

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

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

14-02-0167

OCAM
DIV. SERVICIOS GENERALES

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2013

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2013

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

CARLOS R. DIAZ, CPA, PSC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Municipal Legislative Body
Municipality of Comerío
Comerío, 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 **Municipality of Comerío**, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the **Municipality of Comerío** basic financial statements as listed in the table of contents. We did not audit the financial statement of the Rio Plata Project, which represents 100% of total assets, net position and revenue of the business type activities.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the business type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Río Plata Project, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

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

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

Opinions

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Comerío**, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 11 and 45 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 Comerío's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013, on our consideration of the **Municipality of Comerío** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Comerío** internal control over financial reporting and compliance.



Carlos R. Díaz CPA, PSC
License No. 275
Expire December 1, 2015

December 2, 2013
Aguas Buenas, Puerto Rico

The stamp No. **E55463** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

INTRODUCCION

The following discussion presents an overview of the financial position and financial activities of the Municipality Autonomous of Comerío (The Municipality) for the year ended June 30, 2013. This discussion was prepared by the Municipality management and should be read in conjunction with the financial statements and notes thereto, which follow.

FINANCIAL HIGHLIGHTS

The financial position on the Municipality remains strong at June 30, 2013, with total assets of \$60,921,368, total liabilities of \$10,122,413, and total net position of \$50,798,955. Municipality net position decreased \$339,105 in comparison with June 30, 2012 balance of \$51,138,060. An overview of each statement is presented below along with a financial analysis of the transactions impacting the statement.

Condensed financial statements for the Municipality at June 30, 2013.

Condensed Statement of Net Position

	2012	2013
Assets		
Capital Assets	\$55,188,847	\$54,652,773
Other Assets	<u>6,600,089</u>	<u>6,268,595</u>
	<u>61,788,936</u>	<u>60,921,368</u>
Liabilities and Net Position		
Long-Term Debt	8,949,030	8,726,593
Other Liabilities and deferred inflows of resources	<u>1,701,846</u>	<u>1,395,820</u>
	<u>10,650,876</u>	<u>10,122,413</u>
Invested in Capital Assets	48,738,608	48,326,369
Restricted for Debt Services	1,529,038	1,781,306
Capital Projects	1,505,658	1,370,319
Replacements and Others	1,054,141	754,714
Unrestricted	<u>(1,689,385)</u>	<u>(1,433,753)</u>
Total Net Position	<u>\$51,138,060</u>	<u>\$50,798,955</u>

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

	2012	2013
Revenues		
Program Revenues:		
Charges for Services	\$ 641,109	\$ 152,948
Operating Grants	2,005,913	2,264,920
Capital Grants	1,088,886	1,646,821
General Revenue		
Taxes:		
Property Tax	1,219,914	1,032,569
Municipal Tax	573,535	600,736
Sale Tax	989,267	1,160,070
Construction Excise Taxes	329,867	119,777
Grants and Entitlements	8,058,219	8,226,862
Interest, Rents and Others	<u>663,660</u>	<u>465,894</u>
	<u>15,570,370</u>	<u>15,670,597</u>
Expenditures		
General Administration	6,429,959	6,026,105
Public Safety	1,032,754	935,178
Education, Culture and Recreational	1,037,523	996,694
Public Works and Sanitation	4,412,634	4,278,137
Health and Welfare	2,036,542	2,208,510
Public Relation	362,409	352,156
Planning and General Services	644,897	516,319
Interest	159,570	156,946
Housing	448,947	470,564
Housing interest	<u>61,436</u>	<u>53,106</u>
	<u>16,626,671</u>	<u>15,993,715</u>
Changes in Net Position	(1,056,301)	(323,118)
Net Position at beginning	<u>52,194,361</u>	<u>51,122,073</u>
Net Position at end	<u>\$51,138,060</u>	<u>\$50,798,955</u>

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

USING THE FINANCIAL STATEMENTS

The Municipality's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, **Financial Statements and Management's Discussions and Analysis for State and Local Governments**. The financial statement presentation required by GASB statement no. 34 provides a comprehensive, entity-wide perspective of the Municipality's assets, liabilities, net position, revenues, expenditures, changes in net position and cash flows.

The financial statements report information of the Municipality's as a whole and include the financial results of Rio Plata Development, a Business Type Division of the Municipality.

OVERVIEW OF BASICS FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

Statement of Net Position

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

Statement of Activities

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

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

Statement of Activities (Continued)

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

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

Fund Financial Statements

The Municipality's fund financial statements, which consist of: (1) the balance sheet - governmental funds and (2) the statements of revenues, expenditures, and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the **Municipality's government funds.**

A fund is a grouping of related accounts that is used to maintain control over recourses that have been segregated for specific activities of objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures, Fund accounting segregates fund according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view **of the Municipality's finances that assists in determining** whether there will be adequate financial recourses available to meet the currents need's of the Municipality, that is, **evaluating the Municipality's** near-term financing requirements.

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

Fund Financial Statements (Continue)

Because the focus of governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the **long-term impact of the Municipality's near-term** financial decisions.

For financial reporting purposes the Municipality has three major funds: (1) the general fund (2) the debt service fund and (3) HUD Block Grant.

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Statements of Net Position

The statement of net position presents the assets, liabilities and net position of the Municipality as of the fiscal year ended June 30, 2013. The net position are displayed in three parts, invested in capital assets restricted an unrestricted. Restricted net position may either be expendable or nonexpendable and are those asset are restricted by law o by an external donor. Unrestricted net position, while they are generally designated for specific purposes. The statement of net position, along with the **Municipality's basic financial statements, is prepared under the accrual basis of accounting, whereby** revenues are recognized when realized and expenses are recorded when the service or good is received, regardless of when the cash is exchanged.

