

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

**Basic Financial Statements and
Required Supplemental Information
and Supplemental Schedules**

Year Ended June 30, 2014

With Independent Auditors' Report

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
And Municipal Legislature
Municipality of Ciales
Ciales, Puerto Rico

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Ciales, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality of Ciales' basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Ciales, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

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

Other Information

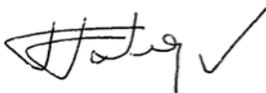
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Ciales' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical section, are presented for purposes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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015, on our consideration of the Municipality of Ciales' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and, other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality of Ciales' internal control over financial reporting and compliance.



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



San Juan, Puerto Rico
March 27, 2015

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Municipality of Corozal (the "Municipality") discussion and analysis has been designed with the followings goals:

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

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality net assets increased by \$29,487.
- Capital assets decreased by \$1,051,150.
- Capital expenditures amounted to \$1,973,520.
- General fund balance increased by \$335,983.

USING THIS ANNUAL REPORT

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

Infrastructure Assets

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's net assets totaled \$42.78 million at the end of 2014, compared to \$42.75 million at the end of the previous year.

The largest portion of the Municipality's net assets consists of the investment made throughout the years in capital assets such as land, buildings, equipment and infrastructure. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service represents another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

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

Condensed Statement of Net Position June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Current assets	\$ 11,437,129	\$ 11,713,709
Capital assets	50,369,489	51,420,639
Total assets	<u>61,806,618</u>	<u>63,134,348</u>
Current liabilities	2,443,247	4,322,324
Noncurrent liabilities	15,429,916	16,060,869
Total liabilities	<u>17,873,163</u>	<u>20,383,193</u>
Invested in capital assets, net of related debt	37,594,489	38,115,639
Restricted	7,382,045	7,054,967
Unrestricted	(2,195,892)	(2,419,451)
Total net position	<u>\$ 42,780,642</u>	<u>\$ 42,751,155</u>

Changes in Net Assets

The Municipality's net assets increased by \$29,487. Approximately 63 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 24 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and health and welfare.

**Condensed Statement of Activities
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Program revenues		
Charges for services	\$ 416,785	\$ 399,813
Operating grants and contributions	2,079,153	4,600,916
General revenues		
Property taxes	2,860,084	2,303,966
Municipal license tax	1,396,224	1,167,947
Sales and use taxes	1,359,860	1,526,748
Grants and contributions not restricted to specific programs	9,197,127	9,982,429
Interest and investment earnings	172,144	282,039
Miscellaneous	<u>295,929</u>	<u>260,687</u>
Total revenues	<u>17,777,306</u>	<u>20,524,545</u>
Expenses		
General government	9,677,115	10,410,153
Public safety	942,563	982,691
Health and welfare	2,144,726	2,595,056
Public works	3,497,989	3,722,486
Culture and recreation	667,504	729,540
Economic Development	35,397	20,467
Interest on long-term debt	<u>782,525</u>	<u>855,744</u>
Total expenses	<u>17,747,819</u>	<u>19,316,137</u>
Change in net position	29,487	1,208,408
Net position, beginning of year	<u>42,751,155</u>	<u>41,542,747</u>
Net position, end of year	<u>\$ 42,780,642</u>	<u>\$ 42,751,155</u>

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported a combined fund balance of \$7,291,069 compared to a fund balance of \$6,861,385 in the prior year.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2014, the general fund has a fund balance of \$1,116,556. The general fund balance increased by \$335,983 during fiscal year 2014.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget to reclassify certain expenditures among the different governmental functions. Such reclassifications were necessary to provide for the developments that affected the Municipality's finances.

The most significant variances between budget and actual results were a revenue shortfall on intergovernmental revenues and lower than budgeted expenditures overall.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2014, amounts to \$79.5 million, net of accumulated depreciation of \$29.1 million, leaving a net book value of \$50.4 million. This investment in capital assets includes land, buildings, improvements, equipment, intangibles, infrastructure and construction in progress. 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 total decrease in the Municipality's investment in capital assets for the current fiscal year was about 2.04% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$2.0 million for the year. Depreciation charges for the year totaled \$3.0 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2014, the Municipality has \$5.3 million of unexpended proceeds from grants that are committed to future construction activities.

