	1,715,299	-	1,715,299
Accounts receivable (municipal sales tax)	18,709	-	-	-	-	-	18,709
Accounts receivable from government	-	-	-	7,912	-	-	7,912
Accounts receivable from other funds	325,180	2,711,030	889,981	-	-	1,023,089	4,949,280
Total assets and other debits	\$ 401,676	\$ 2,711,234	\$ 1,206,484	\$ 32,017	\$ 1,715,299	\$ 2,131,709	\$ 8,198,419
 <u>LIABILITIES DEFERRED INFLOWS AND FUND BALANCES</u>							
Liabilities:							
Accounts payable and accrued liabilities	\$ 236,159	\$ -	\$ 371,116	\$ 12,424	\$ -	\$ 312,530	\$ 932,229
Bond payable	-	-	-	-	552,000	-	552,000
Accrued interest payable	-	-	-	-	245,405	-	245,405
Due to governmental entities	1,676,742	-	-	-	-	-	1,676,742
Accounts payable to other funds	4,624,100	-	-	-	-	325,180	4,949,280
Total liabilities	6,537,001	-	371,116	12,424	797,405	637,710	8,355,656
Deferred inflows or Resources							
Unavailable Revenue - Volume of Business Tax	313,641	-	-	-	-	-	313,641
Total deferred Inflows of Resources	313,641	-	-	-	-	-	313,641
Fund balances:							
Restricted for:							
Debt service	-	-	-	-	917,894	-	917,894
Capital Projects	-	2,711,234	835,368	19,593	-	1,493,999	5,060,194
Unassigned	(6,448,966)	-	-	-	-	-	(6,448,966)
Total fund balances	(6,448,966)	2,711,234	835,368	19,593	917,894	1,493,999	(470,878)
Total liabilities and fund balance	\$ 401,676	\$ 2,711,234	\$ 1,206,484	\$ 32,017	\$ 1,715,299	\$ 2,131,709	\$ 8,198,419

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS:

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	\$ (470,878)
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	26,568,795
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued compensated absences	448,914
Legal claims	760,883
Bonds payable and Others debts	8,115,000
Total long-term liabilities	\$ 9,324,797
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 16,773,120

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	Canalizacion Dos Rios	Joint Resolution	HUD Programs	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:							
Property taxes	\$ 883,644	\$ -	\$ -	\$ -	\$ 207,938	\$ -	\$ 1,091,582
Volume of Business Taxes	373,183	-	-	-	-	-	373,183
Licenses, permits, fines and sales tax	281,427	-	-	-	-	-	281,427
Intergovernmental revenues	5,802,937	-	1,161,613	-	-	1,424,732	8,389,282
Rent of properties	77,015	-	-	-	-	-	77,015
Interest income	38,949	-	-	-	958	-	39,907
Transportation services	380,013	-	-	-	-	-	380,013
Other revenues	44,232	-	-	-	-	-	44,232
Municipal sales tax	240,883	-	-	-	689,330	-	930,213
Federal financial award	-	-	-	741,360	-	529,616	1,270,976
Total revenues	8,122,282	-	1,161,613	741,360	898,226	1,954,348	\$ 12,877,829
EXPENDITURES:							
Current:							
General government	4,103,720	-	703,609	736,395	-	414,297	5,958,021
Public works	1,729,208	-	-	-	-	-	1,729,208
Public safety	759,700	-	-	-	-	-	759,700
Health	870,266	-	-	-	-	-	870,266
Capital outlays	-	-	-	-	-	274,079	274,079
Culture and recreation	355,766	-	-	-	-	-	355,766
Education and training	-	-	-	-	-	402,822	402,822
Other	367,721	-	-	-	-	-	367,721
Debt service:							
Principal retirement	-	-	-	-	608,000	-	608,000
Interest and fiscal charges	-	-	-	-	440,511	-	440,511
Total expenditures	8,186,381	-	703,609	736,395	1,048,511	1,091,198	11,766,094
Excess of revenues over (under) expenditures	(64,099)	-	458,004	4,965	(150,285)	863,150	1,111,735
Other financing sources (uses):							
Transfer to debt service fund	(51,391)	-	-	-	51,391	-	-
Transfer from debt service general fund	213,928	-	(213,928)	-	-	-	-
Total other financing sources (uses)	162,537	-	(213,928)	-	51,391	-	-
Excess of revenues and other sources over (under) expenditures and other uses	98,438	-	244,076	4,965	(98,894)	863,150	1,111,735
Net change in fund balances	98,438	-	244,076	4,965	(98,894)	863,150	1,111,735
Fund balance June 30, 2013 (deficit)	(6,650,600)	2,711,234	1,077,619	-	1,075,483	259,733	(1,526,531)
Prior period adjustments (note 1)	103,196	-	(486,327)	14,628	(58,695)	371,116	(56,082)
Beginning Balance Restated	(6,547,404)	2,711,234	591,292	14,628	1,016,788	630,849	(1,582,613)
Fund balance June 30, 2014 (deficit)	\$ (6,448,966)	\$ 2,711,234	\$ 835,368	\$ 19,593	\$ 917,894	\$ 1,493,999	\$ (470,878)

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Net change in fund balance - total governmental funds \$ 1,111,735