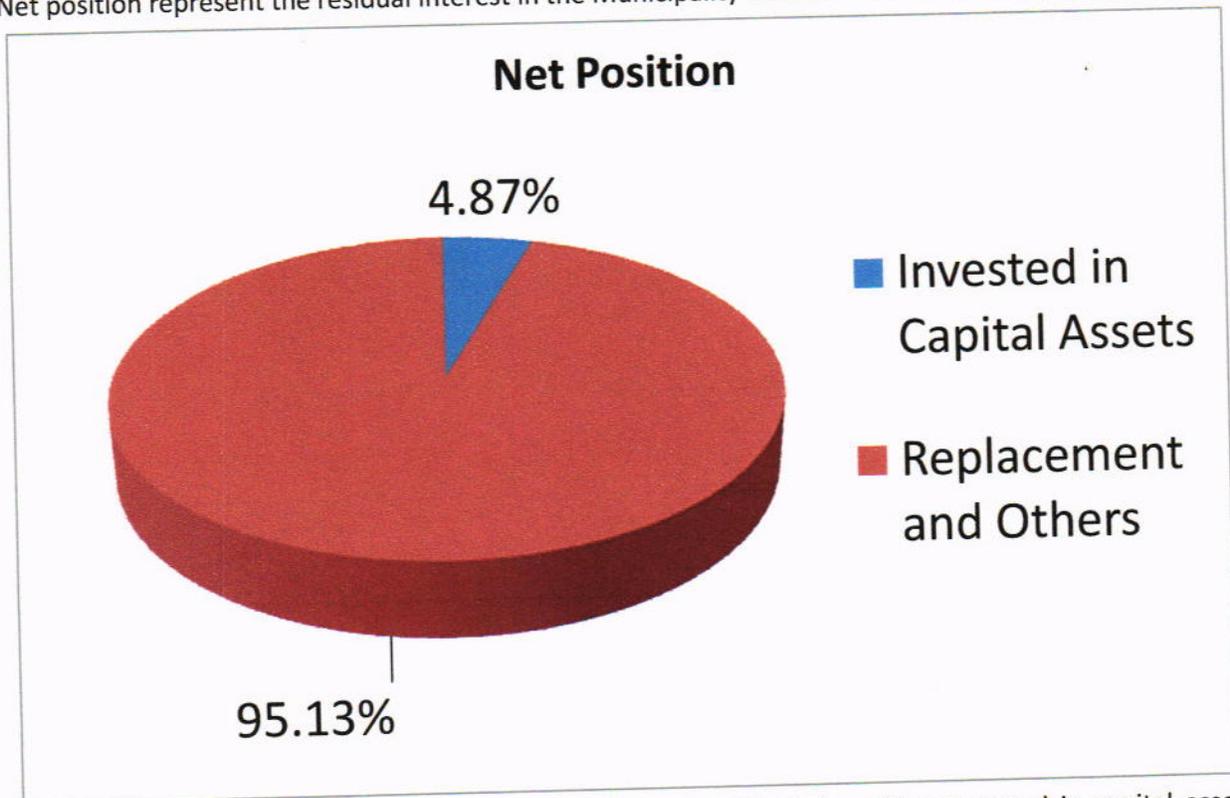
Cash and cash equivalent represents 3.26% of total assets while cash with fiscal agent represents 3.00% of it. Capital assets amount to 89.71% of total assets. The other 4.03% represents receivables, and restricted cash.

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

Municipality's cash and cash equivalents changed from \$1,683,427 at June 30, 2012 to \$1,985,891 at June 30, 2013. Capital Assets decreased from \$54,897,384 to \$54,414,647 for the same period.

Current liabilities consists primary of accounts payable and accrued expenses which represent 13.79% of total liabilities. Long term debt represents 86.21% of total liabilities.

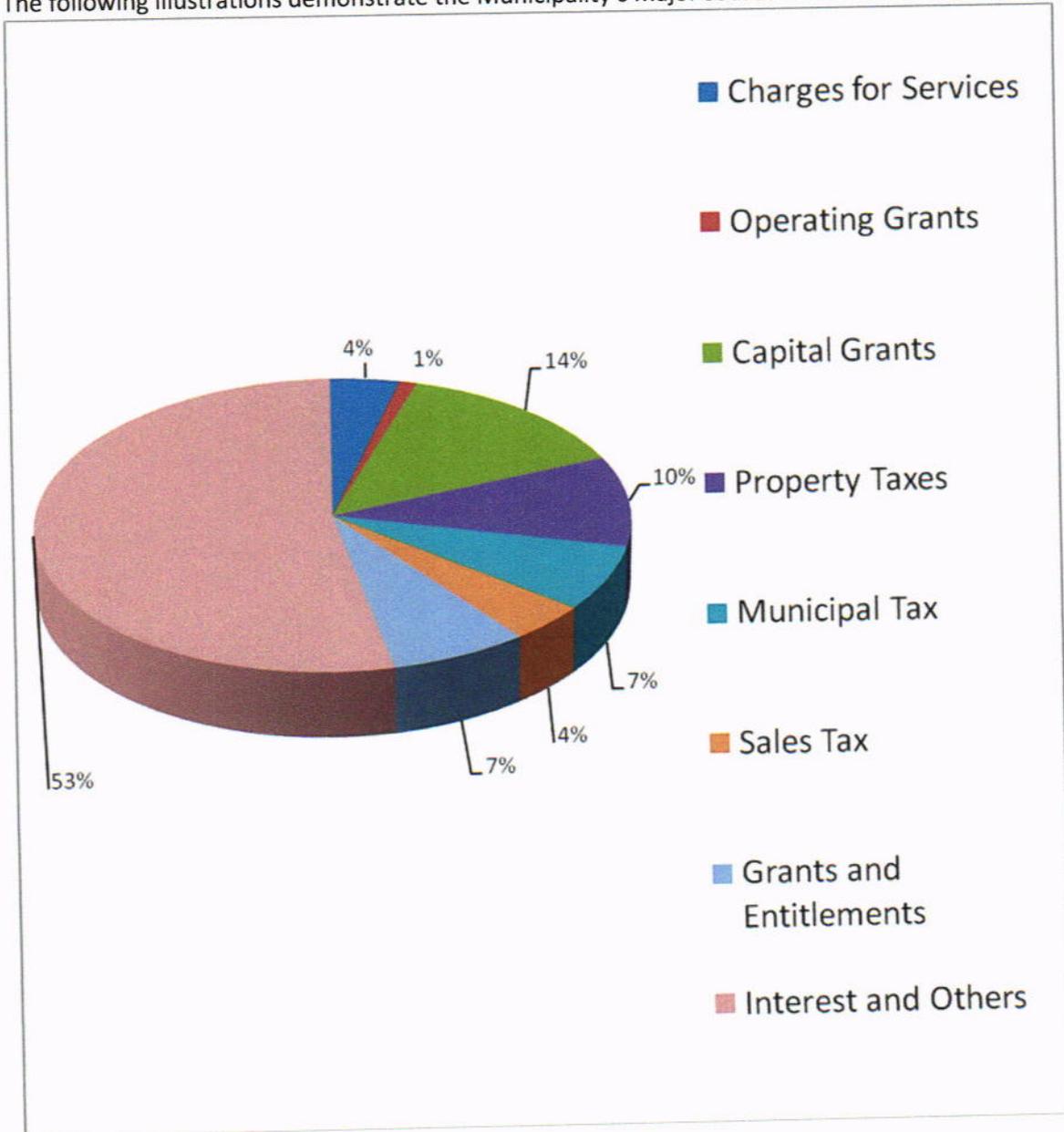
Net position represent the residual interest in the Municipality's assets after liabilities are deducted.