Debt Administration

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

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2014-2015 fiscal year.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 710 or #9 Cervantes Street, Corozal, Puerto Rico 00783.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Statement of Net Position
June 30, 2014

ASSETS

Cash	2,878,882
Cash with fiscal agent	6,138,875
Investment	1,400,000
Accounts receivable:	
Taxes	269,128
Other	750,244
Capital assets	50,369,489
Total assets	<u>\$ 61,806,618</u>

LIABILITIES

Accounts payable and accrued liabilities	1,246,868
Due to other governmental units	829,061
Accrued interest	367,318
Noncurrent liabilities:	
Due within one year	786,953
Due in more than one year	14,642,963
Total liabilities	<u>\$ 17,873,163</u>

DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,152,813</u>
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NET POSITION

Invested in capital assets, net of related debt	37,594,489
Restricted	7,382,045
Deficit	(2,195,892)
Total net position	<u>\$ 42,780,642</u>

See notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

Statement of Activities

For the year ended June 30, 2014

Functions/programs	Expenses	Program Revenues		Net (expense) revenue and changes in net assets
		Charges for Services	Operating grants and contributions	
General government	\$ 9,677,115	\$ 416,785	\$ 47,738	\$ (9,212,592)
Public safety	942,563		-	(942,563)
Health and welfare	2,144,726		1,764,563	(380,163)
Public works	3,497,989		266,853	(3,231,136)
Culture and recreation	667,504			(667,504)
Economic Development	35,397			(35,397)
Interest on long-term debt	782,525			(782,525)
Total	\$ 17,747,819	\$ 416,785	\$ 2,079,153	\$ (15,251,881)
General revenues:				
				\$ 2,860,084
Property taxes				1,396,224
Municipal license tax				1,359,860
Sales tax				9,197,127
Grants and contributions not restricted to specific programs				172,144
Interest, fines and penalties				295,929
Miscellaneous				<u>15,281,368</u>
Total general revenues				<u>29,487</u>
Change in net position				<u>42,751,155</u>
Net position at beginning of year				<u>\$ 42,780,642</u>
Net position at end of year				

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Balance Sheet
June 30, 2014

	General Fund	Joint Resolutions	Capital Projects	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 886,685	\$ 1,630,998	\$ 7,544	\$ -	\$ 353,655	\$ 2,878,882
Cash with fiscal agent	-	10,199	2,716,385	3,174,079	238,212	6,138,875
Investment	1,400,000	-	-	-	-	1,400,000
Accounts receivable:						
Sales Taxes	130,796	-	-	-	-	130,796
Municipal Taxes	138,332	-	-	-	-	138,332
Property Taxes	-	-	-	-	-	-
Other	515,902	234,342	-	-	-	750,244
Due from other funds	1,206,483	-	1,015,580	-	-	2,222,063
Total assets	<u>\$ 4,278,198</u>	<u>\$ 1,875,539</u>	<u>\$ 3,739,509</u>	<u>\$ 3,174,079</u>	<u>\$ 591,867</u>	<u>\$ 13,659,192</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 514,115	\$ -	\$ 171,871	\$ -	\$ 118,213	\$ 804,199
Accrued liabilities	442,669	-	-	-	-	442,669
Due to other governmental units	660,879	-	-	168,182	-	829,061
Accrued interest payable	-	-	-	367,318	-	367,318
Matured bonds payable	-	-	-	550,000	-	550,000
Due to other funds	580,805	45,667	104,044	-	1,491,547	2,222,063
Total liabilities	<u>2,198,468</u>	<u>45,667</u>	<u>275,915</u>	<u>1,085,500</u>	<u>1,609,760</u>	<u>5,215,310</u>
DEFERRED INFLOWS OF RESOURCES						
Unearned revenues	963,174	-	-	-	189,639	1,152,813
FUND BALANCES						
Restricted		1,829,872	3,463,594	2,088,579		7,382,045
Unassigned	1,116,556				(1,207,532)	(90,976)
Total fund balances	<u>1,116,556</u>	<u>1,829,872</u>	<u>3,463,594</u>	<u>2,088,579</u>	<u>(1,207,532)</u>	<u>7,291,069</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,278,198</u>	<u>\$ 1,875,539</u>	<u>\$ 3,739,509</u>	<u>\$ 3,174,079</u>	<u>\$ 591,867</u>	<u>\$ 13,659,192</u>
Fund Balance Governmental Funds						7,291,069
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.						50,369,489
Long-term liabilities are not due and payable in the current period and therefore not reported in the governmental funds, net of matured bonds payable (\$15,429,916 - \$550,000)						(14,879,916)
Net position						<u>\$ 42,780,642</u>

