

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

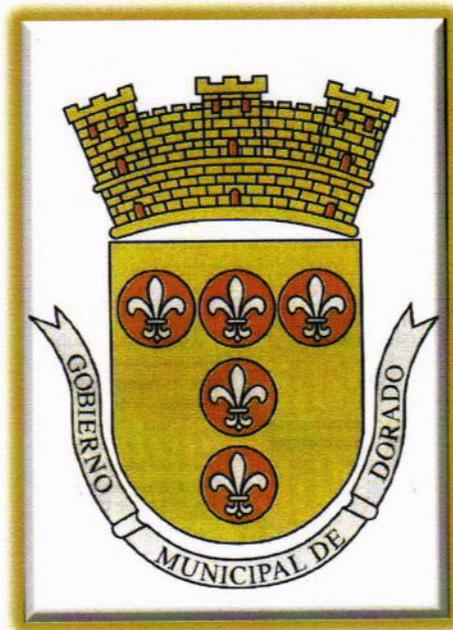
**MUNICIPIO DE DORADO
AUDITORÍA 2012-2013
30 DE JUNIO DE 2013**

14-04-0087

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

BASIC FINANCIAL STATEMENTS
WITH ADDITIONAL REPORTS AND
INFORMATION REQUIRED BY THE SINGLE
AUDIT ACT

Year Ended June 30, 2013



Municipality of Dorado, P.O. Box 588, Dorado, Puerto Rico 00646
Hon. Carlos A. López Rivera

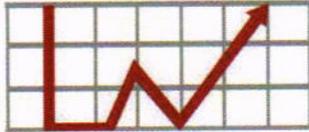
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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Dorado, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the **Municipality's** basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality's** as of June 30, 2013, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages **4** through **12** and Budgetary Comparison information on page **65**, 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 **Autonomous Municipality of Dorado's** basic financial statements. The accompanying supplementary information – Financial Data Schedules shown in pages **67** and **68** are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages **70** and **71** is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

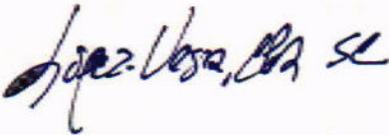
The Financial Data Schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing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



INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2014, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering **Municipality's** internal control over financial reporting and compliance.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 28, 2014

Stamp No. 2675832 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Autonomous Municipality of Dorado (Municipality)**, we offer readers of the Municipality's basic financial statements this narrative overview and analysis of the financial activities of the Municipality as of and for the fiscal year ended June 30, 2013. This Management's Discussion and Analysis (MD&A) includes comparative data, and it has been designed accordingly with the following goals:

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

Since the 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 position increased by \$6,397,180 (8%).
- In the fund financial statements, the governmental activities revenues decreased \$1,427,268 (or 4%) and governmental activities expenditures increased \$1,603,840 (or 4%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$658,766.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$200,364.
- The Municipality issued bonds amounting to \$6,110,000, for acquisition of properties and construction and improvement of municipal facilities and roads.

FINANCIAL HIGHLIGHTS (CONTINUED)

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

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

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements.

FINANCIAL HIGHLIGHTS (CONTINUED)

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 significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. As of July 1, 2002, the Municipality commenced the prospective reporting of infrastructure assets, and reported historical costs for such assets in the fiscal year ending June 30, 2007.

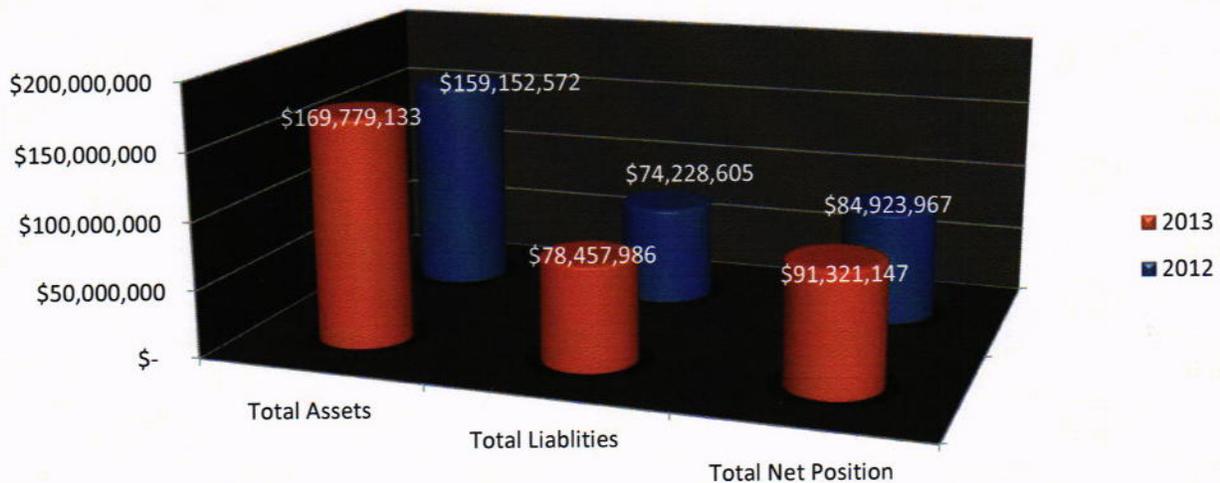
According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management design to maintain the service delivery to near perpetuity. If the government develops the asset management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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

The Statement of Net Position serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Autonomous Municipality of Dorado**, primary government assets exceeded total liabilities by \$91,321,147 at the end of 2013, as compared with \$84,983,967, as restated, which reflect an increase of \$6,397,180, over previous fiscal year. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis the most important components of the \$6,397,180 increase reflected in the Net position figure.

Condensed Statement of Net Position	2013	2012	Change	%
Current and other assets	\$ 32,202,603	\$ 30,392,072	\$1,810,531	6%
Capital Assets	137,576,530	128,760,500	8,816,030	7%
Total Assets	169,779,133	159,152,572	10,626,561	7%
Current and other liabilities	10,378,173	9,468,069	910,104	10%
Long-term liabilities	68,079,813	64,760,536	3,319,277	5%
Total Liabilities	78,457,986	74,228,605	4,229,381	6%
Invested in capital assets, net of related debt	88,347,530	83,039,500	5,308,030	6%
Restricted	25,110,032	24,397,323	712,709	3%
Unrestricted deficit	(22,136,415)	(22,512,856)	376,441	-2%
Total net position	\$ 91,321,147	\$ 84,923,967	\$6,397,180	8%