As of June 30, 2013 net position amounted to \$ 50,798,955. Net position invested in capital assets amounted to \$48,326,369 (95.13%). Replacement and others net position amounted to \$2,472,586 (4.87%).

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

The following illustrations demonstrate the Municipality's major sources of revenues and expenses.



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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2013, amounts to \$ 76,354,452 with an accumulated depreciation of \$21,701,679 (including depreciation charges for the year totaled \$2,162,620), leaving a net book value of \$54,652,773. This investment in capital assets includes land, constructions in progress, buildings, improvements, equipment, infrastructure, machinery and equipment and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

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

Debt Administration

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF NET POSITION
AS OF JUNE 30, 2013

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS -TYPE ACTIVITIES	TOTAL
Cash in bank	\$ 1,985,165	\$ 726	\$ 1,985,891
Cash with fiscal agent	1,828,749		1,828,749
Investment in certificates of deposit	200,000		200,000
Accounts receivable:			
Property tax	713,165		713,165
Sale tax	97,177		97,177
Other agencies	652,763	14,824	667,587
Others		21,312	21,312
Restricted cash		754,714	754,714
Capital assets, net	<u>53,659,933</u>	<u>992,840</u>	<u>54,652,773</u>
Total Assets	<u>59,136,952</u>	<u>1,784,416</u>	<u>60,921,368</u>
LIABILITIES			
Accounts payable and accrued expenses	692,476	16,618	709,094
Advance	509,345		509,345
Deposits	79,903	13,136	93,039
Due to other agencies	84,342		84,342
Long-term debt:			
Due within one year	1,185,059	134,431	1,319,490
Due in more than one year	<u>6,907,390</u>	<u>499,713</u>	<u>7,407,103</u>
Total Liabilities	<u>9,458,515</u>	<u>663,898</u>	<u>10,122,413</u>
NET POSITION			
Invested in capital assets, net of related liabilities	47,967,673	358,696	48,326,369
Restricted for:			
Debt service	1,781,306		1,781,306
Other provided by grantors	1,370,319		1,370,319
Replacements and other		754,714	754,714
Unrestricted	<u>(1,440,861)</u>	<u>7,108</u>	<u>(1,433,753)</u>
Total Net Position	<u>49,678,437</u>	<u>1,120,518</u>	<u>50,798,955</u>
	<u>\$59,136,952</u>	<u>\$1,784,416</u>	<u>\$60,921,368</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE)/ REVENUE</u>
		<u>CHARGE FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:					
General administration	\$ (6,026,105)		\$ 64,510		\$ (5,961,595)
Public safety	(935,178)		95,933		(839,245)
Education, culture and recreational	(996,694)	\$ 4,347	315,344		(677,003)
Public works and sanitation	(4,278,137)			\$1,646,821	(2,631,316)
Health and welfare	(2,208,510)	148,601	1,192,094		(867,815)
Public relations	(352,156)				(352,156)
Planning and general service	(516,319)				(516,319)
Interest	<u>(156,946)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(156,946)</u>
Total governmental activities	<u>(15,470,045)</u>	<u>152,948</u>	<u>1,667,881</u>	<u>1,646,821</u>	<u>(12,002,395)</u>
Business type-activities:					
Housing	(470,564)		597,039		126,475
Interest	<u>(53,106)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(53,106)</u>
	<u>(523,670)</u>	<u> </u>	<u>597,039</u>	<u> </u>	<u>73,369</u>
Total	<u>\$(15,993,715)</u>	<u>\$152,948</u>	<u>\$2,264,920</u>	<u>\$1,646,821</u>	<u>\$(11,929,026)</u>

(Continue)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Net (expense)/revenue	<u>\$(12,002,395)</u>	<u>\$ 73,369</u>	<u>\$(11,929,026)</u>
General revenue:			
Taxes:			
Property taxes	1,032,569		1,032,569
Municipal tax	600,736		600,736
Sale tax	1,160,070		1,160,070
Construction excise tax	119,777		119,777
Grants and entitlements	8,226,862		8,226,862
Licenses and permits	5,510		5,510
Interest	23,978	1,347	25,325
Rent	286,526		286,526
Other	<u>148,135</u>	<u>398</u>	<u>148,533</u>
Total general revenues	<u>11,604,163</u>	<u>1,745</u>	<u>11,605,908</u>
Changes in net position	(398,232)	75,114	(323,118)
Net position at beginning	<u>50,076,669</u>	<u>1,045,404</u>	<u>51,122,073</u>
Net position at end	<u>\$ 49,678,437</u>	<u>\$ 1,120,518</u>	<u>\$ 50,798,955</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2013**

ASSETS

	<u>MAJOR FUNDS</u>		<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUNDS</u>		
Cash:				
Cash in bank	\$1,173,840		\$ 811,325	\$1,985,165
Cash with fiscal agent		\$1,610,719	218,030	1,828,749
Investment in saving certificates			200,000	200,000
Receivables:				
Property taxes	581,334	131,831		713,165
Sale tax	58,421	38,756		97,177
Due from other governmental agencies	42,063		610,700	652,763
Due from other funds	<u>429,494</u>	<u> </u>	<u>292,639</u>	<u>722,133</u>
Total Assets	<u>2,285,152</u>	<u>1,781,306</u>	<u>2,132,694</u>	<u>6,199,152</u>