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2014

	General Fund	Joint Resolutions	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES:						
Property taxes	\$ 1,799,633	\$ -	\$ -	\$ 1,060,451	\$ -	\$ 2,860,084
Municipal license tax	1,396,224	-	-	-	-	1,396,224
Sales tax	1,121,397	-	-	238,463	-	1,359,860
Licenses, permits and other local taxes	207,464	-	-	-	-	207,464
Charges for services	416,785	-	-	-	-	416,785
Interest, fines and penalties	172,144	-	-	-	-	172,144
Intergovernmental:						-
Federal	327,123	-	-	-	1,827,316	2,154,439
Local	7,157,713	1,362,216	-	-	394,448	8,914,377
Other	295,929	-	-	-	-	295,929
Total revenues	12,894,412	1,362,216	-	1,298,914	2,221,764	17,777,306
EXPENDITURES:						
Current:						
General government	6,121,790	-	-	-	1,247,045	7,368,835
Public safety	600,788	-	-	-	-	600,788
Health and welfare	458,331	-	-	-	1,686,395	2,144,726
Public works	3,085,565	-	-	-	412,424	3,497,989
Culture and recreation	393,842	-	-	-	-	393,842
Economic Development	35,397	-	-	-	-	35,397
Capital outlays	-	653,521	805,024	-	514,975	1,973,520
Debt service:						
Principal	-	-	-	550,000	-	550,000
Interest	-	-	-	782,525	-	782,525
Total expenditures	10,695,713	653,521	805,024	1,332,525	3,860,839	17,347,622
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,198,699	708,695	(805,024)	(33,611)	(1,639,075)	429,684
OTHER FINANCING SOURCES (USES):						
Operating transfers from other funds	-	199,981	257,037	-	1,405,698	1,862,716
Proceeds from issuance of long-term debt	-	-	-	-	-	-
Operating transfers to other funds	(1,862,716)	-	-	-	-	(1,862,716)
Total other financing sources (uses)	(1,862,716)	199,981	257,037	-	1,405,698	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	335,983	908,676	(547,987)	(33,611)	(233,377)	429,684
FUND BALANCES, at beginning of year	780,573	921,196	4,011,581	2,122,190	(974,155)	6,861,385
FUND BALANCES (DEFICIT), at end of year	\$ 1,116,556	\$ 1,829,872	\$ 3,463,594	\$ 2,088,579	\$ (1,207,532)	\$ 7,291,069
Net change in fund balance governmental funds						\$ 429,684
Amounts reported for governmental activities in the statement of activities are different because:						
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.						(1,051,150)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.						650,953
Change in net position						\$ 29,487

See notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

**Notes to Basic Financial Statements
Fiscal Year Ended June 30, 201**

1. Reporting Entity

The Municipality of Corozal of the Commonwealth of Puerto Rico (the "Municipality") is a local government constituted in 1795 with full legislative, fiscal and administrative powers to operate as a government.

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

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

2. Basis of Presentation and Summary of Significant Accounting Policies

The accounting and reporting policies of the Municipality conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to governmental entities. The Municipality follows Governmental Accounting Standards Board (GASB) pronouncements under the hierarchy established by GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements.

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements — The statement of Net position and the statement of activities report information on all activities of the Municipality. The effect of interfund balances has been removed from the government-wide statement of Net position (deficiency), except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Municipality's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services or interest earned on investment securities. Following is a description of the Municipality's government-wide financial statements.

The statement of net position presents the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting in conformity with GAAP, with the difference reported as net position. Net position is reported in three categories:

- Invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any.
- Restricted net position result when constraints placed on Net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position consists of Net position that does not meet the definition of the two preceding categories. Unrestricted Net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted Net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (1) interest income on loans and investments, changes in the fair value of investments, and fees and charges to customers for services rendered or for privileges provided and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements — Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Municipality that are reported in the accompanying basic financial statements have been classified into governmental and enterprise funds.

Separate financial statements are provided for governmental funds and enterprise funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonexpendable — amounts that cannot be spent because they are not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- Restricted — amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- Committed — amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making Municipality.
- Assigned — amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- Unassigned — amounts that are available for any purpose.

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

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

Government-Wide Financial Statements — The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when

earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds Financial Statements — The governmental fund financial statements are reported 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 120 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include federal and Commonwealth funds to be received. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Interest on general long-term obligations is generally recognized when paid.
- Debt service principal expenditures and claims and judgments are recorded only when payment is due.

For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

General fund - The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

Debt service fund - The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. Consistently with the prior fiscal years' financial statement presentation, during the fiscal year ended June 30, 2013, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

Special revenue funds - Special revenue funds are governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditures for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

Capital projects funds - Capital projects funds are governmental funds, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds accounted for in the capital projects funds.

The use of the capital projects funds has been reserved only for major capital acquisitions, construction or

improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities.

The focus of the GFFS is on major governmental funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund would be classified as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of interfund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) the general fund, (2) the debt service fund, (3) the capital improvements fund, and (4) joint resolutions fund.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements.

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

Budgetary Control

The Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit for the fiscal year commencing on the next July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than May 10 and May 15, respectively. The Commissioner preliminary verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before June 13.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the

budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances, and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level within the general and debt service funds, respectively.

Under the laws and regulations of the Commonwealth the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that unspent balance from the prior year be carried forward and made available for current spending.

The accompanying statement of revenues and expenditures - budget and actual - budgetary basis - general fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2014.

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. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of \$1,442,861 in the general fund were fully collateralized at June 30, 2014. In the other governmental funds there were deposits with commercial banks of \$1,802,878, \$1,289,995 in Joint Resolutions Funds, and \$7,544 in Capital Project Funds, that were fully collateralized.