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	274,079	
Less: current year depreciation	<u>(1,554,327)</u>	
		(1,280,248)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Principal payments	608,000	
Other sources	<u>608,000</u>	
		<u>608,000</u>
Change in net position of governmental activities		\$ <u>439,487</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGET BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Budget Amount		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Property taxes	\$ 218,740	\$ 218,740	\$ 218,740	\$ (0)
Volume of Business Taxes	563,308	563,308	373,183	(190,125)
Intergovernmental revenues	5,823,695	5,823,695	5,802,937	(20,758)
Licenses, permits and fines	918,946	918,946	281,427	(637,519)
Rent of properties	124,436	124,436	77,015	(47,421)
Interest income	11,874	11,874	38,949	27,075
Other revenues	1,289,100	1,289,100	44,232	(1,244,868)
Transportation services	482,750	482,750	380,013	(102,738)
Municipal Sales Tax	319,148	319,148	240,883	(78,265)
Other financial sources	778,889	778,889	778,889	(0)
Total revenues	\$ 10,530,886	\$ 10,530,886	\$ 8,236,267	\$ (2,294,619)
EXPENDITURES:				
Current:				
General Government	4,798,084	4,814,238	4,687,186	127,052
Public safety	860,843	863,818	766,648	97,170
Public Works	3,376,138	2,968,791	1,778,639	1,190,152
Health	998,231	994,862	870,266	124,596
Culture and Recreation	391,526	402,020	365,219	36,801
Other	45,142	432,477	368,476	64,001
Transfer out to debt service	60,920	54,680	51,391	3,289
Total expenditures	\$ 10,530,886	\$ 10,530,886	\$ 8,887,825	\$ 1,643,061
Excess of revenues over (under) expenditures			\$ (651,558)	\$ (651,558)
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule			\$	8,236,267
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				(113,985)
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances			\$	8,122,282
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule			\$	8,887,825
Differences - budget to GAAP:				
Non budgeted expenditures				175,210
Other expenditures non for financial reporting				(825,263)
Transfer from general fund for budgetary purpose only				(51,391)
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances			\$	8,186,381

See notes to budgetary comparison schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

GENERAL ORGANIZATION

The **Municipality of Ciales (The Municipality)** was founded in 1815. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of eleven (11) assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

The financial statements of **the Municipality** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations,) constitute GAAP for governmental units. A summary of **the Municipality's** significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Municipality's financial statements include the operations of all departments and separate legal entities for which **the Municipality** is financially accountable or for which exclusion would leave the financial statements misleading or incomplete.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, the GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34.

The Municipality implemented this Standard for the fiscal year ended June 30, 2003.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

b. Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of the **Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality's** may be such that exclusion of their financial statements from those of the Municipality would cause **the Municipality's** basic financial statements to be misleading or incomplete according to GASB Statement No. 14, - *The Financial Reporting Entity (GASB No. 14) and GASB Statement No. 39, Determining Whether Certain Organizations are Component Unites – Amendment of GASB Statement No. 14 (GASB No. 39)* to determine its financial reporting entity.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which in may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

1. The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.
2. The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The Municipality's management has concluded that, based on the aforementioned criteria, the Colinas de Jaguas Project is a legally separate entity that should be reported as component unit of the Municipality for the fiscal year ended June 30, 2014.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

The Colinas de Jaguas Project is included in the basic financial statements as a discretely component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Colinas de Jaguas Project is a 54-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing and Corporation. The project is operated under Section 515 of USDA, Rural Development (USDA-RD) and regulated by the U.S Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section * Housing Assistance Payments agreements with HUD and a significant portion of the project's rental income are received from HUD. Also, the Project is financed by a Mortgage of Section 515 Direct Loan.

c. Basic Financial Statements-GASB Statement No. 34

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. In the government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The Government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the sustainability of **the Municipality's** as an entity and the change in aggregate economic position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

demonstrate legal and covenant compliance, (b) demonstrate the sources and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

d. Basis of Presentation

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

Major and Non-major Funds

Under the provisions of GASB 34, the Municipality is required to segregate funds among major and non-major categories within the fund financial statements. Major individual governmental funds are reported as separate columns in the accompanying fund financial statements, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type. At minimum a fund is considered major if: (1) it is the primary operating fund of the Municipality (i.e. the general fund) or; (2) meets both of the following criteria:

- a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b) Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

In addition funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

The Municipality reports the following major funds on **Fund Financial Statements**:

Major Funds

General Fund – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in another fund.

“Canalización Dos Ríos” – This fund is used to account the resources for the transactions of the State Contribution for the project “Canalización Dos Ríos”. The primary objective of these funds is the development of the project on the community.

Join Resolution Fund – This fund is used to account the resources for the transactions of the State Contribution by Legislature Resolutions. The primary objective of these funds is the development of projects on communities, non-for-profit organizations, purchase of equipment and indirect assignment to persons of low and moderate income.

HUD Programs Fund – This fund accounts for revenues sources for the development of viable urban communities, decent housing suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

Debt Service Fund – Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

However, resources restricted to expenditure for purposes normally financed from the general fund are reported in **the Municipality’s** general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

Other Funds (non major funds) – Special revenue funds are used to account for the proceeds of specific revenues sources that are legally restricted to expenditures for specified purposes. Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements, which are not financed by other funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

e. Basis of Accounting

The accounts of **the Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds accounts for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

Measurement Focus, Basis of Accounting and Financial Statement presentation

Government-wide Financial Statements – The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Funds Financial Statement – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. “Available” means collectible within the current period or 90 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected.

Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

Governmental Fund Types/Governmental Activities – Governmental funds are those through which most governmental functions of **the Municipality** are financed. The acquisition, use, and balances of **the Municipality’s** expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

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

All revenues, expenses, gains losses and assets resulting from non-exchanges transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2014.

Future Adoption of Accounting Pronouncements – The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

66	Technical corrections – 2012 an amendment of GASB Statements No. 10 and 62	2013-14
68	Accounting and financial reporting for pensions – and amendment of GASB Statement No. 27	2014-15
69	Government Combinations and Disposals of Government Operations	2014-15
71	Pension Transition for contributions made subsequent to the measurement date on amendment of GASB statement No. 68	2014-15

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

f. Budgetary Control

The Municipality follows the following procedures, which are in accordance with the municipal law; in establishing the annual budget as reflected in the basic financial statements.

- (1) On or prior to May 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to July 1st. the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances, as described below:

The actual results of operations, presented in the Statement of Revenues, Expenditures and changes in Fund Balances-Budget and Actual-General Fund, are reflected in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year.

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences are as follows:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.
- (2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP basis.
- (3) The Municipality receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.
- (4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

The Municipality has not legally adopted a budget for the Head Start special revenue and capital projects funds. Accordingly, it has not presented an annual comparison of budget and actual for these major funds.