LIABILITIES AND FUND BALANCE

Liabilities:				
Accounts payable and accrued expenses	443,224		186,660	629,884
Deferred revenues	895,415	126,626	146,221	1,168,262
Deposits	79,903			79,903
Due to other fund	292,639		429,494	722,133
Due to other agencies	<u>84,342</u>	<u> </u>	<u> </u>	<u>84,342</u>
Total Liabilities	<u>1,795,523</u>	<u>126,626</u>	<u>762,375</u>	<u>2,684,524</u>
Fund Balance				
Restricted for debt service		1,654,680		1,654,680
Restricted for other purposes			1,370,319	1,370,319
Unassigned	<u>489,629</u>	<u> </u>	<u> </u>	<u>489,629</u>
Total Fund Balance	<u>489,629</u>	<u>1,654,680</u>	<u>1,370,319</u>	<u>3,514,628</u>
Total Liabilities and Fund Balance	<u>\$2,285,152</u>	<u>\$1,781,306</u>	<u>\$2,132,694</u>	<u>\$6,199,152</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2013

Fund Balances in Governmental Funds

<i>Amounts reported for Governmental Activities in the Statement of Net Position are different because:</i>	\$3,514,628
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	53,659,933
Receivables deferred in governmental fund financial statements	658,917
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds and notes payable	(5,769,000)
Accrued interest	(62,592)
Compensated absences	(1,696,036)
Advances from CRIM	<u>(627,413)</u>
Total net position in statement of net position	<u>\$49,678,437</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>MAJOR FUNDS</u>		<u>OTHER</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>	<u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
	<u>GENERAL</u> <u>FUND</u>	<u>DEBT</u> <u>SERVICE</u> <u>FUNDS</u>		
Revenues:				
Taxes:				
Property taxes	\$ 813,826	\$ 259,630		\$ 1,073,456
Municipal tax	600,736			600,736
Sales tax	723,429	436,641		1,160,070
Construction excise taxes	119,777			119,777
Grants and entitlements	8,049,626		\$3,491,938	11,541,564
Rental income	435,127			435,127
Licenses and permits	5,510			5,510
Interest	23,726	252		23,978
Other	<u>152,482</u>	<u> </u>	<u> </u>	<u>152,482</u>
Total Revenues	<u>10,924,239</u>	<u>696,523</u>	<u>3,491,938</u>	<u>15,112,700</u>
Expenditures:				
General administration	5,530,613		194,697	5,725,310
Public safety	687,474		186,695	874,169
Education and recreational	378,250		332,949	711,199
Public works and sanitation	2,318,925		2,277,622	4,596,547
Health and welfare	821,474		1,381,977	2,203,451
Public Relation	352,156			352,156
Planning and general services	516,319			516,319
Debt service:				
Principal	16,991	280,000		296,991
Interest	<u>39,614</u>	<u>130,845</u>	<u> </u>	<u>170,459</u>
Total expenditures	<u>10,661,816</u>	<u>410,845</u>	<u>4,373,940</u>	<u>15,446,601</u>
Excess (deficiency) of revenue over expenditures	<u>262,423</u>	<u>285,678</u>	<u>(882,002)</u>	<u>(333,901)</u>

(continued)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

	<u>MAJOR FUNDS</u>		<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUNDS</u>		
Excess of Revenue over Expenditures	<u>262,423</u>	<u>285,678</u>	<u>(882,002)</u>	<u>(333,901)</u>
Other financing sources (uses):				
Operating transfer in	56,252	17,463		73,715
Operating transfer out	(17,463)	(56,252)		(73,715)
Proceed form loan	<u> </u>	<u> </u>	<u>322,000</u>	<u>322,000</u>
Total other financing sources	<u>38,789</u>	<u>(38,789)</u>	<u>322,000</u>	<u>322,000</u>
Excess of revenues and other financing sources (under) expenditures and other financing sources	301,212	246,889	(560,002)	(11,901)
Fund balance beginning of year	<u>188,417</u>	<u>1,407,791</u>	<u>1,930,321</u>	<u>3,526,529</u>
Fund balance at end of year	<u>\$ 489,629</u>	<u>\$1,654,680</u>	<u>\$1,370,319</u>	<u>\$ 3,514,628</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net change in fund balances – total governmental funds \$ (11,901)

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 and changes in net position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	1,591,101
Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.	(2,065,874)
Governmental funds report principal payments on long-term debt as expenditures, whereas the principal payments reduce the long-term debt in the statement of net position.	280,000
Governmental fund report proceed from loans as other financial sources, whereas the proceed from loan increase the long term debt in the statement of net position.	(322,000)
Changes in accrued expenses which do not require the use of current financial resources:	
Interest	13,513
Compensating absences	124,838
Deferred revenues	(40,887)
Governmental funds report payments of other long-term debt as expenditures whereas the payment reduces the long-term is the obligate in the statement of net position.	<u>32,978</u>
<i>Changes in Net Position of Governmental Activities</i>	<u>\$ (398,232)</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF FINANCIAL POSITION-PROPRIETARY FUND
JUNE 30, 2013

ASSETS

	<u>PROPRIETARY FUND</u> <u>RÍO PLATA DEVELOPMENT</u>
Current Assets:	
Cash	\$ 726
Accounts receivable:	
HUD	14,824
Other	<u>21,312</u>
	36,862
Property and Equipment	992,840
Restricted deposits	<u>754,714</u>
	<u>\$1,784,416</u>