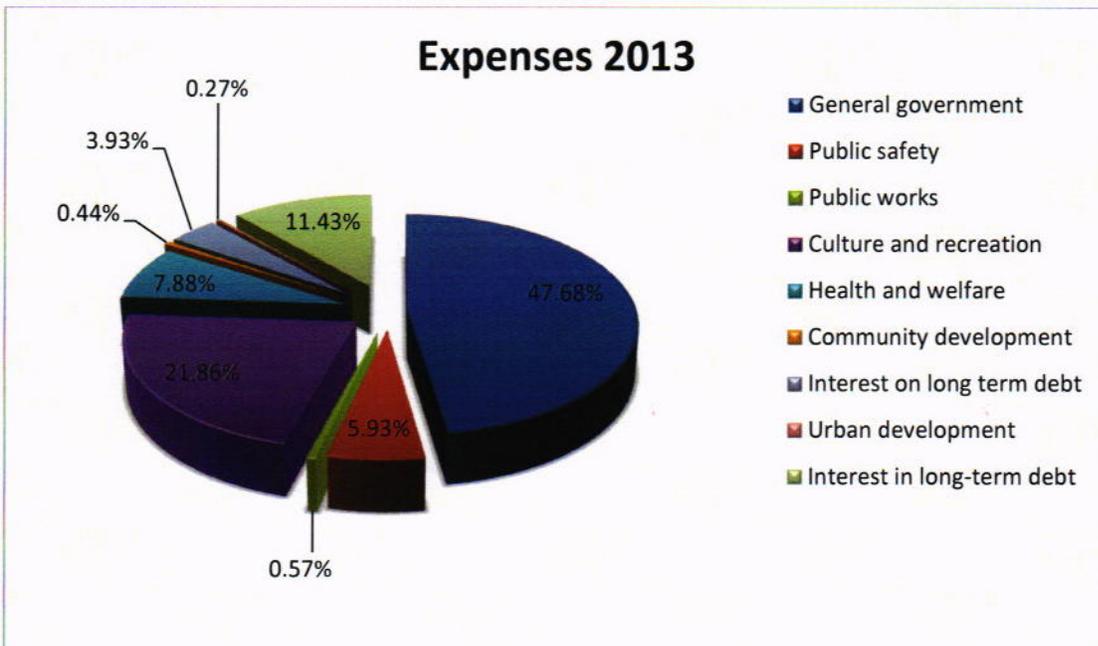
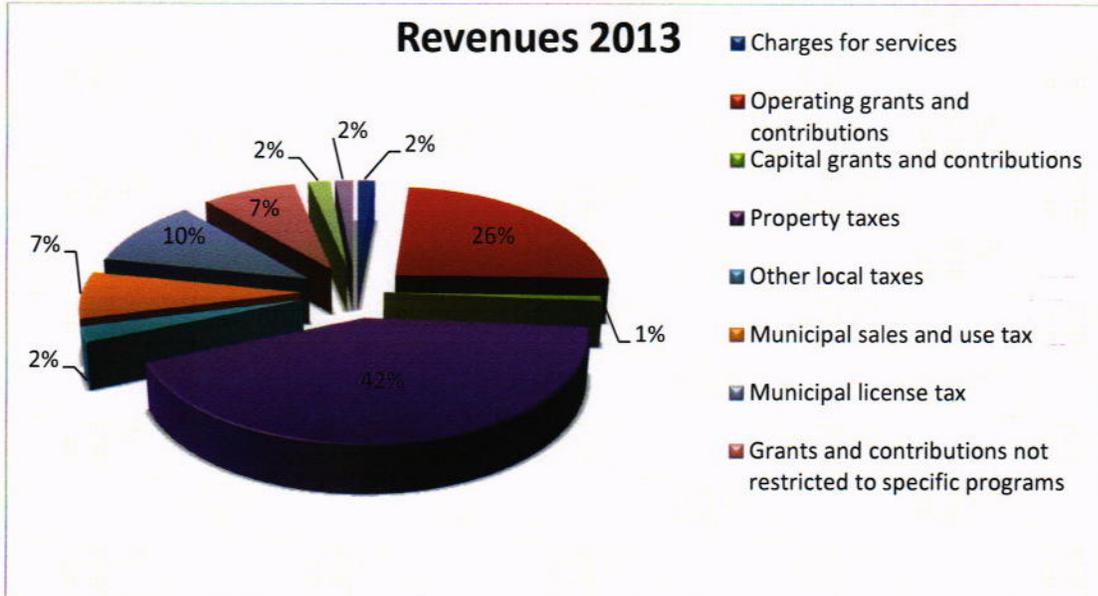
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Position

The Municipality's net position increase by \$6,397,180. Approximately sixty two percent (62%) of the Municipality's total revenue came from taxes, while thirty two percent (32%) resulted from grants and contributions, including federal aid. Charges for Services provided one percent (1%) of the total revenues. Interest earnings two percent (2%) and miscellaneous provided two percent (2%) of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and health and welfare. As follow, is presented a comparative analysis of government-wide data. In this analysis was determined the percentage change in revenues and expenditures from prior year to current year.

Condensed Statement of Activities	2013	2012	Change	%
Program revenues:				
Charges for services	\$ 552,847	\$ 357,919	\$ 194,928	54%
Operating grants and contributions	9,135,752	9,286,384	(150,632)	-2%
Capital grants and contributions	311,356	455,455	(144,099)	-32%
General revenues:			-	
Property taxes	16,129,651	15,850,427	279,224	2%
Municipal license tax	3,970,833	3,766,237	204,596	5%
Municipal sales and use tax	2,741,670	2,056,125	685,545	33%
Grants and contributions not restricted to specific programs	3,035,750	2,368,548	667,202	28%
Other local taxes	884,927	1,219,782	(334,855)	-27%
Interest and investment earnings	707,933	526,599	181,334	34%
Miscellaneous	583,975	593,590	(9,615)	-2%
Total revenues	38,054,694	36,481,066	1,573,628	4%
Expenses:				
General government	15,092,998	12,969,298	2,123,700	16%
Public safety	1,876,413	2,082,919	(206,506)	-10%
Public works	180,736	8,402,187	(8,221,451)	-98%
Health and welfare	6,921,573	7,453,160	(531,587)	-7%
Culture and recreation	2,496,027	425,791	2,070,236	486%
Economic development	140,515	120,563	19,952	17%
Community development	1,244,239	220,305	1,023,934	465%
Urban development	85,337	634,980	(549,643)	
Education		4,102	(4,102)	100%
Interest on long-term debt	3,619,676	2,016,410	1,603,266	80%
Total expenses	31,657,514	34,329,715	(2,672,201)	-8%
Change in net position	6,397,180	2,151,351	4,245,829	197%
Net position, beginning as restated	84,923,967	82,772,616	2,151,351	3%
Net position, end of year	\$ 91,321,147	\$ 84,923,967	\$ 6,397,180	8%

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)



FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, 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 combined ending fund balances of \$26,433,001, an increase of \$1,378,462 in comparison with the prior year, as restated. There are reservations of fund balance amounting to \$25,110,032. The combined fund balances include restricted fund balance amounting to \$24,471,152. This is the fund balance that it is not available for new spending because it has already been committed 1) to pay debt service \$9,949,676, 2) to pay for capital projects \$12,791,491 and 3) for other purposes \$1,729,985. There are nonspendable fund balance amounting to \$493,179, and assigned fund balance of \$145,701, that represent resources for specific purposes but do not meet the definition to be classified as restricted or committed (generally executive orders approved by the Mayor) to pay for capital projects.

As of June 30, 2013, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund balance of \$1,322,969.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2013 amounts to \$162,074,764 with an accumulated depreciation of \$26,964,127, leaving a net book value of \$135,110,637. For Business - Type Activities investments in capital assets as of June 30, 2013 amounts to \$3,971,648, with an accumulated depreciation of \$1,505,755, leaving a net book value of \$2,465,893. This investment in capital assets includes land, buildings, improvements, equipment, 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 increase in the Municipality's investment in capital assets in the current fiscal year was about 6% in terms of net book value. Depreciation charges for the year totaled \$2,225,594.