Legal Compliance

Article 7.003, Law No. 81 of August 31, 1991, amended require that Mayor provide to Municipal Legislature an annual balanced budge indicating: 1) interest, amortization and retirement public debt, 2) statutory obligations, 3) judicial claims payments, 4) any amount to cover prior years deficit, 5) contract commitments and operational expenditures. For annual interest and principal debt amortization, CRIM provides annual estimated resources that will be obtained of additional special property tax (municipal) collections. **The Municipality's** management shows budgetary financial statements in general and debt service funds in compliance with state law and which are based in annual activity. The legal level of budgetary control is at the individual department level for general fund (Mayor and Legislature funds) expenditures, and annual principal and interest due for debt service fund.

g. Deposits

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

Investments consist of short-term certificates and are stated at cost, which approximates fair value.

h. Inventories

The general funds purchase office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as expenditures and the inventory is not recorded in the basis financial statements since amount is insignificant.

i. Capital Assets

Fund Financial Statements

The capital assets acquired are recorded as expenditures at cost in the governmental funds.

Government Wide Financial Statements

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value as of the time they are received by **the Municipality** and are

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

capitalized in the Statement of net Assets. Major renewals and betterment are capitalized: replacement, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations.

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis.

j. Vacation and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation leave may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31, of prior year. Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, is accounted for in the Statement of Net Assets.

k. Insurance

The Municipality has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other losses. Also, principal officials of **the Municipality** are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the designated agency to obtain the necessary insurance coverage for **the Municipality**.

l. Restricted Assets

Investments and Certificates

Certain proceeds of the Municipality revenue bonds as well as certain resources set aside for their repayment are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond" maintenance account is used to report those rental proceeds that are restricted for use in maintenance of the properties. The "revenue bond fund account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "Debt Service Account" is used to report resources set aside to make up potential future deficiencies in the "revenue bond fund account".

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Cash with fiscal agent

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service (See Note 2) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund. In debt service fund are unsecured and collateralized, as no collateral is required by governmental banks.

m. Fund Balance

During year ended June 30, 2014, **the Municipality** implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Type Definitions ("GASB 54"). The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The implementation of this statement had no impact on the total fund balances for **the Municipality's** governmental funds.

The Municipality classifies governmental fund balances as follows:

- **Nonspendable**— includes amounts that inherently cannot be spent either because it is not in spendable form (i.e., prepaid, inventories, long-term portions of loans receivable, etc.) or because of legal or contractual requirements (i.e., principal of an endowment, etc.).
- **Restricted** – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal actions made by **the Municipality's** legislative body, which is the highest level of decision making authority, before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those mounts.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
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JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

- **Assigned** – includes amounts that are intended to be used for specific purposes that are neither restricted nor committed; in addition, such assignments are made before the report issuance date.
- **Unassigned** – include amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other government funds, if expenditures incurred for specific purposes exceeded the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.
- **Encumbrance** – Encumbrances should not be displayed as a separate classification of fund balance on the face of the balance sheet. For governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes to the financial statements by major funds and non-major funds in the aggregate in conjunction with required disclosures about other significant commitments.

The Municipality generally uses restricted amounts first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, **the Municipality** generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

n. 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 and in the Statement of Net Position. (See notes contingencies)

o. Use of Estimates

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

p. Totals Column (Memorandum Only) Governmental Funds Statement

The total data under this column is presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since Interfund eliminations have not been made.

2. PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment of all real and personal property located within the **Municipality of Ciales** and for the levy, administration and collection of all real and personal property taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed.

The tax rate per annum is 10.33% for real property and 8.33% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.25% of both percents belong to **the Municipality**. From the portion belonging to **the Municipality**, 3% represents **the Municipality's** basic rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to **the Municipality** of 1.25% represents the "ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service, which is accounted for through the debt service fund (See note 2). **The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

Complete real property tax exemption is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, **the Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer became the source of payment in these cases.

COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Complete exemption from personal taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

The CRIM reports annually to the Municipality the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advanced to **the Municipality** during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded in the general fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimates amounts of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. 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. This settlement has to be completed on a preliminary basis no later than three months after fiscal year-end, and a final settlement made no later six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for approximately \$1.1 million. This amount will be repaid through advances from property taxes (refer to Note 15)

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$36,138 during 2014.

The following is a summary of the property tax advances that resulted in an accounts payable, for the year ended June 30, 2014. The resulting payable is presented as a decrease in the general fund and the Government Wide Financial Statements.

Account payable



COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2014

3. DEPOSITS

The Municipality's cash and investments at June 30, 2014, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

Puerto Rico law authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

4. CONCENTRATION OF CREDIT RISK

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. **The Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, **the Municipality** invested its funds in interest-bearing bank accounts, and short-term certificates of deposit if due date is not more than 90 days, the certificate considered as cash equivalents.

Custodial Credit Risk

The following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2014:

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 of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the Government Development Bank for Puerto Rico. Accordingly, the

Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB.

COMMONWEALTH OF PUERTO RICO
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According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2014 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. No investments in debt or equity securities were made during the fiscal year ended June 30, 2014. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 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 or equity investments in its investments portfolio at June 30, 2014, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates as required by the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the *Government Development Bank for Puerto Rico* (the adopted policy of the Municipality). At June 30, 2014, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

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

In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB are uninsured and **uncollateralized**. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

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

**COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Foreign exchange risk -This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2014.

5. MUNICIPAL LICENSE TAXES

The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the minimum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a 5% discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The **Municipality** recognized an account receivable for the estimated municipal license taxes to be collected during the first two months of next year, but corresponding to current year. Municipal license taxes collected prior to June 30, 2014 but pertaining to the next fiscal year is recorded as deferred revenues.