LIABILITIES AND NET POSITION

Liabilities:	
Current liabilities:	
Current maturities of mortgage note	\$ 134,431
Accounts payable and accrued expenses	<u>16,618</u>
	<u>151,049</u>
Long-term liabilities:	
Tenants deposits	13,136
Mortgage note, net of current maturities	<u>499,713</u>
	<u>512,849</u>
Total liabilities	<u>663,898</u>
Net position, temporally restricted	<u>1,120,518</u>
Total liabilities and net position	<u>\$1,784,416</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF ACTIVITIES - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	<u>PROPRIETARY FUND</u> <u>RÍO PLATA DEVELOPMENT</u>
Revenues:	
Rent	\$ 597,039
Financial	1,347
Others	<u>398</u>
Total revenues	<u>598,784</u>
Expenses:	
Administrative	159,415
Utilities	10,225
Operating maintenance	162,754
Taxes and insurance	40,822
Depreciation	97,348
Interest	<u>53,106</u>
Total Expenses	<u>523,670</u>
Change in net position	75,114
Net position, beginning of year	<u>1,045,404</u>
Net position, end year	<u>\$1,120,518</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	PROPRIETARY FUND RÍO PLATA DEVELOPMENT
Cash flows from operating activities:	
Receipts:	
Rental receipts	\$601,633
Interest receipts	1,347
Other operating receipts	<u>398</u>
Total receipts	<u>603,378</u>
Disbursements:	
Administrative	35,970
Management fee	45,172
Utilities	10,225
Salaries and wages	144,022
Operating and maintenance	132,750
Property insurance	11,153
Miscellaneous taxes and insurance	20,226
Interest on first mortgage	<u>53,106</u>
Total disbursements	<u>452,624</u>
Net cash provided by operating activities	<u>150,754</u>
Cash flows from investing activities:	
Deposits to the reserve for replacement account	(31,594)
Withdrawals at reserve for replacement account	39,548
Net deposits to the residual receipts account	(89)
Net purchase of fixed assets	<u>(36,047)</u>
Net cash used in investing activities	<u>(28,182)</u>

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2013

	PROPRIETARY FUND RÍO PLATA DEVELOPMENT
Cash flows from operating activities:	
Principal payments- first mortgage	<u>\$(122,608)</u>
Net cash used in financing activities	<u>(122,608)</u>
Net decrease in cash	(36)
Cash at beginning of year	<u>762</u>
Cash at end of year	<u>\$ 726</u>
Reconciliation of change in total net position from operation to net cash provided by operating activities:	
Change in total net position	\$ 75,114
Adjustment to reconcile change in total net position from operations to net cash provided by operating activities:	
Depreciation expense	97,348
(Increase) decrease in:	
Tenant accounts receivable	4,594
Cash restricted for tenant security deposits	(99)
Accounts payable	(15,464)
Accrued liabilities	(10,838)
Tenant security deposits held in trust	<u>99</u>
Net cash provided by operating activities	<u>\$ 150,754</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

1. ORGANIZATION

The Municipality of Comerío (the Municipality) was established in 1826. The Municipality is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the government of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Legislative Body, which has fourteen members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant policies of the Municipality are described below.

Reporting entity

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Comerío, this includes various services including police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by Municipality Legislative Body through the budgetary process.

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality has no component units.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

The Municipality reports the following major governmental funds:

1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

2) Debt Service Fund

This fund is used to account for the accumulation of resources from addition property tax and sales and use tax for and the payment of, general long-term debt principal, interest and related cost.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement presentation

The government-wide Statement of Net Position and the Statement of Activities, both government and business type activities, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days (except property taxes that are 60 days) of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, cash equivalents, cash with fiscal agent and investment

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

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

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). Interfund receivables and payables within the governmental activities are eliminated in the statement of net position.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements. The Municipality elected not to capitalize infrastructure acquired before the implementation date of GASB 34 (June 30, 2003).

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market 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 are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets (Continued)

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

Building	40 years
Equipment	5 years
Infrastructure	40 years
Building improvements	40 years
Furnishing	5 years
Computer	3 years
Vehicles	5 years

The Municipality decides when to capitalize an asset using a capitalization threshold of \$25.

Fund balance

In the prior year, the Authority adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of resources reported in governmental funds.

Pursuant to the provisions of GASB 54, the fund balances amounts are reported as nonspendable, restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

- ❖ **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.
- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restrict its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of **the entity's highest level of decision making authority (governing body through resolutions)** and can only be changed by similar resolutions, no later than the end of the fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund balance (Continued)

- ❖ **Assigned** – Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by an official or body to which the governing body delegates authority in conformity with the by-laws of the Authority. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

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

At June 30, 2013, the accompanying fund financial statements reported fund balances as restricted, assigned and unassigned.

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Cost of insurance policies for the year ended June 30, 2013 amounted to \$266,288. The current insurance policies have not been cancelled or terminated. In addition the Municipal Revenue Collection Center (the CRIM) deducted \$230,129 for workers compensation insurance covering all municipal employees.

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations 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 up to the maximum allowed. Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Position.**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Use of estimates

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

Deposits and investments

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.

Subsequent Events

Management has evaluated subsequent events through December 2, 2013, the date the financial statements were evaluated to be issued.

3. PROPERTY TAX

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the Municipal Revenue Collector Center (the CRIM), a governmental entity created by the Commonwealth of Puerto Rico. Real property tax is assessed by the CRIM on each piece of real state and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on esteemed values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount 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, where by a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

3. PROPERTY TAX (CONTINUED)

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. 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 liability to the CRIM is recorded at June 30.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual rate for fiscal year 2013 is 8.78% for real property and 6.78% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, **represent the Municipality's basic property tax rate, which is appropriated for general purposes and** accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth contributes an annual tax rate of 0.2% of the property tax collected and the remaining rate is paid by the taxpayer.

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the central government to the municipalities was assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15 1999. As of June 30, 2013 the amount due to CRIM amounting to \$627,413 is presented as other long-term debt (see Note 11).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

3. PROPERTY TAX (CONTINUED)

Total property tax receivable, net of an allowance for uncollectible accounts of \$4,120,473, amounted to \$616,416 at June 30, 2013. The composition of property taxes receivable and the related deferred revenues is as follows at June 30, 2013:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Gross property taxes receivable	\$6,711,051	\$1,025,221	\$7,736,272
Less allowance for uncollectible accounts	<u>6,129,717</u>	<u>893,390</u>	<u>7,023,107</u>
Net property taxes receivable	<u>\$ 581,334</u>	<u>\$ 131,831</u>	<u>\$ 713,165</u>
Deferred (unavailable property) tax revenues in GFFS	<u>\$ 567,210</u>	<u>\$ 126,626</u>	<u>\$ 693,836</u>

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2013, \$319,792 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying combined balance sheets and statement of net position.