The deposits at GDB of \$2,643,490, restricted for capital projects, joint resolutions, other governmental funds, and for debt service, are unsecured and uncollateralized, as no collateral is required to be carried by governmental bank.

Investments represent certificate of deposits in the following institution:

Banco Popular de P.R.	\$1,400,000
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Accounts Receivable

Receivables consist of all revenues earned but not collected at June 30, 2014. These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental 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 inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans), as applicable. All other outstanding balances between funds are reported as "due to/from other funds"

Use of Estimates

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

Inter-fund Activities

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying GFFS:

Inter-fund loans – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Inter-fund receivables, which are not considered to be currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period of time, inter-fund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as an operating transfer from the governmental fund that made the loan.

Inter-fund transfers – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment.

Operating transfers are reported as other financing sources in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.

Inter-fund reimbursements — Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the GFFS, inter-fund activity has not been eliminated, as permitted by GAAP.

Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost of \$5,000 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$5,000 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002 and certain lands, buildings, structures and building improvements.

Major outlays for capital assets and improvements are capitalized in the statement of net assets as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method. The estimated useful lives of major capital asset categories are:

Description	Years
Buildings	50
Infrastructure	10
Building and site improvements	25
Vehicles	10
Machinery and equipment	7

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological

changes or obsolescence, if any, are measured using the service units approach.

Unearned Revenues

In the GFFS, unearned revenue arises when one of the following situations occur:

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

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

Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. I6, *Accounting for Compensated Absence*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2014 and (2) is not contingent on a specific event that is outside the control of the Municipality' and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes and Medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed. .

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously. After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the GFFS only when matured (when payment is due), for example, as a result of employee resignations or retirements.

Long-term Debt

The long term liabilities reported in the accompanying statements of net position include the Municipality's bonds payable, notes payable, accrued compensated absences, and accrued legal claims and judgments if any.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, 2014 are recorded as governmental Fund liabilities in the GFFS (debt service fund) when resources are available in the debt service fund (June 30, 2014). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

Operating Leases

The Municipality leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the general fund and in other governmental funds for the year ended June 30, 2014, amounted to \$28,700. Management believes that the summary of the future minimum rental commitments under non-cancelable real property and equipment lease with terms exceeding one year is not significant.

Accounting for Pension Costs and Post-Employment Benefits

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

The government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate.

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

Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

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

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's

Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2014.

Future Adoption of Accounting Pronouncements — The GASB has issued the following statements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is effective for periods beginning after December 15, 2013.
- GASB Statement No. 71, *Accounting and Financial Reporting for Pension transition for contributions made subsequent to the measurement date*, which is effective for periods beginning after June 15, 2014.

Management is evaluating the impact that these statements will have on the Municipality's basic financial statements.

3. Credit Risk

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico*. Accordingly, the Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2014 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. No investments in debt or equity securities were made during the fiscal year ended June 30, 2014. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2014.

Interest rate risk - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates as required by the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico* (the

adopted policy of the Municipality). At June 30, 2013, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

Custodial credit risk — In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

Therefore, the Municipality's management has concluded that at June 30, 2013, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2013.

4. Property Taxes

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 CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomy Laws of August 1991. Real property tax is assessed by the CRIM on each piece of real estate 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 estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis 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, deferred revenue is recorded at June 30.

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances compared to actual collections through fiscal year 1999-2000. The amounts that the Municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Central Government to the

Municipalities are 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.

On December 3, 2002, the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances determined in \$1,133,772. As of June 30, 2013, the related unpaid property tax advances presented in the statement of net position amounted to \$913,339 and is payable in periodic installments as determined by the CRIM in a 30 years period until July 1, 2032, at variable interest rate (Law 42 of 2000 as amended by law 146 of 2001).

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 exempted 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 the Municipal Autonomous Law of 1991, the exempt amount to be paid by the 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 tax rate for fiscal year 2011-2013 is 9.83% for real property and 7.83% 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) 8.80% and 6.80%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics 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 a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.67% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the Property tax collected and such amount is accounted for similar to item (a) above.

5. Municipal License Taxes

The Municipality is authorized to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of COROZAL. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2014, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due. Municipal license tax revenues for the fiscal year ended June 30, 2014 amounted to \$1,396,224 in the accompanying financial statements.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues. Unearned municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$963,174 at June 30, 2014. This amount represents the municipal license taxes corresponding to fiscal year ending June 30, 2015 that were collected in advance during the last quarter of the current fiscal year, as required by law.

6. Sales and Use Taxes

The Municipality imposes a sales and use tax pursuant to the provisions of the Puerto Rico Internal Revenue Code, as amended. The tax consists of one percent (1.0%) on the sales price of taxable items or on the purchase prices of all usage, storage, or consumption of taxable items, excluding wholesales. The sales and use tax is a self-assessed tax collected by the Municipality through monthly tax returns due on the twentieth day of the immediate following month. The tax returns are filed by the respective businesses that are required by law to withhold the tax from consumers on each taxable product or service. Sales and use tax revenues amounted to \$1,121,397 for the fiscal year ended June 30, 2014.