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, 2013, the Municipality has \$8,820,638 of unexpended proceeds from bond issuances that are committed to future construction activities in Governmental Activities and \$106,682 in Business-Type 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").

CAPITAL ASSETS AND DEBT ADMINISTRATION- (CONTINUED):

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 Municipality's budget for the fiscal year 2013-2013.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at PO Box 588, Dorado, Puerto Rico 00646-0588, Telephone (787) 796-1230.

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 11,262,183	\$ 290,765	\$ 11,552,948
Cash with fiscal agent	20,216,985	106,682	20,323,667
Accounts receivable:			
Municipal licenses taxes	16,694		16,694
Intergovernmental	114,579		114,579
Interest	23,946		23,946
Federal grants	125,208		125,208
Others	45,561		45,561
Capital assets			
Land, improvements, and construction in progress	99,147,601	388,790	99,536,391
Other capital assets, net of depreciation	35,963,036	2,077,103	38,040,139
Total capital assets	<u>135,110,637</u>	<u>2,465,893</u>	<u>137,576,530</u>
Total assets	<u>166,915,793</u>	<u>2,863,340</u>	<u>169,779,133</u>
Liabilities			
Accounts payable and accrued liabilities	4,980,619		4,980,619
Due to other governmental entities	364,614		364,614
Unearned revenues:			
Municipal license tax	3,595,523		3,595,523
Federal grant revenues	208,706		208,706
Interest payable	1,217,021	11,690	1,228,711
Noncurrent liabilities:			
Due within one year	4,206,954	150,000	4,356,954
Due in more than one year	63,388,859	334,000	63,722,859
Total liabilities	<u>77,962,296</u>	<u>495,690</u>	<u>78,457,986</u>
Net Position			
Net investment in capital assets	86,365,637	1,981,893	88,347,530
Restricted for:			
Capital projects	12,791,491		12,791,491
Debt service	9,949,676		9,949,676
Other purposes	2,368,865		2,368,865
Unrestricted (deficit)	<u>(22,522,172)</u>	<u>385,757</u>	<u>(22,136,415)</u>
Total net position	<u>\$ 88,953,497</u>	<u>\$ 2,367,650</u>	<u>\$ 91,321,147</u>

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
General government	\$ 14,948,680	\$ 225,569	\$ 246,721		\$ (14,476,390)	\$ -	\$ (14,476,390)
Public safety	1,876,413		26,984		(1,849,429)		(1,849,429)
Public works	180,736			18,529	(162,207)		(162,207)
Health and welfare	6,921,573		6,955,840		34,267		34,267
Culture and recreation	2,496,027		57,771	1,120	(2,437,136)		(2,437,136)
Economic development	140,515		59,510		(81,005)		(81,005)
Community development	1,244,239		1,788,926	291,707	836,394		836,394
Urban development	85,337				(85,337)		(85,337)
Interest on long-term debt	3,607,986				(3,607,986)		(3,607,986)
Total governmental activities	\$ 31,501,506	\$ 225,569	\$ 9,135,752	\$ 311,356	(21,828,829)	-	(21,828,829)
Business type activities:							
General government	144,318	327,278				182,960	182,960
Interest expenses	11,690					(11,690)	(11,690)
Total business type activities	156,008	327,278	-	-	-	171,270	171,270
Total primary government	31,657,514	552,847	9,135,752	311,356	(21,828,829)	171,270	(21,657,559)
General revenues:							
Property taxes					16,129,651		16,129,651
Municipal license tax					3,970,833		3,970,833
Municipal sales and use tax					2,741,670		2,741,670
Other local taxes					884,927		884,927
Grants and contributions not restricted to specific programs					3,035,750		3,035,750
Interest and investment earnings					707,933		707,933
Miscellaneous					583,975		583,975
Transfers					14,520	(14,520)	-
Total general revenues and transfers					28,069,259	(14,520)	28,054,739
Change in net position					6,240,430	156,750	6,397,180
Net position - beginning, as restated					82,713,067	2,210,900	84,923,967
Net position - ending					\$ 88,953,497	\$ 2,367,650	\$ 91,321,147

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Head Start	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 3,860,433	\$ 688,136	\$ 182,796	\$ 1,804,519	\$ 4,108,240	\$ -	\$ 618,059	\$ 11,262,183
Cash with fiscal agent		1,543,365		8,820,638		9,852,982		20,216,985
Accounts receivable:								
Municipal licenses taxes	16,694							16,694
Intergovernmental		17,885				96,694		114,579
Interest	23,946							23,946
Federal grants			1,855				123,353	125,208
Others	45,561							45,561
Due from other funds	2,637,619							2,637,619
Advances to other funds	493,179							493,179
Total assets	\$ 7,077,432	\$ 2,249,386	\$ 184,651	\$ 10,625,157	\$ 4,108,240	\$ 9,949,676	\$ 741,412	\$ 34,935,954
Liabilities and Fund Balances								
Liabilities :								
Accounts payable and accrued liabilities	\$ 1,155,446	\$ -	\$ -	\$ 31,940	\$ 4,650	\$ -	\$ 11,276	1,203,312
Due to other governmental entities	364,614							364,614
Due to other funds		519,651	184,651	1,641,018	264,298		28,001	2,637,619
Advances from other funds		442,943					50,236	493,179
Unearned revenues:								
Municipal license tax	3,595,523							3,595,523
Federal grant revenues							208,706	208,706
Total liabilities	5,115,583	962,594	184,651	1,672,958	268,948	-	298,219	8,502,953
Fund balances:								
Nonspendable	493,179							493,179
Restricted		1,286,792		8,952,199	3,839,292	9,949,676	443,193	24,471,152
Assigned	145,701							145,701
Unassigned	1,322,969							1,322,969
Total fund balances	1,961,849	1,286,792	-	8,952,199	3,839,292	9,949,676	443,193	26,433,001
Total liabilities and fund balances	\$ 7,077,432	\$ 2,249,386	\$ 184,651	\$ 10,625,157	\$ 4,108,240	\$ 9,949,676	\$ 741,412	\$ 34,935,954

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

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013**

**Commonwealth of Puerto Rico
Autonomous Municipality of Dorado**

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Head Start	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Property taxes	\$ 9,584,170	-	-	-	-	\$ 5,746,595	\$ -	\$ 15,330,765
Municipal license taxes	3,970,833							3,970,833
Municipal sales and use tax	1,884,009					857,662		2,741,671
Licenses, permits and other local taxes	885,027							885,027
Charges for services	12,765	58,411						71,176
Intergovernmental	3,282,471	67,802		19,647				3,369,920
Fines and forfeitures	23,295							23,295
Rent of property	225,569							225,569
Interest	507,226							507,226
Federal grants		120,000	4,532,741				4,006,795	8,659,536
Miscellaneous	1,251,295	118,063			492,414		80,626	1,942,398
Total revenues	21,626,660	364,276	4,532,741	19,647	492,414	6,604,257	4,087,421	37,727,416
Expenditures								
Current:								
General government	14,440,541	12,481		125,000				14,578,022
Public safety	1,683,726	51,888					400	1,736,014
Public works	5,881,404	488,386		2,772,914				9,142,704
Health and welfare		113,399	4,531,516	27,782			2,232,071	6,904,768
Culture and recreation	637,493	56,362		1,912,093				2,605,948
Economic development					6,905			44,102
Community development							1,692,709	1,699,614
Urban development							85,337	85,337
Debt service:								
Principal						3,286,000		3,286,000
Interest						2,390,965		2,390,965
Total expenditures	22,643,164	722,516	4,531,516	4,837,789	6,905	5,676,965	4,054,619	42,473,474