5. SALE TAX

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

The Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling program, capital improvements and health and public safety costs. Amount collected by the Commonwealth will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

5. SALE TAX (continued)

- a) **.2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,**
- b) **.2% of the 5% will be deposited in a "Municipal Redemption Fund" to paid loans to municipalities subject to restrictions imposed by the Act and,**
- c) **.1% of the .5 will be deposited in a "Municipal Improvement Fund" to finance capital improvement project; these fund will be distributed based on legislation form the Commonwealth's legislature.**

The Municipal Sale Tax is specifically imposed over all sale transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax effective November 1, 2006. Individual, organizations and entities subject to collect the municipal sales and use tax must file a tax return to Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sale and use tax resources. Resources are recorded in the general fund of the Municipality.

6. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the Other Governmental Funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

7. DEFERRED REVENUE

Deferred revenue consist o the following

Deferred revenue in the general fund related to the municipal license tax collected in the fiscal year 2012-2013 that will be earned in fiscal year 2013-2013.	\$ 319,792
The deferred revenue presented in other governmental funds is the portion of federal grants received for which qualifying expenditures have not been incurred.	146,221
Property tax receivable but not available in the government fund financial statements.	693,836
Other	<u>8,413</u>
	<u>\$1,168,262</u>

8. COMMITMENTS AND CONTINGENCIES

At June 30, 2013, the Municipality was defendant and/or codefendant in several litigations arising **out of the normal Municipality's** operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

9. RESTRICTED DEPOSIT

Restricted cash in the business type activities included restricted deposits as follows:

Replacement reserve	\$705,210
Security deposits	13,136
Residual receipts	<u>36,368</u>
	<u>\$754,714</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

9. RESTRICTED DEPOSIT (CONTINUED)

A. Replacement Reserve

The project is required under the Project Rental Assistance Contract (PRAC) and federal regulations, to set aside amounts to aid in funding extraordinary maintenance and repair and replacement of capital items in accordance with applicable regulations. Funds may be drawn from the reserve and used only in accordance with HUD guidelines and with approval of, or as directed by, HUD.

B. Security Deposits

The project is required, under federal regulations, to set aside, at the time of the initial **execution of the lease, the tenant's security deposit and its accumulated interest. The project must refund to the tenant, the full amount of the tenant's security deposit, provided the tenant does not owe any amount under the lease. The Project may use the tenant's security deposit balance as a reimbursement for any unpaid amounts the tenant owes under the lease.**

C. Residual Receipts

The Project is required, under federal regulations and PRAC, to set aside the surplus project funds in an interest-bearing residual receipts account when the project funds are more than needed for the operation of the project, to pay operating expenses, and to make the required deposits to the replacement reserve. Withdrawals from this account will be made only with the approval of HUD and for project purposes, including the reduction of project rental assistance payments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

10. CAPITAL ASSETS

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

Primary Government	Balance <u>June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2013</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,698,792			\$ 7,698,792
Construction progress	<u>4,564,824</u>	<u>\$ 345,771</u>	<u>\$(3,189,218)</u>	<u>1,721,377</u>
Total capital assets not being depreciated	<u>12,263,616</u>	<u>345,771</u>	<u>3,189,218</u>	<u>9,420,169</u>
Capital assets being depreciated:				
Buildings	27,942,578	1,000		27,943,578
Equipment	1,915,161	171,264	(157,824)	1,928,601
Infrastructure	3,147,855	555,182		3,703,037
Infrastructure equipment	10,652,394	93,040		10,745,434
Buildings improvements	10,100,898	3,594,244		13,695,142
Furnishing	505,703	418	(34,048)	472,073
Work of art	1,580			1,580
Computer	378,054	6,560	(48,818)	335,796
Vehicles	<u>3,548,982</u>	<u>12,839</u>	<u>(2,500)</u>	<u>3,559,321</u>
Total capital assets being depreciated	<u>58,193,205</u>	<u>4,434,547</u>	<u>243,190</u>	<u>62,384,562</u>
Less accumulated depreciation for:				
Buildings	(5,496,213)	(696,550)		(6,192,763)
Equipment	(1,668,746)	(117,548)	157,223	(1,629,071)
Infrastructure	(451,724)	(84,724)		(536,448)
Infrastructure equipment	(3,032,282)	(713,618)		(3,745,900)
Buildings improvements	(1,549,172)	(334,066)		(1,883,238)
Furnishing	(460,881)	(21,139)	34,048	(447,972)
Work of art	(1,580)			(1,580)
Computer	(306,152)	(32,741)	48,818	(290,075)
Vehicles	<u>(3,355,365)</u>	<u>(64,886)</u>	<u>2,500</u>	<u>(3,417,751)</u>
	<u>(16,322,115)</u>	<u>(2,065,272)</u>	<u>242,589</u>	<u>(18,144,798)</u>
Total depreciable capital assets, net	<u>41,871,090</u>	<u>2,369,275</u>	<u>(601)</u>	<u>44,239,764</u>
Governmental activities capital assets net	<u>\$ 54,134,706</u>	<u>\$ 2,715,046</u>	<u>\$(3,189,819)</u>	<u>\$ 53,659,933</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

10. CAPITAL ASSETS (CONTINUED)

<u>Primary Government</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2013</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 134,360	\$ _____	\$ _____	\$ 134,360
Capital assets being depreciated:				
Building and improvements	4,180,534			4,180,534
Office furniture and equipment	<u>198,780</u>	<u>36,047</u>	<u>_____</u>	<u>234,827</u>
	<u>4,379,314</u>	<u>36,047</u>	<u>_____</u>	<u>4,415,361</u>
Less accumulated depreciation:				
Building and improvements	(3,266,254)	(91,651)		(3,357,905)
Office furniture and equipment	<u>(193,279)</u>	<u>(5,697)</u>	<u>_____</u>	<u>(198,976)</u>
	<u>3,459,533</u>	<u>(97,348)</u>	<u>_____</u>	<u>(3,556,881)</u>
Total depreciable capital, assets net	<u>919,781</u>	<u>(61,301)</u>	<u>_____</u>	<u>858,480</u>
Business activities capital assets, net	<u>\$ 1,054,141</u>	<u>\$(61,301)</u>	<u>\$ _____</u>	<u>\$ 992,840</u>