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

7. Intergovernmental Receivables and Payables

- a. **Due from "PREPA"** - in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Municipality ("PREPA") \$1,395,262. This represents the amount resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes.
- b. **Due to other governmental units** of the general fund for services rendered to the Municipality consists of the following:

PR Aqueduct and Sewer and Authority	\$	312,295
Municipal Revenue Collection Center		255,791
Puerto Rico Treasury Department		35,896
Employee Association of Puerto Rico (AEELA)		6,478
Puerto Rico Retirement System		50,419
	\$	<u>660,879</u>

8. Inter-fund Transactions

Inter-fund – receivables and payables at June 30, 2014 are summarized as follows:

<u>FUND</u>	<u>DUE FROM</u>	<u>DUE TO</u>
General	\$ 1,206,483	\$580,805
Other Governmental		1,491,547
Joint Resolutions		45,667
Capital Project	<u>1,015,580</u>	<u>104,044</u>
Total	<u>\$2,222,063</u>	<u>\$2,222,063</u>

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers, which are considered by management to be fully realizable at June 30, 2014.

9. Unearned Revenues

Unearned revenues recorded in the accompanying GWFS and the GFFS are as follows:

a. General Fund:

Deferred revenues of \$963,174 in the general fund is related to municipal license tax collected in fiscal year 2013-2014 that will be earned in fiscal year 2014-2015.

b. Other Governmental funds:

Federal Government – The unearned revenues presented in other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

Program Description

Section 8 Housing Choice Vouchers	\$ 40,276
FEMA	125,996
HOPWA	7,369
Federal Agriculture	<u>15,998</u>
Total	<u>\$ 189,639</u>

10. Long-Term Obligations

a) The general long-term debt activity for the fiscal year ended June 30, 2014 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 12,710,000		\$ (485,000)	\$ 12,225,000	\$ 505,000
Notes payable	595,000		(45,000)	550,000	45,000
CRIM - Law 42	939,205		(25,866)	913,339	25,866
CRIM - Law 146	210,664		(11,087)	199,577	11,087
Compensated absences	<u>1,606,000</u>	<u>126,000</u>	<u>(190,000)</u>	<u>1,542,000</u>	<u>200,000</u>
	<u>\$ 16,060,869</u>	<u>\$ 126,000</u>	<u>\$ (756,953)</u>	<u>\$ 15,429,916</u>	<u>\$ 786,953</u>

Historically, the general fund has been used to liquidate certain notes payable, compensated absences, federal cost disallowances and any other long-term liabilities other than bonds.

b) Bonds Payable

The Municipality issues general obligation, special obligation and public improvement bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth of Puerto Rico provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt includes bonds and bond anticipation notes. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2014:

	<u>Outstanding amount</u>
<u>General Obligation Bonds:</u>	
\$1,310,000 - 2002 serial bonds due in annual installments of \$20,000 to \$115,000, through July 1, 2026; with interest ranging from 2.7% to 5.6%	\$ 940,000
\$1,310,000 - 2008 municipal general obligation bonds due in annual installments of \$30,000 to \$90,000, through July 1, 2033; (USDA) with interest at 4.875%	1,155,000
\$1,320,000 - 2002 serial bonds due in annual installments of \$20,000 to \$115,000, through July 1, 2026; with interest ranging from 4.17% to 5.31%	975,000
\$470,000 - 2005 serial bonds due in annual installments of \$10,000 to \$30,000, through July 1, 2029; with interest ranging from 3.27% to 5.31%	360,000
\$2,010,000 – 2012 special obligation bond due in annual Installments of \$30,000 to \$175,000 through July 1, 2033 with variable interest at 1.5% over prime	1,840,000
\$805,000 – 2012 special obligation bond due in annual Installments of \$25,000 to \$85,000 through July 1, 2024 with variable interest at 1.5% over prime with a minimum of 6.0%	675,000
\$2,515,000 – 2010 special obligation bond due in annual Installments of \$65,000 to \$340,000 through July 1, 2035 with variable interest at 1.5% over prime with a minimum of 6.5%	2,320,000
\$3,420,000 - 2012 municipal general obligation bonds due in annual installments of \$80,000 to \$315,000, through July 1, 2029 with variable interest at 1.5% over prime with a minimum of 6.0%	3,065,000
\$505,000 - 2012 municipal general obligation bonds due in annual installments of \$55,000 to \$95,000, through July 1, 2019; with interest at 4.875%	450,000

Bonds payable from the General Fund:

\$305,000 - 2005 serial bonds due in annual installments
of \$25,000 to \$40,000, through July 1, 2014;
with interest at 5.0% 40,000

\$505,000 - 2005 serial bonds due in annual installments
of \$10,000 to \$40,000, through July 1, 2030;
with interest at 5.0% 405,000
Total bonds payable \$ 12,225,000