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

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013 (Continued)

Commonwealth of Puerto Rico
Autonomous Municipality of Dorado

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Head Start	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Excess (deficiency) of revenues over (under) expenditures	\$ (1,016,504)	\$ (358,240)	\$ 1,225	\$ (4,818,142)	\$ 485,509	\$ 927,292	\$ 32,802	\$ (4,746,058)
Other financing sources (uses)								
Transfers in	556,544	92,170	864,871	3,943,114	334,277	603,703	121,699	6,516,378
Transfers out	(198,806)	(29,749)	(866,096)	(4,268,304)	(1,067,847)		(71,056)	(6,501,858)
Long-term debt issued		1,525,000		4,585,000				6,110,000
Total other financing sources (uses)	357,738	1,587,421	(1,225)	4,259,810	(733,570)	603,703	50,643	6,124,520
Net change in fund balances	(658,766)	1,229,181	-	(558,332)	(248,061)	1,530,995	83,445	1,378,462
Fund balances (deficit), beginning as restated	2,620,615	57,611		9,510,531	4,087,353	8,418,681	359,748	25,054,539
Fund balances (deficit), ending	\$ 1,961,849	\$ 1,286,792	\$ -	\$ 8,952,199	\$ 3,839,292	\$ 9,949,676	\$ 443,193	\$ 26,433,001

Approved
07/04/2014
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Total Fund Balances - Governmental Funds \$ 26,433,001

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:

Non depreciable capital assets	\$ 99,147,601	
Depreciable capital assets	62,927,163	
Accumulated depreciation	<u>(26,964,127)</u>	
Total capital assets		135,110,637

Some of the Municipality's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditure and therefore, are deferred in the funds:

Construction Excise Tax

Accounts payable accumulated according to the accrual basis of accounting. In the current period those accounts payable amount to: (3,777,307)

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

General bonds and notes payable	61,976,000	
Property taxes debt - Law 146	249,556	
Property taxes debt - Law 42	221,349	
Compensated absences	2,785,550	
Claims and judgments	392,975	
Landfill obligation	<u>1,970,383</u>	
Total long-term liabilities		(67,595,813)

Accrued interest payable are not due and payable in the current period and therefore, are not reported in the funds. Those interest payable amount to: (1,217,021)

Total Net Position of Governmental Activities \$ 88,953,497

Net Change in Fund Balances - Total Governmental Funds	\$ 1,378,462
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	11,041,790
Governmental Funds report capital assets sold as revenues. However, in the Government-Wide Statement of Activities and Changes in Net position, Disposal of capital assets require removal of cost of the capital assets from the capital assets account on the Government-Wide Statement of Net position.	(166)
Depreciation Expense on Capital Assets is reported in the Government-Wide Statements of Activities and Change in Net Position, but they do not require the use of current financial resources. Therefore, Depreciation expense is not reported as expenditures in Governmental Funds Financial Statements.	(2,135,397)
Interest Expense change is reported in the Government-Wide Statement of Activities and Change in Net position, but not require the use of current financial resources. Therefore, Interest expense change is not reported as expenditures in Governmental Funds Financial Statements.	(1,217,021)
Accounts payable change is reported in the Government-Wide Statement of Activities and Change in Net position, but not reported as in the Governmental Funds, because they do not require the use of current financial resources. This is the amount reported in the current period.	8,039
Long term debt issuances are reported in the Government-Wide Statement of Net position, but not require the use of current financial resources. Therefore, Long term debt issuances are not reported as expenditures in Governmental Funds Financial Statements.	(57,013)
Long term debts payments are reported as expenditures in the Governmental Funds Financial Statements which require the use of current financial resources. Therefore Long term debt payments are not reported as expenditures in the Government-Wide Statement of Activities and Change in Net position.	5,736
Bonds proceeds provide current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net position. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net position. This is the amount by which the debt proceeds exceed the debt service principal payments.	(2,784,000)
Change in Net position of Governmental Activities	\$ 6,240,430

	<u>Activity Enterprise</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 290,765
Cash with fiscal agent	<u>106,682</u>
Total current assets	<u>397,447</u>
Noncurrent Assets:	
Capital Assets:	
Property, and equipment:	
Land	388,790
Building	3,582,858
Accumulated depreciation	<u>(1,505,755)</u>
Total non-current assets	<u>2,465,893</u>
Total assets	<u>2,863,340</u>
Liabilities	
Current Liabilities:	
Interest payable	<u>11,690</u>
Total current liabilities	<u>11,690</u>
Non-current liabilities:	
Due within one year	150,000
Due in more than one year	<u>334,000</u>
Total non-current liabilities	<u>484,000</u>
Total liabilities	<u>495,690</u>
Net Position	
Invested in Capital Assets, net of related debt	1,981,893
Unrestricted	<u>385,757</u>
Total Net Position	<u><u>\$ 2,367,650</u></u>

	Business - Type Activities Enterprise
	<u> </u>
Operating revenues:	
Charges for services	\$ <u>327,278</u>
 Total operating revenues	 <u>327,278</u>
 Operating expenses:	
Operations and maintenance	54,121
Depreciation and amortization	<u>90,197</u>
 Total operating expenditures	 <u>144,318</u>
 Operating income (Loss)	 182,960
 Non-operating revenues (expenses):	
Interest expense	<u>(26,170)</u>
Total non-operating revenues (expenses)	(26,170)
 Change in Net Position	 156,790
Total net position-beginning	<u>2,210,900</u>
Total net position-ending	<u>\$ 2,367,690</u>

Cash Flows from Operating Activities:

Receipts from Customers	\$ 327,278
Payment to Suppliers	<u>(54,121)</u>
Net Cash Provided (Used) by Operating Activities	<u>273,157</u>

Cash Flows from Capital and Related Financing Activities:

Interest paid	<u>(14,520)</u>
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(14,520)</u>
Net Decrease in Cash and Cash with Fiscal Agent, Restricted	258,637
Cash and Cash with Fiscal Agent at Beginning of Period, Restricted	<u>138,810</u>
Cash and Cash with Fiscal Agent at End of Period, Restricted	<u>\$ 397,447</u>

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Operating Income (Loss)	<u>\$ 182,960</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation expenses	<u>90,197</u>
Total Adjustments	<u>90,197</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 273,157</u>
Noncash investing, capital and financing activities:	none

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Autonomous Municipality of Dorado** (the Municipality) was founded on the year 1842. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year 2007. The Municipality implemented the capitalization of infrastructure since July 1, 2006.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

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

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

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

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

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

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

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

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

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

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASB Statement No. 14, as amended. The basic, but not the only criterion for including a potential component unit within the reporting entity is if a primary government is financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria, the Municipality does not have component units to include within its reporting entity.

B. Government-wide and fund financial statements

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

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

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

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

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

General Fund – is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Special Revenue Fund – State and Local Grants – is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Special Revenue Fund-Head Start – is a major governmental fund used to account for and report the proceeds of revenues from Head Start, Early Head Start and Child and Adult Care Food Program grants. The uses and limitations of this special revenue fund are specified by federal and local statutes. The objective of the Head Start program is to promote the school readiness of low-income pre-school children (ages 3 to 5).