6. INTERFUND TRANSACTIONS

Due From/To Other Funds (Fund Financial Statement)

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balances of internal transactions of June 30, 2014 are as follows:

Funds	Due From	Due To
General Fund	\$ 325,180	\$ 4,624,100
Canalización de dos Ríos	2,711,030	-
Joint Resolutions	889,981	-
Other Funds	1,023,089	325,180
TOTAL	\$ 4,949,280	\$ 4,949,280

For the most part, the effect of inter-fund activity has been removed from the Statement of Net Assets (Government Wide Financial Statements).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

7. INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and in lieu of tax payments from certain "quasipublic" corporations, such as the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

8. DUE TO GOVERNMENTAL ENTITIES

As of June 30, 2014 balances due to governmental entities of the general fund consists of the following:

Name	Due to
Puerto Rico Retirement System	\$ 496,233
Puerto Rico Department of Labor	327,787
Puerto Rico Water and Server Authority	468,678
Puerto Rico Department of Treasury	175,589
Internal Revenue Service	30,902
Municipal Revenue Collection Center	177,553
TOTAL	\$ 1,676,742

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

9. CAPITAL ASSETS

Include those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation.

Capital assets activity for the year ended June 30, 2014 was as follows:

	Balance 6/30/2013	Additions	Retirements and transfers dispositions	Balance 6/30/2014
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,706,856	\$ -	\$ -	\$ 1,706,856
Construction in progress	4,877,173	-	-	4,877,173
Total capital assets not being depreciated	6,584,029	-	-	\$ 6,584,029
Capital assets, being depreciated				
Buildings and building improvements	16,568,880	-	-	16,568,880
Infrastructure	16,325,123	-	-	16,325,123
Vehicles	3,593,093	142,217	271,300	3,464,010
Furniture and Equipment	1,284,971	131,862	159,878	1,256,955
Works of Arts	151,050	-	-	151,050
Total capital assets being depreciated	37,923,117	274,079	431,178	37,766,018
Less: accumulated depreciation for:				
Buildings and building improvements	6,625,434	-	863,236	7,488,670
Infrastructure	5,326,027	-	408,128	5,734,155
Furniture and Equipment	1,025,706	-	104,898	1,130,604
Vehicles	3,129,129	-	162,854	3,291,983
Works of Arts	120,630	-	15,210	135,840
Total accumulated depreciation	16,226,926	-	1,554,326	17,781,252
Total capital assets being depreciated, net	21,696,191	274,079	1,985,504	19,984,766
Governmental activities capital assets, net	\$ 28,280,220	\$ 274,079	\$ 1,985,504	\$ 26,568,795

Governmental activities:	
General government	\$ 665,469
Public safety	87,009
Public works	95,335
Culture and recreation	641,733
Health	63,457
Educational and training	1,324
Total depreciation expense governmental activities	\$ 1,554,327

**COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

9. CAPITAL ASSETS (continued)

Government Wide Financial Statements

Capital assets purchased are carried at historical costs. Contributed assets are recorded at fair value as of the date donated. Additions, Improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

Vehicles, Heavy Equipment	5-25	\$300
Furniture and Fixture	5-10	\$300
Computer and Electronic Equipment	5	\$300
Buildings	50	\$ 1
Infrastructure	60	\$ 1
Improvements	20-40	\$ 1

In addition, the Municipality assigned a 10% residual value on most Capital Assets.

Fund Financial Statements

The Municipality charged costs of capital outlays as expenditures categories in the Governmental Fund Financial Statements.

10. CHANGES LONG-TERM DEBT

The principal long-term obligation of the Municipality is obligation bonds issued to finance permanent improvements and purchases of equipment. The Municipality's long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund.

The following is a summary of Bonds outstanding at June 30, 2014:

Description	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations Bonds	\$ 9,275,000	\$ -	\$ 608,000	\$ 8,667,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. CHANGES IN GENERAL LONG-TERM DEBT (continued)

General Obligation Bonds:

Description	Balance 06-30-2014	Due within One Year
Serie 1992, \$181,000 payable in annual installments of \$4,000 to \$13,000 until 2017; with interest ranging from 5%	\$ 37,000	\$ 11,000
Serie 2005, \$340,000 payable in annual installments of \$25,000 to \$40,000 until 2014; with interest ranging from 1.50% to 6.62%	40,000	40,000
Serie 2009, \$1,555,000 payable in annual installments of \$15,000 to \$175,000 until 2024; with interest ranging from 4.75% to 7.5%	1,465,000	35,000
Serie 2010, \$755,000 payable in annual installments of \$25,000 to \$130,000 until 2019; with interest ranging from 5% to 7.5%	610,000	70,000
Serie 2011, \$415,000 payable in annual installments of \$5,000 to \$360,000 until 2017; with interest ranging from 6% to 7.5%	45,000	5,000
Serie 2012, \$1,110,000 payable in annual installments of \$15,000 to \$95,000 until 2036; with interest ranging from 6% to 7.5%	1,075,000	20,000
SUB-TOTAL	\$ 3,272,000	\$ 181,000

General Obligations Bonds

Description	Balance 06-30-2014	Due within One Year
Serie 2003, \$250,000 payable in annual installments \$5,000 to \$25,000 until 2028; with interest ranging from 1.50% to 6.62%	195,000	10,000
Serie 1997, \$400,000 payable in annual installments \$10,000 to 40,000 until 2016; with interest ranging from 1.50% to 8%	100,000	30,000
SUB-TOTAL	\$ 295,000	\$ 40,000

**COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Special Revenue Bonds:

Description	Balance 06-30-2014	Due within One Year
Serie 2007, \$500,000 payable in annual installments of \$70,000 to \$100,000 until 2014; with interest ranging from 1.50% to 5.40%	\$ 100,000	\$ 100,000
Serie 2008, \$1,210,000 payable in annual installments of \$40,000 to \$140,000 until 2022; with interest ranging from 1.50% to 7.50%	945,000	65,000
Serie 2009, \$523,000 payable in annual installments of \$51,000 to \$82,000 until 2016 with interest ranging from 1.50% to 7.50%	230,000	71,000
Serie 2011, \$3,765,000 payable in annual installments of \$70,000 to \$330,000 until 2031; with interest ranging from 6% to 7.50%	3,530,000	90,000
Serie 2012, \$305,000 payable in annual installments of \$5,000 to \$30,000 until 2036; with interest ranging from 6% to 7.50%	295,000	5,000
SUB-TOTAL	\$ 5,100,000	\$ 331,000
TOTAL	\$ 8,667,000	\$ 552,000

The annual debt service requirements for the bonded debt outstanding as June 30, 2014 are as follows:

Year Ending	Principal	Interest	Total
2015	\$ 552,000	\$ 534,856	\$ 1,086,856
2016	540,000	563,438	1,103,438
2017	580,000	543,488	1,123,488
2018	490,000	503,851	993,851
2019	515,000	464,438	979,438
Subsequent years	5,990,000	3,177,788	9,167,788
TOTAL	\$ 8,667,000	\$ 5,787,859	\$ 14,454,859

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the **Municipality**, for bonds to be repaid with the proceeds of property tax restricted for debt services. Other obligations include compensated absences; LIMS refinance debt, claims and judgments.

**COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2014**

Component Unit

The original mortgage, in the amount of \$1,945,000 was payable to Rural Housing Services (RHS) and collateralized by the apartment complex. The required monthly principal and interest payments totaled \$11,053. On November 14, 1997, the mortgages on the property were transferred from the Puerto Rico Urban and Housing Service, the mortgagee, recalculated and adjusted the amortization of the mortgages at the time, resulting in a smaller monthly payment. The revised payments of the three mortgages commenced on December 1, 1997.

Under agreements with RHS, the project is required to make monthly escrow deposits for insurance and replacement of Project assets, and is subject to restrictions as to operating policies, rental charges and operating expenditures.

The liability of the Project under the mortgages is limited to the underlying value of the real estate, plus other amounts deposited with the lender.

The mortgages are insured by RHS, collateralized by the Project, and consist of the following:

Interest at 6.6%, payable in monthly installments of \$8,159, including interest, through the due date, December 2031.	\$1,096,845
Interest at 8.75%, payable in monthly installments of \$2,351 including interest, through the due date, December 2031.	265,736
Interest at 11.25%, payable in monthly installments of \$543, including interest, through the due date, December 2032.	51,937
Less current maturities	1,414,515
Long-Term	\$1,376,592

The interest rates shown above are net of 2% interest rental credit.

Aggregate maturities of the mortgage payable for each of the next five years following June 30, 2014 and thereafter, are as follows:

Year ended June 30	Amount
2014	\$ 37,935
2015	44,466
2016	48,613
2017 and thereafter	1,245,578
	\$1,376,592

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

12. DEBT SERVICE FUND

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and reported by the CRIM (See Note 2). The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality used. Interest income is used for the payment of interest or special obligations notes and property taxes are for the debt service requirements of the general obligations bonds and notes.

The Government Development Bank pays principal and interest on these obligations for Puerto Rico from funds obtained from the Following:

Property taxes	\$ 307,790
General funds	51,391
Municipal sales tax	689,330
TOTAL	\$ 1,048,511

Expenditures for the year 2013-2014 were as follows:

Principal	\$ 608,000
Interest	440,511
TOTAL	\$ 1,048,511

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
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JUNE 30, 2014**

13. RETIREMENT PLAN

Plan Description

Regular full time employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, "Retirement Pensions, Disability and Death Benefits", as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at GPO Box 42005, San Juan, Puerto Rico 00940.

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

OLD PLAN (LAW 447)

Eligibility

Age 55 and 30 years
Of service

Under 55 and 30 years
Of service

Pension Benefits

5% of average highest compensation
during any years of credited service

65% of average highest compensation
during any 3 years of credit service

Participants in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

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

NEW PLAN (REFORMA 2000)

Eligibility

Age 65 with 10 years
of service

Pension Benefits

.5% of average compensation during
the final 5 years of credited services
multiplies by the numbers of years
credited service

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

13. RETIREMENT PLAN (continuation)

For both plans, the employees are vested when attaining ten years of plan participation. Disability and death benefits are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

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

Defined Contribution Hybrid Program – On April 4, 2013 the Legislature enacted Act No. 3 which amended Act No. 447 and Act. No. 305 to establish, among other things, a defined contribution hybrid program (the "Hybrid Program") to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit pension plan and the defined contribution plan, and were rehired on or after July 1, 2013, become members of the Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2014 were participants of previous plans will become part of the Defined Contribution Hybrid Program.

Participants in the defined benefit pension plan who as of June 3, 2014, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants who as of June 30, 2013, have not reach the age of 58 and completed 10 years of service or have not reach the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

13. RETIREMENT PLAN (Continuation)

Participants in the defined contribution plan who as of June 30, 2014, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who as of June 30, 2014, have not reached the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Act. No. 3 requires employees to contribute ten percent (10%) of their monthly gross salary to the Hybrid Program. Employee contributions are credited to individual accounts established under the Hybrid Program. In addition a mandatory contribution equal to or less than point twenty five percent (.25%) is required for the purchase of disability insurance.

The Municipality is required to contribute 12.275% of each participant's gross salary. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than \$10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability the participants have the option of receiving a lump sum or purchasing an annuity contract

Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

13. RETIREMENT PLAN (Continuation)

Contribution Requirements

The Municipality's total payroll for the fiscal year 2014 amounted to approximately \$2.5 million. The Puerto Rico Commonwealth legislation requires employees to contribute 5.775% of gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600. The Municipality is required to contribute 9.275% of gross salary annually during year 2014. The Municipality actual contribution under Act 447 and Reform 2000 during year ended on June 30, 2014 was \$292,631.

Actuarial Valuation

As of June 30, 2013, the ERS has an unfunded accrual liability of approximately \$22.9 billion, representing a 3% funding ratio. This information is not available by each participating government agency or municipalities.

Net position of the system consists principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

- a) Interest rate 6.4% a year
- b) Salary increases 3.0% year
- c) Pre-retirement Mortality For General Employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA.

Post-retirement Health Mortality Gender-specific mortality rates were developed based on a study of plan's experience from 2003 to 2007. Sample rates shown below are as of 2005 and are thereafter projected on a generational basis using Scale AA.