Notes payable – The proceeds of the issuance of notes payables were used principally to the acquisition and improvement of major capital assets. Notes payable outstanding at June 30, 2014 are as follows:

	<u>Outstanding Amount</u>
\$510,000 – serial 08-09 loan payable (USDA) in Annual installments of \$10,000 to \$40,000 through July 1, 2033 with interest at 4.875%, payable from operational fund	450,000
\$400,000 - special lottery fund loan payable in quarterly installments of \$10,000 to \$40,000, through July 1, 2016; with interest at 5.0% payable from operational fund	<u>100,000</u>
Total notes payable	<u>550,000</u>
Total bonds and notes payable	<u>\$ 12,775,000</u>

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB’s weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth’s Industrial Incentives Acts.

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

Year Ending June 30,	Principal	Interest
2015	\$ 550,000	\$ 782,525
2016	545,000	751,203
2017	590,000	716,774
2018	580,000	680,981
2019	640,000	643,690
2020-24	3,270,000	2,710,176
2025-29	3,510,000	1,462,946
2030-34	2,355,000	495,945
2035-39	<u>735,000</u>	<u>39,700</u>
Total	<u>\$12,775,000</u>	<u>\$ 8,283,938</u>

At June 30, 2014, accrued interest payable on bonds and notes amounted to \$367,318, which are reported in the debt service fund and the statement of net position.

c. Advances from- CRIM'-This amount represents the balance owed to CRIM at June 30, 2013 which will be repaid through a financing obtained by the CRIM with GDB, as authorized by law and as explained in this Note. The original debt of \$1,133,772, of Law 42 and \$277,186 of Law 146 is amortized in periodic installments as scheduled below, the balance due under Law 146 is payable as determined by the CRIM during a 30 years period until July 1, 2032. Current due balances are \$913,339 and \$199,577 respectively.

Annual principal payments to maturity for Advances from CRIM are due as follows:

Year Ending June 30,	Law 146 Principal	Law 42 Principal
2015	11,087	27,492
2016	11,087	29,219
2017	11,087	31,057
2018	11,087	33,009
2019	11,087	35,084
2020-24	55,435	211,412
2025-29	55,435	286,757
2030-33	<u>33,272</u>	<u>259,307</u>
Total	<u>\$199,577</u>	<u>\$913,339</u>

d. Compensated absences – The government-wide statement of net position includes \$1,542,000 of accrued sick leave benefits and accrued vacation benefits and related employer payroll cost, representing the Municipality’s commitment to fund such costs from future operations.

NOTE 11. CAPITAL ASSETS

Capital assets; those with an estimated useful live of five years or more from the time of acquisition by the Municipality and a cost of \$5,000 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in current year, including those changes for infrastructure and construction in-progress pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital asset, not being depreciated:				
Land	\$ 11,239,936	\$	\$ -	\$ 11,239,936
Construction in progress	<u>143,803</u>	<u>810,316</u>	<u></u>	<u>954,120</u>
Total capital assets not being depreciated	<u>11,383,739</u>	<u>810,316</u>	<u></u>	<u>12,194,056</u>
Capital assets, being depreciated:				
Buildings and building improvements	36,212,700	111,221	-	36,323,922
Site improvements	3,132,108	-	-	3,132,108
Infrastructure	18,080,437	491,036	-	18,571,473
Furniture and fixtures	1,420,603	18,848	-	1,439,451
Vehicles	<u>7,267,391</u>	<u>542,098</u>	<u>-</u>	<u>7,809,489</u>
Total capital assets being depreciated	<u>66,113,239</u>	<u>1,163,203</u>	<u></u>	<u>67,276,442</u>
Less accumulated depreciation for:				
Buildings and building improvements	(8,270,115)	(724,523)	-	(8,994,638)
Site improvements	(1,179,889)	(93,230)	-	(1,273,120)
Equipment	(1,073,727)	(86,969)	-	(1,160,697)
Infrastructure	(10,138,037)	(1,739,012)	-	(11,877,049)
Vehicles	<u>(5,414,570)</u>	<u>(380,935)</u>	<u>-</u>	<u>(5,795,505)</u>
Total accumulated depreciation	<u>(26,076,339)</u>	<u>(3,024,670)</u>	<u>-</u>	<u>(29,101,008)</u>
Total capital assets being depreciated, net	<u>\$ 40,036,900</u>	<u>\$ (1,861,467)</u>	<u>-</u>	<u>\$ 38,175,434</u>
Governmental activities capital assets, net	<u>\$ 51,420,639</u>	<u>\$ (1,051,151)</u>	<u>\$</u>	<u>\$ 50,369,490</u>

12. Employees' Retirement Systems

Defined Benefit Pension Plan — The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (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 less than 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 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 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 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 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years,

plus 2% 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.

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% of the average compensation, as defined; otherwise, they will receive 75% 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 Municipality is required to contribute 10.275% of the participant's gross salary. On April 4, 2013 the Legislature enacted Act No. 3 which amended Act No. 447 to establish a new retirement program.