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

Capital Projects Funds-Federal grant – is a major governmental fund used to account for and report financial resources that are restricted to expenditure for capital outlays, including the acquisition or construction of major capital facilities. The use of the capital projects funds has been limited to 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.

Debt Service Fund – is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated

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

to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

4. Proprietary Fund Types focus on report any activities for which a fee is charged to external users for goods or services. The Municipality reports the following proprietary fund:

Enterprise Fund – The Enterprise Fund, which was established in June 1996, is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis, are financed or recovered primary through uses, charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise fund of the Municipality includes land and buildings known as “Commercial Pavilion Rafael Hernández Colón” located in 349 Méndez Vigo Street at Dorado, Puerto Rico. The main source of income comes from rent received from spaces rented with formal contracts.

5. The notes to the financial statements provide information that is essential to a user’s understanding of the basic financial statements.
6. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
7. Notes to the budgetary comparison schedule-general fund.

C. Financial reporting presentation

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

The Municipality has established the following fund categories, fund types, account groups and discreet presentation of enterprise fund:

Governmental Fund Types:

General Fund- General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

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

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

Special Revenue Fund – Section 8 - Special Revenue Funds are used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Head Start - Is the accounting entity in which revenues derived from the federal agency are used to provide comprehensive health, educational, nutritional, social, and other developmental services primarily to economically disadvantaged preschool children (ages 3 to 5) and infants and toddler (birth through age 3) so that the children will attain school readiness.

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

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

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

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

Proprietary Fund Types

Enterprise Fund - The enterprise fund statements consist of Statement of Net position, Statement of Activities, and Statement of Cash Flows. This fund accounts for exchange like transactions, like private enterprise and its operations are intended to be self-supporting through charges to users. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's Net position.

All transactions and events that affect the total economic resources (Net position) during the period are reported. The statements are reported on the full accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred.

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

D. Measurement focus, basis of accounting and financial presentation

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

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

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

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

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements, that are imposed by the provider, have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

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

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been occurred and the amount of loss is reasonably estimated.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2013. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

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

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

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

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

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

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

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

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASB No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet – Governmental Funds.

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

E. Assets, liabilities and Net position

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

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

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

Cash with fiscal agent is shown in the Enterprise Fund which is held by the Government Development Bank and its use is limited to the expenditures associated with "Commercial Pavilion of Dorado Rafael Hernández Colón".

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

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

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivable in the general fund represents the balance due from the Municipal Revenue Collection Center (CRIM) resulting from the final settlement; Intergovernmental receivables in the debt service fund represent the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Intergovernmental receivable in the capital projects fund and in other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs or state funded programs.

3. **Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of Net position.
4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

5. Unearned revenues- In the GFFS, unearned revenues arises when one of the following situations occur:

- a. Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2013 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for unearned revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

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

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

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

7. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay it is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

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

9. **Fund Balances-** In fiscal year 2012, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

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

- a. *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- b. *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

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

- c. *Assigned* – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- d. *Unassigned* – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of for the fiscal year ended June 30, 2013.

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

10. Net Position

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

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

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

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

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

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

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

- a. **Net Investment in capital assets:** Represent the component of the net position that consist of capital asset balances net of accumulated depreciation and amortization reduced by the outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- b. **Restricted net position:** Represents the component of the net position that is subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. **Unrestricted net position:** Represents the component of the net position that do not meet the definition of net position invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the Statement of Net Position.

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

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

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

For the purpose of applying the requirements of GASBS No. 27, the state Government of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing define benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government of Puerto Rico.

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

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

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

13. Risk financing- The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2013 amounted to \$7,851. The current insurance policies have not been cancelled or terminated.

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

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2013 amounted to \$424,096.

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

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

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

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

2. CASH AND CASH EQUIVALENTS

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

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

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

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

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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

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

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

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

Deposits – The Municipality's bank balances in commercial banks of \$3,860,433, \$688,136, \$182,796, \$1,804,519 and \$4,108,240, in the general fund, special revenue fund-state and local grants, head start, capital projects fund – local and state grants, and capital projects fund – federal grants, respectively, were fully collateralized at June 30, 2013. In the other governmental funds there were deposits with commercial banks of \$618,059 that were fully collateralized.

The deposits at GDB of \$1,543,365 in the Special Revenue fund-local and state grant, \$8,820,638 that is restricted principally for capital projects in the capital project fund-local and state grant and the \$9,852,982 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by the Governmental Development (GDB).

3. RECEIVABLES

- A. Intergovernmental Receivables** – Intergovernmental receivable in the special revenue fund-state and local grants represents governmental contributions receivable at June 30, 2013. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Solid Waste Authority	\$ 17,885
Total	\$ 17,885

Intergovernmental receivable in debt service fund represents property tax receivable at June 30, 2013. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$ 96,694
Total	\$ 96,694

- B. Federal grants receivables-** Federal Grant receivable in Head Start fund represents expenditures incurred not yet reimbursed by federal government or the pass-through grantor. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Head Start Program	\$ 1,855
Total	\$ 1,855

Federal Grant receivable in other governmental funds represents expenditures incurred not yet reimbursed by federal government or the pass-through grantor. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Hazard Mitigation Program	\$ 28,000
Community Services Block Grant	23,665
Child and Adult Care - Food Program	36,466
Community Development Block Grants/ State's Program	32,189
Other	<u>3,033</u>
Total	\$ 123,353

- C. Other Receivable-** Other receivable of \$45,561 in the general fund represents accounts receivable at June 30, 2013, related to construction excise taxes \$9,960, fines \$2,235 and rent of \$33,366.

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2013, and interfund transfers during the fiscal year ended at June 30, 2013, are summarized as follows:

a. Due from/to other fund and Advance to/from:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund-state and local grants	Payroll and related accruals paid and not reimbursed	\$ 962,594
General Fund	Head Start Program Fund	Reimbursable expenditures	184,651
General Fund	Capital Projects Fund-State & Local Funds	Reimbursable expenditures	1,641,018
General Fund	Other Governmental Funds-Federal Programs	Reimbursable expenditures	78,237
General Fund	Capital Projects Fund-Federal Grants	Reimbursable expenditures	<u>264,298</u>
Total			<u>\$ 3,130,798</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Amount</u>
General Fund	Special Revenue Fund- Head Start Program	\$ 2,000
General Fund	Other Governmental Funds	1,605
General Fund	Debt Service Fund	55,612
General Fund	Special Revenue Fund-state and local grant	88,170
General Fund	Capital Projects Fund- State & Local Grants	18,419
General Fund	Other Governmental Funds	33,000
Capital Projects Fund-Federal Grants	General Fund	200,000
Capital Projects Fund-state and local grants	General Fund	343,609
Special Revenue Fund- state and local grants	General Fund	12,935
Special Revenue Fund- Head Start	Special Revenue Fund- state and local grants	4,000