Post-retirement Disabled Mortality RP 2000 Disabled Annuitant Mortality Rates, without projection.

- d) Termination Withdrawal rates vary by employee category. The annual rate of termination is as follows:
 - For general employees 2.0%
 - For police and fire 1.6%
 - For Mayors 3.0%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

e) Disability

Rates are based on the six month elimination period rates in the 1987 Commissioners Group Disability Table, adjusted as set forth in the table below. Rates of disability cease to apply once a member is eligible for the 75% of the Highest Salary maximum benefit.

Adjustment to 1987 CGDT		
Act	Members Covered under Act 127	Other Members
447	100%	75%
1	100%	75%
2000	100% if more than 10 years from retirement eligibility. 300% if at or past retirement eligibility. Interpolated from 100% to 300% in the 10 years leading up to retirement eligibility.	75%

100% of disabilities occurring while in active service are assumed to be occupational for members covered under Act 127. For other members, 90% of disabilities occurring while in active service are assumed to be occupational and 10% are assumed to be non-occupational.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

13. RETIREMENT PLAN (Continuation)

f) Retirement

Rates of retirement vary by employment category, Act, and by age and years of Creditable Service.

Act 447 General Employees (Eligible to retire as of June 30, 2013 or attained 30 years of creditable service by December 31, 2013)			
	Service Condition		
Age	10 years	25 years	30 years
45 to 49			10.0%
50 to 53			15.0
54			20.0
55 to 57		10.0%	20.0
58	5.0%	10.0	20.0
59 to 64	10.0	15.0	20.0
65 to 69	15.0	15.0	20.0
70	100.0	100.0	100.0

Act 1 General Employees (Eligible to Retire as of June 30, 2013)		
	Service Condition	
Age	10 years	25 years
55 to 57		4.5%
58		4.5
59		8.0
60		9.0
61		10.0
62		13.0
63-64		14.0
65	15.0%	50.0
66	15.0	15.0
67	100.0	100.0

System 2000 General Employees		
Age	Eligible to retire as of June 30, 2013	Not Eligible retire as of June 30, 2013
60	15%	
61-64	15%	10%
65	15%	40%
66	15%	20%
67	100%	100%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

Act 447 (Police officer in high risk positions who were eligible to retire as of June 30, 2013)			
Age	Service Condition		
	10 years	25 years	30 years
45 to 48			10.0%
49			15.0
50		7.0%	15.0
51 to 56		15.0	20.0
57		20.0	30.0
58	2.5%	20.0	100.0
59 to 64	10.0	25.0	100.0
65 to 69	10.0	30.0	100.0
70	100.0	100.0	100.0

System 2000 (Public officers in high risk positions)	
Age	Any Service
55	25.0%
56 to 64	20.0%
64 to 66	25.0%
67	100.0%

Act 447 and Act 1 Mayors			
Age	Service Condition		
	8 years	25 years	30 years
45 to 49			10.0%
50 to 53	5.0%		15.0
54	10.0		20.0
55 to 56	10.0	10.0%	20.0
57 to 58	15.0	15.0	20.0
59 to 69	20.0	20.0	20.0
70	100.0	100.0	100.0

System 2000 Mayors	
Age	Any Service
60 to 66	15.0%
67	100.0%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

13. RETIREMENT PLAN (Continuation)

- g) Marriage 70% of current active members are assumed to be married at retirement with males 4 years older than females. 100% of current active members covered under Act 127 who die service or become disabled are assumed to have qualifying beneficiaries, which are approximately by a spouse with males 4 years older than females.
- h) Number of employees electing high 15% of retiring employees assumed to pay contributions retroactive contributions at retirement.
- i) Cost-of-living adjustments 3% every third year

Accordingly, the pension expense for fiscal year 2014 was approximately \$292,631 that represented 100% of the contributions required by funding policies of the Plan.

Additional information of ERS is provided in its financial statements for the year ended June 30, 2014 a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

14. LONG TERM LIABILITIES

Compensated Absences

The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The changes in Compensated absences for the year ended June 30, 2014 are as follows:

Governmental activity	June 30, 2013	Net decrease	June 30, 2014	Due within One year
Compensated Absences	\$1,076,430	627,516	\$448,914	\$75,000

15. LEASES

Operating Leases

The Municipality has several short-term operating lease agreements covering some of **the Municipality's** premises and equipment. Most of the agreements are renewed annually. Total rental expenditures for the year ended June 30, 2014, were approximately \$75,500 included in all funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

16. CLAIMS AND CONTINGENCIES

Contingencies

As per Act No. 72 of September 7, 1993, Act of the Health Insurance of PR Administration", (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform. The Municipality paid \$414,599 during the year to Health Insurance of PR Administration.

On July 1, 1997, there was an amendment to Act No. 72 in which it was established that the balance due to HIA from October 1994 to June 30, 1997 would be earned from the additional lottery games.

Federal Programs

The Municipality participates in a number of federal financial assistance programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant program requirements, **the Municipality** may be required to reimburse the grantor agency. Accordingly, the Administrations compliance with applicable grant requirements will be established at some future date.

Comptroller's Office Audits

The Municipality of Ciales, Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office has issued a final report on August 19, 2013 related to the financial operations of the Municipality covering on January 1, 2009 until December 31, 2010. These audit reports do not cover any findings subsequently disclosed to Municipality operations by the Comptrollers' Office.

Contingencies and claims and judgments against the Municipality

The **Municipality** is a defendant in a number of lawsuits arising principally from claims against the **Municipality** for alleged improper actions. It is management's opinion, based on the advice of the legal counsel, that the probable claims against the **Municipality** not covered by insurance are not determined at June 30, 2014.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

17. MUNICIPAL SALES TAX

Pursuant to the provisions of the Law number 80 of July 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contributions of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services.

The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by Treasury Department. The Act provides and optional surtax on the un-processed food. This surtax must be approved by the Municipal Legislature. The Treasury Department is responsible to create the Municipal Development Fund (.02%), the Municipal Redemption Fund (.02%) and the Municipal Improvements Fund (.01%0 with the remaining 0.5%. The Municipality collected \$240,883 during the year ended June 30, 2014.