Defined Contribution Plan— The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to establish, among other things, 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 were rehired on or after January 1, 2000, become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999, were participants of the defined benefit pension plan had the option, up to March 31, 2000, to irrevocably transfer their contributions to the defined benefit pension plan, plus interest thereon to the Program.

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 individual accounts established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semiannually.

The Municipality is required by Act No. 305 to contribute 10.275% 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. On April 4, 2013 the Legislature enacted Act No. 3 which amended Act No. 305 to establish a new retirement program.

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 any beneficiaries. Participants have the option of a lump-sum payment or purchase of an annuity contract in case of permanent disability.

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

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

Participants in the defined contribution plan who as of June 30, 2014, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

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

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

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

Employee and Municipality's contributions to the defined contribution hybrid program began on fiscal year 2014.

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2014, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

13. Commitments and Contingencies

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Public Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

The Municipality has reported committed fund balance, for the outstanding encumbrances amounting to \$195,360 in the general fund at June 30, 2014. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

The Municipality has reserved funds for outstanding construction projects amounting to approximately \$5.3 million at June 30, 2014.

The Municipality receives financial assistance from the federal Governments of the United States of

America and the Commonwealth in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Accordingly, expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. Disallowance as a result of these audits may become liabilities of the Municipality.

The Municipality leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the general fund and in other governmental funds for the year ended June 30, 2014, amounted to \$28,700. Management believes that the summary of the future minimum rental commitments under non-cancelable real property and equipment lease with terms exceeding one year is not significant.

14. Subsequent events

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Budgetary Comparison Schedule - General Fund
For the year ended June 30, 2014

	Budgeted Amounts		Actual Amounts Budgetary Basis (See Note 1)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 1,799,633	\$ 1,799,633	\$ 1,799,633	\$ -
Municipal license tax	1,200,000	1,200,000	1,396,224	196,224
Sales tax	1,125,000	1,125,000	1,121,397	(3,603)
Licenses, permits and other local taxes	373,500	373,500	207,464	(166,036)
Charges for services	480,000	480,000	416,785	(63,215)
Interest, fines and penalties	205,000	205,000	172,144	(32,856)
Intergovernmental	7,845,385	7,845,385	7,157,713	(687,672)
Other	303,500	303,500	295,929	(7,571)
Transfers from other funds	-	-	1,862,716	1,862,716
Total revenues	<u>13,332,018</u>	<u>13,332,018</u>	<u>14,430,005</u>	<u>1,097,987</u>
EXPENDITURES:				
General government	6,549,695	6,549,695	5,507,491	1,042,204
Public safety	619,187	619,187	600,788	18,399
Public works	4,055,718	4,055,718	3,085,565	970,153
Culture and recreation	1,122,863	1,122,863	393,842	729,021
Health and welfare	984,555	984,555	458,331	526,224
Economic Development	-	-	35,397	(35,397)
Transfers to other funds	-	-	1,862,716	(1,862,716)
Total expenditures	<u>13,332,018</u>	<u>13,332,018</u>	<u>11,944,130</u>	<u>1,387,888</u>
EXCES OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,485,875</u>	<u>\$ 2,485,875</u>

Explanation of differences:

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.

\$ 12,567,289

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.

\$ 11,944,130

Differences - budget to GAAP:

Non-budgeted expenditures

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.

(1,862,716)

Prior year encumbrances recorded as current year expenditures for GAAP basis.

809,659

Current year encumbrances recorded as expenditures for budgetary purposes

(195,360)

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances.

\$ 10,695,713

See notes to budgetary comparison schedule

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

**NOTES TO BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2014**

NOTE 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2014

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	2014 EXPENDITURES
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Programs:		
Housing Choice Voucher	14.871	\$ 768,179
Indirect Programs:		
Passed through P.R. Office of Municipal Affairs		
Housing Opportunities for Persons with Aids (HOPWA)	14.241	47,687
State Block Grant Program	14.228	<u>767,144</u>
Total US Department of Housing and Urban Development		<u>1,583,009</u>
US DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Indirect Programs:		
Passed through P.R. Office of Municipal Affairs		
American Recovery and Reinvestment Act (ARRA)	93.383	78,166
Passed through P.R. Elderly Commission		
Title III, Part C, Nutrition Services	93.045	<u>103,387</u>
Total US Department of Health and Human Services		<u>181,553</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Direct Program:		
Public Assistance Grants	83.544	<u>27,895</u>
US DEPARTMENT OF AGRICULTURE		
Indirect Program:		
Passed through Caguas Area Office		
Rural Economic Development Loans Grants Federal Agriculture	10.854	<u>19,843</u>
FEDERAL TRANSPORTATION ADMINISTRATION		
Indirect Program:		
Passed through PR Department of Transportation and Public Works		
Awards 2009-2013	20.509	<u>266,853</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u><u>\$ 2,079,153</u></u>

See notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL**

Notes to the
Schedule of Expenditures of Federal Awards
June 30, 2014

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of COROZAL of the Commonwealth of Puerto Rico and is presented on the accrual basis of accounting. The Municipality of COROZAL reporting entity is defined in Note 1 to the Municipality's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in the basic financial statements.