4. INTERFUND TRANSACTIONS (CONTINUED)

<u>Transfer out</u>	<u>Transfer in</u>	<u>Amount</u>
Enterprise Funds	Debt Service	14,520
Special Revenue Fund- state and local grants	Special Revenue Fund- Head Start	2,464
Special Revenue Fund- Head Start Intrafund	Special Revenue Fund- Head Start	860,407
Capital Projects Fund- State & Local Grants Intrafund	Capital Projects Fund- State & Local Grants	3,924,695
Capital Projects Fund- Federal Grant Intrafund	Capital Projects Fund- Federal Grant	334,277
Other Governmental Funds Intrafund	Other Governmental Funds	2,014
Other Governmental Funds Intrafund	Other Governmental Funds	69,041
Special Revenue Fund- state and local grants	Other Governmental Funds	14,350
Special Revenue Fund- Head Start	Other Governmental Funds	1,689
Capital Projects Fund- Federal Grants	Debt Service	<u>533,570</u>
Total		<u>\$ 6,516,377</u>

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5. CAPITAL ASSETS

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

Governmental Activities:	Balance 1-Jul-13	Additions	Retirements	Balance 30-Jun-13
Capital asset, not being depreciated:				
Land	\$ 65,864,730	\$ 87,225	\$ -	\$ 65,951,955
Construction in progress	23,332,494	10,291,209	(428,057)	33,195,646
Total capital assets not being depreciated	89,197,224	10,378,434	(428,057)	99,147,601
Capital assets, being depreciated:				
Buildings	14,303,073	101,948		14,405,021
Buildings improvements	15,639,268	484,579		16,123,847
Infrastructure	12,923,251	113,153		13,036,404
Infrastructure improvements	5,515,605			5,515,605
Equipment	4,447,107	321,717	(4,081)	4,764,743
Furnishing	479,452	2,898	(1,635)	480,715
Work of Arts	306,925			306,925
Computers	518,701	29,278	(12,284)	535,695
Vehicles	7,803,602	37,840	(83,234)	7,758,208
Total capital assets being depreciated	61,936,984	1,091,413	(101,234)	62,927,163
Less accumulated depreciation for:				
Buildings	(6,796,366)	(358,002)		(7,154,368)
Buildings improvements	(1,606,447)	(398,693)		(2,005,140)
Infrastructure	(3,732,637)	(251,172)		(3,983,809)
Infrastructure improvements	(1,523,682)	(367,707)		(1,891,389)
Equipment	(3,508,640)	(361,842)	4,007	(3,866,475)
Furnishing	(428,551)	(25,620)	1,625	(452,546)
Computers	(485,608)	(25,301)	12,273	(498,636)
Work of Arts	(118,950)	(29,892)		(148,842)
Vehicles	(6,728,917)	(317,168)	83,163	(6,962,922)
Total accumulated depreciation	(24,929,798)	(2,135,397)	101,068	(26,964,127)
Total capital assets being depreciated, net	37,007,186	(1,043,984)	(166)	35,963,036
Governmental activities capital assets, net	\$ 126,204,410	\$ 9,334,450	\$ (428,223)	\$ 135,110,637

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 537,999
Public safety	155,437
Public works	676,350
Health and welfare	13,583
Education	3,972
Economic development	96,613
Culture and recreation	379,679
Community development	<u>271,764</u>
Total depreciation expense-governmental activities	<u>\$ 2,135,397</u>

<u>Business - type activities</u>	<u>Balance 1-Jul-12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 30-Jun-13</u>
Capital asset, not being depreciated:				
Land and construction in progress	\$ 388,790	\$ -	\$ -	\$ 388,790
Total capital assets not being depreciated	<u>388,790</u>	<u>-</u>	<u>-</u>	<u>388,790</u>
Capital assets, being depreciated:				
Building	3,537,458			3,537,458
Building improvements	45,400	-	-	45,400
Total capital assets being depreciated	<u>3,582,858</u>	<u>-</u>	<u>-</u>	<u>3,582,858</u>
Less accumulated depreciation for:				
Building	(1,415,558)	(90,197)	-	(1,505,755)
Total accumulated depreciation	<u>(1,415,558)</u>	<u>(90,197)</u>	<u>-</u>	<u>(1,505,755)</u>
Total capital assets being depreciated, net	<u>2,167,300</u>	<u>(90,197)</u>	<u>-</u>	<u>2,077,103</u>
Business - type Activities capital assets, net	<u>\$2,556,090</u>	<u>\$ (90,197)</u>	<u>\$ -</u>	<u>\$2,465,893</u>

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

<u>Business - type Activities</u>	
General government	<u>\$ 90,197</u>
Total depreciation expense-governmental activities	<u>\$ 90,197</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Description	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Head Start Fund	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Fund	Total
Accounts payable	\$ 854,410	\$ -	\$ -	\$ 31,940	\$ 4,650	\$ -	\$ 11,276	\$ 902,276
Accrued liabilities	<u>301,036</u>	-	-	-	-	-	-	<u>301,036</u>
Total	<u>\$ 1,155,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,940</u>	<u>\$ 4,650</u>	<u>\$ -</u>	<u>\$ 11,276</u>	<u>\$ 1,203,312</u>

7. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	\$ 217,526
Retirement System Administration	2,304
Government of Puerto Rico	18,997
General Services Administration	<u>125,787</u>
Total	<u>\$ 364,614</u>

8. UNEARNED REVENUES

A. Municipal License Tax- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 24 of each year.

Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2013, the tax rates were as follows:

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

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as unearned revenues.

The unearned revenues of \$3,595,523 in the general fund relates to municipal license tax collected in fiscal year 2012-12 that will be earned in fiscal year 2013-14.

8. UNEARNED REVENUES (CONTINUED)

B. 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. Unearned revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Section 108-LGA	\$ 31,182
Housing Opportunities for Person with AIDS	20,000
Special Program for Aging Title III	51,616
Federal Transit Administration	49,415
Federal Transit Administration	56,493
Total	<u>\$ 208,706</u>

9. 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 Autonomous Law 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 collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections, as modified by the quarterly revisions of estimates required law. The CRIM is required by law to prepare a liquidation statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its Independent Auditors. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. At the date of this report, the Final Liquidation has not been issued by the CRIM.

9. PROPERTY TAXES (CONTINUED)

On January 26, 2000, Public Law No. 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years.

Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

On June 26, 1997, Public Law No. 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money.

A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law No. 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction. Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government wide statement of Net position includes an outstanding debt balance of \$221,349 and \$249,556 related to Law No. 42 and Law 146 respectively.

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.

9. PROPERTY TAXES (CONTINUED)

The annual tax rate, as amended in December 2012, is 10.78% for real property and 9.03% 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 and the remaining .20 % is paid by the Commonwealth of Puerto Rico, as a subsidy. The remaining percentage is distributed as follows: (a) 6% and 4%, 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) 3.75% and 4.00%, respectively, represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

10. MUNICIPAL SALES AND USE TAX

On July 29, 2007, an amendment to Act. No. 117 of July 4, 2006, known as the "Tax Fairness Act of 2006", was enacted with the purpose of establishing a mandatory sales and use tax of 1.5% at the Municipal level. The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by the Treasury Department. The Act provides for an optional surtax on the unprocessed food. This surtax must be approved by the Municipal Legislature. The Treasury Department is responsible to create, the Municipal Development Fund (.02), the Municipal Redemption Fund (.02), and the Municipal Improvement Fund (.01) with the remaining 0.05. The Municipality collected \$1,884,009 during the year ended June 30, 2013. Also, \$857,662 from the Municipal Redemption Fund is included in the Debt Service Fund.