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

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
General administration	\$ 441,018	
Public safety	61,009	
Public works	1,135,272	
Education, culture and recreation	240,295	
Health and welfare	50,259	
Planning and general services	137,419	
Housing	<u>_____</u>	<u>\$97,348</u>
Total depreciation expense	<u>\$2,065,272</u>	<u>\$97,348</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

11. LONG-TERM DEBT

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

Primary government: Governmental Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Bonds and notes payable	\$5,727,000	\$322,000	\$(280,000)	\$5,769,000	\$ 267,000
Advance from CRIM	644,404		(16,992)	627,413	18,059
Compensated absences	<u>1,820,874</u>	<u> </u>	<u>(124,838)</u>	<u>1,696,036</u>	<u>900,000</u>
	8,192,278	322,000	(421,830)	8,092,449	1,185,059
Business-type activities:					
Mortgage payable	<u>756,952</u>	<u> </u>	<u>(122,808)</u>	<u>634,144</u>	<u>134,431</u>
Total	<u>\$8,949,230</u>	<u>\$322,000</u>	<u>\$(544,638)</u>	<u>\$8,726,593</u>	<u>\$1,319,490</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

11. LONG-TERM DEBT (CONTINUED)

Governmental activities:

Bonds and notes payable:

\$342,000 Municipal public improvement bonds of 1993 payable in annual principal installments of \$23,000 to \$26,000 through January 1, 2016 plus interest at 5.75%	\$ 73,000
\$95,000 public improvement bonds of 1993 payable in annual principal installments ranging from \$6,000 to \$7,000 through January 1, 2016, plus interest at 5%	19,000
\$505,000 municipal general obligation bonds of 2003 payable in annual principal installments ranging from \$15,000 to \$40,000 through July 1, 2027, plus interest at 5% to 6.5%	385,000
\$1,010,000 notes of 2005 payable in annual principal installments ranging from \$35,000 to \$70,000 through July 1, 2029, plus Interest at 5%	780,000
\$3,817,000 municipal special obligation note serial of 2008 payable in an annual installments regarding from \$120,000 to \$342,000 through July 1, 2028 plus interest at 5.4%	3,414,000
\$252,000 municipal special obligation note serial of 2012 payable in annual principal installments ranging from \$29,000 and \$44,000 through July 1, 2019, plus interest at 6%.	252,000
\$100,000 municipal general obligation note of 2007 payable in two annual installments of \$15,000 and \$16,000 through January 1, 2015 plus notes at 4.13%.	31,000
\$284,000 municipal general obligation note of 2007 payable in two annual installments of \$44,000 to \$46,000 through January 1, 2015 plus interest at 4.13%.	90,000
\$665,000 municipal general of obligation of 2011 payable in annual installments ranging from \$5,000 to \$65,000 through July 1, 2035 plus interest at 7.50%	655,000
\$70,000 municipal general obligation note of 2012 payable in annual principal installments of \$10,000 through July 1, 2019 plus interest at 6%.	<u>70,000</u>
	<u>5,769,000</u>

Business-type activities:

Mortgage note payable in monthly installments of \$15,513 including interest at 9% including subsidy interest of 8% through 2018. The note is secured by a residential building.	<u>634,144</u>
	<u>\$6,403,144</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

11. LONG-TERM DEBT (CONTINUED)

Advances from CRIM

These amounts represent the balance owed to CRIM at June 30, 2013 as described in Note 3 and is payable in semiannual aggregated installments through July 2032 including interest at 6.1%.

The annual debt service requirements to maturity long-term debt as of June 30, 2013 are as follows:

Governmental-Type Activities

<u>Bonds and Notes Payable</u> <u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregated payments</u>
2014	\$ 267,000	\$ 173,654	\$ 440,654
2015	317,000	347,826	664,826
2016	274,000	352,219	626,219
2017	264,000	332,895	596,895
2018	282,000	313,662	595,662
2019-2023	1,543,000	1,255,641	2,798,641
2024-2028	1,985,000	660,451	2,645,451
2029-2033	667,000	120,948	787,948
2034-2037	<u>170,000</u>	<u>20,249</u>	<u>190,249</u>
	<u>\$5,769,000</u>	<u>\$3,577,545</u>	<u>\$9,346,545</u>

Due to CRIM:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregated payments</u>
2014	\$ 18,059	\$ 38,545	\$ 56,604
2015	19,194	37,410	56,604
2016	20,400	36,204	56,604
2017	21,682	34,922	56,604
2018	23,044	33,560	56,604
2019-2023	138,845	144,175	283,020
2024-2028	188,299	94,721	283,020
2029-2032	<u>197,890</u>	<u>28,526</u>	<u>226,416</u>
	<u>\$627,413</u>	<u>\$448,063</u>	<u>\$1,075,476</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

11. LONG-TERM DEBT (CONTINUED)

Business-type activities
Mortgage note payable:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregated payments</u>
2014	\$134,431	\$ 51,713	\$186,144
2015	148,080	38,064	186,144
2016	160,912	25,232	186,144
2017	176,045	10,099	186,144
2018	<u>14,676</u>	<u>837</u>	<u>15,513</u>
	<u>\$634,144</u>	<u>\$125,945</u>	<u>\$760,089</u>

12. RETIREMENT SYSTEM

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities (the "Retirement System"), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

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

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

12. RETIREMENT SYSTEM (CONTINUED)

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Bank is **required by the same statute to contribute 9.275% of the participant's gross salary.**

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends **Act No. 447 to establish, among other, a defined contribution savings plan program (the "Program")** to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of a Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Defined Contribution Plan

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is **credited to the participant's account semi-annually.**

The Bank is required by Act No. **305 to contribute 9.275% of the participant's gross salary.** The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the participant's account **will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death.** Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the **participant's account will be paid in a lump-sum** to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Total employees and employer contributions to the above mentioned plans during the year ended June 30, 2013 amounted to approximately \$265,519 and \$291,773, respectively. This amount represented 100% of the required contribution for the year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

12. RETIREMENT SYSTEM (CONTINUED)

Subsequent to June 30, 2013 the Legislature of the Commonwealth of Puerto Rico approved certain amendments to the Employee's Retirement System which increased to employee and employer contributions. In addition, certain employees benefits were substantially reduce.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2013, a copy of which can be obtained from the Retirement System.