18. RESTATEMENT OF 2014 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2014 **the Municipality** noted that certain assets were reclassified and liabilities had been overstated or understated as well as other differences related with adjustments to capital assets and reclassification of certain fund balances. As a result the funds at June 30, 2013, were restated as follows:

	General	Joint	HUD	Debt	Other	Net
	Fund	Resolution	Program	Service	Funds	Position
Beginning balance at						
June 30, 2013	\$ (6,650,600)	\$ 1,077,619	\$ -	\$ 1,075,483	\$ 259,733	\$ 13,468,342
Reclassification balance						
Accounts payable						
from prior year	103,196	(486,327)	14,628	(58,695)	371,116	2,865,291
Beginning balance, as						
restated June 30, 2013	\$ (6,547,404)	\$ 591,292	\$ 14,628	\$ 1,016,788	\$ 630,849	\$ 16,333,633

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

20. SUBSEQUENT EVENTS:

The Municipality evaluated subsequent events up to March 27, 2015, the date the financial statements were available to be issued. No material subsequent events required to be disclosed were noted by management.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed-through State Commissioner of Municipal Affairs			
Community Planning and Development			
Community Development Block Grant (State Program)			
CDBG			
	14.218	2009 to 2012	\$ 392,364
Direct Program:			
Section 8- Housing Choice Voucher			
	14.871	RQ-52	335,425
Passed-through Municipality of San Juan			
HOWPA			
	14.241	N/A	8,040
Total U.S. Department of Housing and Urban Development			<u>735,829</u>
<u>U.S. Department of Health and Human Services</u>			
Passed-through the Office of Administration for Children and Families:			
Care and Integral Development Block Grant			
	93.575	2012-2013-005	339,218
Total U.S. Department of Health and Human Service			<u>339,218</u>
<u>U.S. Department of Homeland Security</u>			
Passed-through Governor's Office			
Disaster Grants - Public Assistance (FEMA)			
	97.036	DR-PR-4017,1946,4004	160,179
Total U.S. Department of Homeland Security			<u>160,179</u>
<u>U.S. Department of Energy</u>			
Passed-through Commonwealth of Puerto Rico, Energy Office			
Energy Efficiency and Conservation Block Grant Program			
	81.128	N/A	8,735
Total U.S. Department of Energy			<u>8,735</u>
<u>U.S. Department of Transportation Federal Transit Administration</u>			
Direct Program:			
Federal Transit - Capital Investment Grants			
	20.500	N/A	139,470
Total U.S. Department of Transportation Federal Transit Administration			<u>139,470</u>
<u>U.S. Department of Agriculture:</u>			
Passed-through the Commonwealth of P.R. Governors Office for the:			
Department of Education			
Child Care Food Program			
	10.558	CCC-164	40,775
Total U.S. Department of Agriculture			<u>40,775</u>
U.S. Department of Justice			
Passed-through Department of Justice, Commonwealth of P.R.			
Recovery Act - Edward Byrne Memorial Justice			
Assistance Grant (JAG) Program			
	16.804	2010-DJ-MCPVE-01	778
Total U.S. Department of Justice			<u>778</u>
TOTAL EXPENDITURE FEDERAL AWARDS			<u><u>\$ 1,424,984</u></u>

See notes to the schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(1) GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Ciales, Puerto Rico and is presented on the modified accrual basis of accounting. The reporting entity is defined in Note 1 to the financial statements of the Municipality. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

(2) MAJOR FEDERAL AWARDS

The major federal awards were the following: The Community Development Block Grants, Housing Assistance Payments Programs, U.S. and Department of Health and Human Services Programs. These major federal financial awards of the Municipality represent 75% of total expenditures.

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name review of grant contract information and the office of management and budget catalog of Federal Domestic Assistance.

Pass-Through Grantor's Number

State or local government and private entities includes within their federal proposal award the related amount of federal awards granted to SIM, also known as "pass-through awards". SIM should consider these federal funds as though they were received directly from the federal government. OMB Circular A-133 requires that the schedule should include the name and the identifying number assigned for federal awards received as subrecipient Numbers identified as N/A are not applicable or available.

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the Municipality of Ciales, Puerto Rico Combined Statement of Revenues, Expenditures and Change in Fund Balances - All Governmental and Types as follows:

Description	Hud Programs	Other funds	Total
Federal Programs Expenditures	\$ 736,395	\$ 688,589	\$ 1,424,984
State & Municipal Expenditures	-	10,341,110	10,341,110
TOTAL	\$ 736,395	\$ 11,029,699	\$ 11,766,094



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 Municipal Legislature
Municipality of Ciales
Ciales, 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 Municipality of Ciales, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality of Ciales' basic financial statements and have issued our report thereon dated March 27, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Municipality of Ciales' 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 expression an opinion on the effectiveness of the Municipality of Ciales' internal control. Accordingly we do not express an opinion on the effectiveness of the Municipality of Ciales' 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 weakness or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

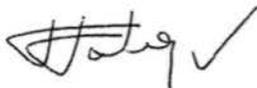
However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Municipality's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2014-002 and 2014-003.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Municipality of Ciales' financial statements are free from material misstatements, 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2014-001.

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 no suitable for any other purpose.



ADVANCED CPA, LLC
Certified Public Accountants
(of Puerto Rico)



San Juan, Puerto Rico
March 27, 2015

License No. LLC-285 expires December 1, 2016
Stamp E104469 of the P.R. Society of
Certified Public Accountants has been
affixed to the file 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 Municipal Legislature
Municipality of Ciales
Ciales, Puerto Rico

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the Municipality of Ciales 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.