NOTE 2 - RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Federal financial assistance revenues and expenditures are reported in the Municipality's general-purpose financial statements as other governmental funds and capital project fund under the accrual basis of accounting. Expenditures in the Schedule of Expenditures of Federal Awards are presented in the cash basis of accounting.

NOTE 3 - FEDERAL CFDA NUMBER

The CFDA number included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.



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

To the Honorable Mayor
And Municipal Legislature
Municipality of Corozal
Corozal, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Corozal, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality of Corozal's basic financial statements and have issued our report thereon dated March 27, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Municipality of Corozal's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Corozal's internal control. Accordingly we do not express an opinion on the effectiveness of the Municipality of Corozal'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 weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



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



San Juan, Puerto Rico
March 27, 2015

License No. LLC-285 expires December 1, 2016
Stamp E104469 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report.



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

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

OPINION ON EACH MAJOR FEDERAL PROGRAM

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

OTHER MATTERS

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Municipality of Corozal is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality of Corozal's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Corozal'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance 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.

PURPOSE OF THIS REPORT

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



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



San Juan, Puerto Rico
March 27, 2015

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

I. SUMMARY OF AUDIT RESULTS

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major federal programs:

CFDA Numbers	Name of Federal Programs or Clusters
14.228	Community Development Block Grant (SBGP)
14.871	Section 8 –Housing Choice Vouchers
93.383	American Recovery and Reinvestment Act

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

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

II. FINANCIAL STATEMENTS AUDITS - FINDINGS

Finding Number: 14-001

Program: Accounting and Finance Department

Statement of Condition

The Municipality has significant deficiencies in its internal control structure, accounting and financial reporting practices.

Category

Internal Control / Control Environment

Compliance Requirement

All applicable compliance requirements as stated in OMB Circular A-133.

Criteria

GASB Codification section 1200, "Generally Accepted Accounting Principles and Legal Compliance," states that a governmental accounting system must make it possible, both: (a) to present fairly and with full disclosure the financial position and results of operations of the funds and account groups of the governmental unit in conformity with GAAP, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

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

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

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

Finding Number: 14-001 (CONTINUED)

OMB Circular A-102 Subpart C, Section 20, states that a state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to permit preparation of reports required by this part and the statutes authorizing the grant, and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes. The financial management systems must meet the following standards:

- Financial reporting: accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- Budget control: actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- Source documentation: accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

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

Condition Found

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

- Although the Municipality uses a computerized accounting system (the System) we noted that this use was limited and did not include all required transactions for revenues and expenditures. There is a lack of an effective internal control structure to reasonably assure compliance with the requirements of Federal laws, regulations and program compliance requirements.

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

Finding Number: 14-001 (CONTINUED)

Condition Found (Continued)

- There is a lack of a self-balancing set of accounts for each fund to record cash and other financial resources, together with the related liabilities, residual equities balances or fund balances, and any related changes therein. Accounts should be segregated in funds or sub-funds for purposes of demonstrating the accountability of the Municipality while carrying on a specific activity or attaining certain objectives in accordance with special regulations, restrictions or limitations.

This situation causes that there are several people summarizing expenditures and revenues in order to obtain trial balances because the information from the System is not complete or reliable.

Further as stated above, OMB Circular A-102 indicate that fiscal control and accounting procedures must be sufficient to permit preparation of reports and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibition of applicable structures.

Known Questioned Costs

None

Underlying Cause

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

Effect

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

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

Finding Number: 14-001 (CONTINUED)

Recommendation

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

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

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

Management's Response

The Municipality's management indicated that they understand the situation and has contacted a local company called Rock Solid to minimize the problems in their financial reporting by installing a new computer system that will integrate several functions in the Municipality starting with fiscal year 2014-2015. Management plans to integrate municipal revenues, purchases, finance and accounting functions into this system in order to follow up on the checking accounts' balances, improve their financial reporting and maintain all the information in a current basis.

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported during current year.

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

2013	Finding No.	001
	Condition:	Deficiencies in accounting and financial management system and financial reporting practices.
	Program:	Accounting and Finance Department
	Status :	Corrective action in progress. The Municipality installed a new computer system by July 1 st , 2015 to integrate the various functions of the Municipality to improve their financial reporting.
2013	Finding No.	002
	Condition:	Checks not recorded properly in accounting system.
	Program:	Accounting and Finance Department
	Status :	Corrected.
2013	Finding No.	003
	Condition:	Procedures for delivery of checks to payees not adequate.
	Program:	Accounting and Finance Department
	Status :	Corrected.