13. CONTINGENCIES

As of June 30, 2013, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. **Most of the cases are covered by insurance.** Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>GENERAL FUND</u>			
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL AT BUDGETARY BASIS</u>	<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
Revenues:				
Taxes:				
Property taxes	\$ 1,053,547	\$ 1,053,547	\$ 1,053,547	
Municipal tax	464,930	464,930	567,710	\$ 102,780
Sales tax	599,900	599,900	722,844	122,944
Construction excise taxes	450,000	450,000	119,777	(330,223)
Grants and entitlements	8,004,300	8,004,300	8,002,409	(1,891)
Rental income	429,238	429,238	435,127	5,889
Licenses and permits	3,000	3,000	6,750	3,750
Interest	30,000	30,000	45,270	15,270
Other	<u>224,252</u>	<u>224,252</u>	<u>107,080</u>	<u>(117,172)</u>
 Total revenues	 <u>11,259,167</u>	 <u>11,259,167</u>	 <u>11,060,514</u>	 <u>(198,653)</u>
Expenditures:				
General administration	5,890,746	5,887,769	5,714,080	173,689
Public safety	743,429	716,322	687,378	28,944
Education, culture and recreational	449,615	421,806	378,251	43,555
Public works and sanitation	2,340,063	2,444,230	2,319,035	125,195
Health and welfare	977,201	881,303	821,466	59,837
Communication press and media	302,519	373,534	352,156	21,378
Planning and general service	<u>555,594</u>	<u>534,203</u>	<u>516,319</u>	<u>17,884</u>
 Total expenditures	 <u>\$11,259,167</u>	 <u>\$11,259,167</u>	 <u>\$10,788,685</u>	 <u>\$ 470,482</u>
 Excess of revenue over expenditure	 <u>\$ _____</u>	 <u>\$ _____</u>	 <u>\$ 271,829</u>	 <u>\$ 271,829</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
- 3) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 4) The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.
- 5) Unused appropriations for the annual budgeted funds lapse at the end of the year.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON (CONTINUED)
JUNE 30, 2013

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

Adjustments necessary to reconcile the revenues and expenditures of the general fund at the end of the year, from the generally accepted accounting principles to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenses</u>
Revenue and expenses for generally accepted accounting principles (GAAP) basis	\$10,924,239	\$10,661,818
Transfer in included as revenues in budgetary basis	56,252	
Transfer out included as expenditures in budgetary basis		17,463
Other adjustment to adjust revenues and expenses from budgetary basic to modified accrual basis	<u>80,023</u>	<u>39,404</u>
Revenue and expenses per budgetary basis	<u>\$11,060,514</u>	<u>\$10,718,685</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

	<u>NUMBER</u>	<u>EXPENDITURES</u>
<u>US Department of Housing and Urban</u>		
<u>Development</u>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant	14.228	\$1,074,200
Puerto Rico Public Housing Administration:		
Public and Indian Housing	14.875	429,138
Puerto Rico Department of Family:		
ARRA-Homeless Prevention and Rapid Re-Housing Program	14.257	28,086
Emergency Shelter Grants Program	14.231	2,211
Direct Program:		
Section 8- Housing Choice Vouchers	14.871	<u>712,697</u>
Total Department of Housing and Urban Development		2,246,332
<u>US Department of Justice</u>		
Passed through:		
PR Department of Justice:		
Public Safety Partnership and Community Policing Grants	16.710	25,446
<u>US Department of Agriculture</u>		
Passed through:		
PR Department of Education:		
Child and Adult Food Program	10.558	24,410
<u>US Department of Health and Human Services</u>		
Passed through:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	291,967
<u>US Department of Energy</u>		
Passed through:		
Puerto Rico Energy affairs Administration		
Energy Efficacy Conservation Block Grant	81.128	<u>19,968</u>
		<u>\$2,608,123</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Comerío and is presented on the modify basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audit of States, Local Governments and Non profit organizations.

**REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

CARLOS R. DIAZ, CPA, PSC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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 Honorable Mayor and
Municipality Legislative Body
Municipality of Comerío
Comerío, 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 **Municipality of Comerío, Puerto Rico**, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise **Municipality of Comerío, Puerto Rico's** basic financial statements, and have issued our report thereon dated December 2, 2013. Our report includes a reference to other auditors who audited the financial statements of Río Plata Project, as described in our report on Municipality of Comerío, Puerto Rico's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Carlos R. Díaz CPA, PSC

License No. 275

Expire December 1, 2015

December 2, 2013
Aguas Buenas, Puerto Rico

The stamp No. **E55464** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

CARLOS R. DIAZ, CPA, PSC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

To Honorable Mayor and
Municipality Legislative Body
Municipality of Comerío
Comerío, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Municipality of Comerío, Puerto Rico's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Comerío, Puerto Rico's** major federal programs for the year ended June 30, 2013. **Municipality of Comerío, Puerto Rico's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Municipality of Comerío, Puerto Rico's basic financial statements include the operations of the Río Plata Project, which received \$1,060,466 in federal awards which is not included in the schedule during the year ended June 30, 2013. Our audit, described below, did not include the operations of Río Plata Project because Municipality of Comerío, Puerto Rico engaged other auditors to perform and audit in accordance with OMB Circular A-133.

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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



Carlos R. Díaz CPA, PSC

License No. 275

Expire December 1, 2015

December 2, 2013
Aguas Buenas, Puerto Rico

The stamp No. **E55465** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

MUNICIPALITY OF COMERÍO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? ___yes _X_no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? ___yes _X_no
- Noncompliance material to financial statement noted? ___yes _X_no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___yes _X_no
- Significant deficiency (ies) identified that are not considered to be material weakness(es) ___yes _X_no

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 ___yes _X_no

Identification of major programs:

CFA Number(s)

Name of Federal Program Cluster

14.228	Community Development Block Grant/ State's Program
14.850	Public and Indian Housing
14.871	Section 8 – Housing Choice Vouchers

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

Audit qualified as low-risk audited? ___yes _X_no

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENTS FINDINGS

NONE

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

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

NONE