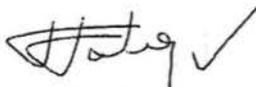
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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



ADVANCED CPA, LLC
Certified Public Accountants
(of Puerto Rico)



San Juan, Puerto Rico
March 27, 2015

License No. LLC-285 expires December 1, 2016
Stamp E104470 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

I. SUMMARY OF AUDIT RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness (ies) identified?	No
Significant deficiency (ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness (es) identified?	No
Significant deficiency (ies) identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major federal programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, section .510(a) are reported	No

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Clusters</u>
14.218	Community Development Block Grant (SBGP)
14.871	Section 8 -Housing Choice Vouchers
93.575	Childcare and Development Grant

Dollar threshold used to distinguish between type A and type B program was:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENTS AUDITS - FINDINGS

Finding No. 2014-001: Municipal Deficit of the General Fund

Federal Agency: Finding is not specific to a Federal Agency

CFDA Number and Title: Finding is not specific to a Federal Agency

**Award Number
and Award Year:** Not applicable

Topic

The Municipality has had a deficit in the general fund for various fiscal periods

Category

Internal Control

Compliance Requirement

None

Criteria

The general fund should follow criteria established by the standards of financial management systems for regulations for municipal administration, with GASB codification 1700, with requirements stated in OMB Circular A-133 and with budget requirements of municipal law number 81 of August 30, 1991, as amended.

Condition found

During our audit we noted that the Municipality is not complying with the criteria established by the Standards of financial management systems for regulations for municipal administration, with GASB codification 1700, with requirements stated in OMB Circular A-133 and with budget requirements of municipal law number 81 of August 30, 1991, as amended.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENTS AUDITS – FINDINGS (CONTINUED)

Finding No. 2014-001 (continued)

Underlying Cause

The Municipality has some deficiencies in its financial management systems and financial reporting practices as related to the General Fund that has maintained a deficit situation for various fiscal periods.

Effect

The deficiencies in the Municipality's financial management systems:

- a) Could impact the services provided to citizens.
- b) Could affect compliance with finance-related legal and contractual provisions.

Recommendation

The Municipality should implement measures to reduce the municipal deficit. Management should undertake a periodic review of the actual fiscal year revenues and expenditures compared to the budgeted amounts to adjust expenditures to the revenue receipts to comply with the Standards of Financial Management Systems for regulations for Municipal Administration and with GASB codification 1700 and with requirements stated in OMB Circular A-133. In addition, management should consider the impact of any loss of revenues from any closing industries or businesses when developing the annual budget due to the state of the economy in the island.

Management's Response

Concur with Advance CPA, LLC findings and recommendations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENTS AUDITS – FINDINGS (CONTINUED)

Finding No. 2014-002 Inadequate Internal Control over Financial Reporting

Federal Agency: Finding is not specific to a Federal Agency

CFDA Number and Title: Finding is not specific to a Federal Agency

**Award Number
and Award Year:** Not applicable

Topic

Financial reporting procedures and practices are inadequate

Category

Internal Control

Compliance Requirement

None

Criteria

GASB Codification section 1100, *Summary Statement of Principles*, states that a governmental accounting system must make it possible, both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with GAAP, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

GASB Codification section 1300, *Fund Accounting*, states that governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts to record cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

GASB Codification Section 1900, states that governmental entities should prepare interim and year-end financial statements and reports of financial position, operating results, and other pertinent information to facilitate management control of financial operations, legislative oversight, and for external reporting purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENTS AUDITS – FINDINGS (CONTINUED)

Finding No. 2014-002 (Continued)

In addition to the above requirements, the Municipality's internal control system must provide for reconciliation of amounts reflected in control accounts with subsidiary records and the reconciliation of transactions and balances between different departments and agencies.

Condition Found

The Municipality has an inadequate internal control structure and has not established accounting policies, procedures, and financial reporting practices necessary to conform to generally accepted accounting principles, (GAAP), as applicable to governmental entities. Significant deficiencies noted are as follows:

- Although the Municipality uses a computerized accounting system (the System) we noted that this use was limited and did not include all required transactions for revenues and expenditures. There is a lack of an effective internal control structure to reasonably assure compliance with the requirements of Federal laws and regulations.
- There is a lack of a self-balancing set of accounts for each fund to record cash and other financial resources, together with the related liabilities, residual equities balances or fund balances, and any related changes therein. Accounts should be segregated in funds or sub-funds for purposes of demonstrating the accountability of the Municipality while carrying on a specific activity or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Known Questioned Costs

None

Underlying Cause

The Municipality's management has not adopted a policy of following accounting principles generally accepted in the United States that are applicable to governmental entities. In addition, management has not adopted and enforced internal control policies and procedures over its accounting and financial management, budgetary practices and financial reporting, and has not ensured that the Municipality is in compliance with applicable laws and regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENTS AUDITS – FINDINGS (CONTINUED)

Finding No. 2014-002 (Continued)

Effect

The Municipality's ineffective internal control structure is conducive to deficiencies or irregularities. In addition, the continued existence of these deficiencies could result in significant cost disallowances by the Federal awarding agencies or ultimately; in the reduction or elimination of federal awards received by the Municipality in any future Agency's audits.

Recommendation

The Municipality should improve the Computerized Accounting System procedures and operation and implement an internal control structure to provide reasonable assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and Federal reports, maintain accountability over assets; and demonstrate compliance with laws, regulations, and other compliance requirements
- Transactions are executed in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program.
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

The Municipality should train all employees when reorganizing its accounting practices and policies to conform with GAAP. This will require a plan for the implementation of an accounting and financial management system that permits the preparation of financial statements in accordance with GAAP and of financial reports required by the different oversight entities.

Management's Response

Concur with Advance CPA, LLC findings and recommendations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported during current year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

- 2013 Finding No. 001
Condition: Municipal deficit in the general fund
Program: Accounting and Finance Department

Status : Condition still prevails.
- 2013 Finding No. 002
Condition: General Fund's bank reconciliation performed untimely.
Program: Accounting and Finance Department

Status : Corrected.
- 2013 Finding No. 003
Condition: Inadequate internal control over financial reporting.
Program: Accounting and Finance Department

Status : Condition still prevails.

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GENERAL OF PUERTO RICO
AND AT THE OFFICE OF THE
COMPTROLLER OF THE MUNICIPALITY OF CIALES