11. LONG-TERM LIABILITIES

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

Description	Beginning Balance	Borrowings or Additions and Adjustment	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 51,568,000	\$ 5,570,000	\$ (2,490,000)	\$ 54,648,000	\$2,675,000
Notes Payable	7,624,000	540,000	(836,000)	7,328,000	816,000
Property Tax Debt-Law 146	249,556			249,556	11,883
Property Tax Debt - Law 42	227,085		(5,736)	221,349	6,096
Compensated Absences	2,778,537	7,013		2,785,550	305,000
Claims and Judgments	342,975	50,000		392,975	392,975
Landfill obligation	1,970,383			1,970,383	
Total	\$ 64,760,536	\$ 6,167,013	\$ (3,331,736)	\$ 67,595,813	\$4,206,954

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

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Beginning Balance	Borrowings or Additions and Adjustment	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 484,000	\$ -	\$ -	\$484,000	\$150,000
Total	\$ 484,000	\$ -	\$ -	\$484,000	\$150,000

- 1. Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.
- 2. Bonds Payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2013 are as follows:

Description	Balance at June 30, 2013
1995-Public improvement bond for infrastructure improvements with an original amount of \$2,750,000 due in installments of \$220,000 to \$280,000 through July 1, 2015	\$ 540,000
1997 Special obligation bond for infrastructure improvements with an original amount of \$290,000 due in installments of \$20,000 to \$25,000 through July 1, 2016	70,000
1997 Special obligation bond for infrastructure improvements with an original amount of \$110,000 due in installments of \$5,000 to \$10,000 through July 1, 2016	25,000
1999 General obligation bond for infrastructure improvements with an original amount of \$3,675,000 due in installments of \$335,000 to \$390,000 through July 1, 2014	390,000
2000 General obligation bond for infrastructure improvements with an original amount of \$65,000 due in installments of \$5,000 through July 1, 2014	5,000
2000 General obligation bond for infrastructure improvements with an original amount of \$1,500,000 due in installments of \$70,000 to 145,000 through July 1, 2021	880,000
2001 General obligation bond for infrastructure improvements with an original amount of \$310,000 due in installments of \$10,000 to \$30,000 through July 1, 2026	230,000
2002 General obligation bond for infrastructure improvements with an original amount of \$2,850,000 due in installments of \$80,000 to \$250,000 through July 1, 2027	2,205,000
2004 General obligation bond for operational expenses with an original amount of \$550,000 due in installments of \$15,000 to \$40,000 through July 1, 2029	440,000

11. LONG-TERM LIABILITIES (CONTINUED)

<u>Description</u>	<u>Balance at June 30, 2013</u>
2004 General obligation bond for infrastructure improvements with an original amount of \$3,150,000 due in installments of \$135,000 to \$240,000 through July 1, 2024	2,110,000
2004 General obligation bond for infrastructure improvements with an original amount of \$115,000 due in installments of \$5,000 to \$10,000 through July 1, 2024	70,000
2004 General obligation bond for infrastructure improvements with an original amount of \$1,860,000 due in installments of \$80,000 to \$145,000 through July 1, 2024	1,240,000
2005 General obligation bond for operational expenses-housing rehabilitation with an original amount of \$50,000 due in installments of \$5,000 through July 1, 2015	10,000
2005 General obligation bond for infrastructure improvements with an original amount of \$945,000 due in installments of \$60,000 to \$85,000 through July 1, 2020	530,000
2005 General obligation bond for infrastructure improvements with an original amount of \$5,825,000 due in installments of \$360,000 to \$535,000 through July 1, 2020	3,250,000
2006 Special obligation bond for property acquisition with an original amount of \$532,000 due in installments of \$13,000 to \$42,000 through July 1, 2030	441,000
2007 Special obligation bond for Infrastructure improvement with an original amount of \$1,645,000 due in installments of \$85,000 to \$175,000 through July 1, 2022	1,185,000
2008 General obligation bond for infrastructure improvements with an original amount of \$3,650,000 due in installments of \$65,000 to \$305,000 through July 1, 2033	3,345,000
2008 General obligation bond for infrastructure improvements with an original amount of \$220,000 due in installments of \$20,000 to \$30,000 through July 1, 2018	130,000
2008 General obligation bond for infrastructure improvements with an original amount of \$370,000 due in installments of \$5,000 to \$35,000 through July 1, 2033	345,000
2008 General obligation bond for infrastructure improvements with an original amount of \$3,265,000 due in installments of \$60,000 to \$270,000 through July 1, 2033	2,985,000
2008 Special obligation bond for infrastructure improvements with an original amount of \$3,720,000 due in installments of \$75,000 to \$310,000 through July 1, 2032	3,450,000
2009 General obligation bond for infrastructure improvements with an original amount of \$3,395,000 due in installments of \$90,000 to \$310,000 through July 1, 2029	3,045,000
2009 Special obligation bond for infrastructure improvements with an original amount of \$930,000 due in installments of \$25,000 to \$85,000 through July 1, 2028	845,000
2010 General obligation bond for infrastructure improvements with an original amount of \$1,820,000 due in installments of \$40,000 to \$155,000 through July 1, 2032	1,705,000

11. LONG-TERM LIABILITIES (CONTINUED)

<u>Description</u>	<u>Balance at June 30, 2013</u>
2010 General obligation bond for infrastructure improvements with an original amount of \$1,095,000 due in installments of \$20,000 to \$90,000 through July 1, 2035	1,040,000
2010 Special obligation bond for infrastructure improvements with an original amount of \$537,000 due in installments of \$30,000 to \$62,000 through July 1, 2022	452,000
2012 General obligation bond for infrastructure improvements with an original amount of \$1,900,000 due in installments of \$30,000 to \$160,000 through July 1, 2036	1,840,000
2012 General obligation bond for infrastructure improvements with an original amount of \$3,305,000 due in installments of \$60,000 to \$290,000 through July 1, 2033	3,175,000
2012 General obligation bond for infrastructure improvements with an original amount of \$805,000 due in installments of \$30,000 to \$85,000 through July 1, 2025	750,000
2013 General obligation bond for infrastructure improvements with an original amount of \$2,315,000 due in installments of \$55,000 to \$215,000 through July 1, 2031	2,260,000
2013 General obligation bond for operational expenditures with an original amount of \$10,240,000 due in installments of \$150,000 to \$855,000 through July 1, 2036	10,090,000
2012 General obligation bond for infrastructure improvements with an original amount of \$2,185,000 due in installments of \$45,000 to \$200,000 through July 1, 2032	2,185,000
2013 General obligation bond for infrastructure improvements with an original amount of \$1,145,000 due in installments of \$40,000 to \$120,000 through July 1, 2027	1,145,000
2013 General obligation bond for infrastructure improvements with an original amount of \$1,255,000 due in installments of \$30,000 to \$115,000 through July 1, 2032	1,255,000
2013 General obligation bond for infrastructure improvements with an original amount of \$985,000 due in installments of \$15,000 to \$85,000 through July 1, 2037	985,000
Total general obligation bonds in Governmental Activities	\$ 54,684,000
Add: Special Obligation Bond in Business Type Activities	
2012 Special obligation bond for infrastructure improvements with an original amount of \$754,000 due in installments of \$130,000 to \$174,000 through July 1, 2016	484,000
Total general obligation bonds in Governmental Activities and Business Type Activities	\$ 55,132,000

These bonds, except the 1997 Series bonds for \$110,000 and \$290,000, and the 2006 Series bonds amounting to \$532,000, are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2008 Series bond amounting to \$3,720,000, the 2009 bond for \$930,000, the 2010 Series bond for \$537,000, and the 2012 Series bond amounting \$805,000 are payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

The 2012 Series bonds amounting to \$754,000 is payable by the self-generated revenues from the "Pabellón Rafael Hernández" charges for services and is accounted for in the business type activity.

11. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 2,825,000	\$ 3,077,325
2015	2,631,000	3,264,535
2016	2,471,000	3,169,272
2017	2,248,000	3,069,003
2018	2,599,000	2,964,806
2019-2023	13,093,000	12,395,958
2024-2028	12,610,000	8,178,811
2029-2033	12,425,000	3,727,465
2034-2038	4,050,000	618,625
Total Bonds Payable	\$ 55,132,000	\$ 40,465,800

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

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2013</u>
2007 Series	7-1-2014	480,000	1.718% to 5%	85,000
2008 Series	7-1-2015	230,000	1.718% to 6%	80,000
Section 108 Series 2008 A	7-1-2028	5,500,000	5.11%	4,582,000
2008 Series	7-1-2015	925,000	1.718% to 6%	315,000
2009 Series	7-1-2014	125,000	1.718% to 5%	30,000
2009 Series	7-1-2033	1,141,000	1.718% to 6.50%	1,066,000
2010 Series	7-1-2017	345,000	4.73%	260,000
2010 Series	7-1-2017	65,000	5% to 7%	40,000
2012 Series	7-1-2018	480,000	6% to 7.50%	375,000
2013 Series	7/1/2019	540,000	6% to 7.5%	540,000
Total notes payable				\$ 7,373,000

This notes, except the 2009 and 2012 Series are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Series 2009, amounting 1,141,000, and the 2012 Series amounting to \$480,000 are payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

11. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 816,000	\$ 347,241
2015	731,000	337,579
2016	541,000	304,707
2017	561,000	273,828
2018	501,000	244,459
2019-2023	1,905,000	885,815
2024-2028	1,787,000	405,208
2029-2033	385,000	99,938
2034-2038	101,000	3,283
Total	<u>\$ 7,328,000</u>	<u>\$ 2,902,058</u>

4. **LIMS Repayment Plan-** During the fiscal year 2001-2002, the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System - LIMS, contracted by the CRIM. A total of \$746,093 is to be retained in a ten years period at an interest rate of 5.95%, until November 28, 2012. At June 30, 2013, the amount has been paid in full.
5. **Compensated absences-** The government-wide statement of Net position includes \$1,067,035 of accrued sick leave benefits, and approximately \$1,718,514 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
6. **Claims and Judgments** - This amount represents the balance related to legal claims at June 30, 2013, as described in Note 15.
7. **Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable state and federal regulations. During June 30, 2004, the Municipality entered in an agreement with a contractor to complete the final cover of the landfill for a total cost of \$873,569 and additional inspection, monitoring, and supervision costs amounting to \$90,079 for a total cost of \$963,648. Amounts paid to contractors, related to closing costs prior to the current fiscal year totaled \$957,886. As of June 30, 2013 a total of \$8,379 were paid to others suppliers related to closing cost. Based on this, the Municipality has recognized \$20,383 as the Municipality's estimated current cost for landfill closure as of June 30, 2013. The preliminary annual estimate of post closure costs has been adjusted to approximately \$1,950,000 for a period of approximately 25 years. Actual costs may be different due to

11. LONG-TERM LIABILITIES (CONTINUED)

inflation, changes in technology, or changes in laws and regulations. As of June 30, 2013, the Municipality's landfill facilities have been closed. The balance of closure and post-closure costs of \$20,383 and \$1,950,000, respectively, are reported in the government-wide statement of Net position.

12. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plans sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

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

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

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

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

On September 24, 1999, an amendment to Act. No. 447 of May 15, 1951 (which created the Retirement System), was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining

12. PENSION PLAN (CONTINUED)

the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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

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

Funding Policy

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

Contribution requirements are established by law and are as follows:

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

Annual Contribution

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

12. PENSION PLAN (CONTINUED)

<u>Fiscal year</u>	<u>Law No. 447</u>	<u>System 2000</u>
2013	<u>\$ 344,902</u>	<u>\$ 264,212</u>
2012	<u>\$ 344,089</u>	<u>\$ 267,049</u>
2011	<u>\$ 369,640</u>	<u>\$ 267,730</u>

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and cost of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2013, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940-2003.

13. FUND BALANCE (DEFICIT)

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

Fund Balance (Deficit)	General Fund	Special Revenue Fund-State and Local Grants	Special Revenue Fund-Head Start	Capital Projects Fund-State & Local Grants	Capital Projects Fund-Federal Grants	Debt Service Fund	Other Governmental Funds	Total
Nonspendable:								
Interfund loans receivable	\$ 493,179	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 493,179
Restricted for:								
General Government								
Culture and Recreation								
Health and Welfare								
Education								
Public Safety								
Public Works								
Urban Development								
Capital Projects		1,286,792		8,952,199	3,839,292		443,193	443,193
Debt Service						9,949,676		9,949,676
Assigned								
Culture and Recreation	145,701							145,701
Unassigned	<u>1,322,969</u>							<u>1,322,969</u>
Total Fund Balance (Deficit)	<u>\$ 1,961,849</u>	<u>\$ 1,286,792</u>	<u>\$ -</u>	<u>\$ 8,952,199</u>	<u>\$ 3,839,292</u>	<u>\$ 9,949,676</u>	<u>\$ 443,193</u>	<u>\$ 26,433,001</u>

14. RISK MANAGEMENT

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

15. COMMITMENTS AND CONTINGENCIES

a. Claims and lawsuits:

The Municipality is a defendant in a number of lawsuits arising principally from the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of \$392,975 for awarded or anticipated unfavorable judgments in the Government-Wide Financial Statements. This amount was included in the financial statements and represents the amounts estimated as a probable liability or a liability with a fix or expected due date, which will require future available financial resources for its payments.

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

b. Federal Grants:

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures finance by these programs are subject to financial and compliance audits by the appropriate grantor or grantee. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

c. Other Commitments:

At June 30, 2013, the general fund had commitments of approximately \$145,701 for executory purchase orders or contracts that will be honored during the subsequent year.

16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

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

- a. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*). The requirements of this statement are effective for periods beginning after December 15, 2012.
- b. GASB Statement No. 66, *Technical corrections-2012 – an amendment of GASB Statements No. 10 and No.62*. The requirements of this statement are effective for periods beginning after December 15, 2012.
- c. GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The requirements of this statement are effective for periods beginning after June 15, 2013.
- d. GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The requirements of this statement are effective for periods beginning after June 15, 2014.

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

17. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

Description	General Fund	Special Revenue Fund – State & Local Grants	Special Revenue Fund –Head Start Program	Capital Projects Fund – State & Local Grants	Capital Projects Fund– Federal Grants	Debt Service Fund	Other Governmental Fund	Total
Fund balances (deficit), beginning	\$ 2,620,615	\$ 57,611	\$ -	\$ 12,205,430	\$ 4,087,353	\$ 8,418,681	\$ 359,748	\$27,749,438
To adjust overstated fund balance	-	-	-	(2,694,899)	-	-	-	(2,684,899)
Fund balances (deficit), beginning as restated	<u>\$ 2,620,615</u>	<u>\$ 57,611</u>	<u>\$ -</u>	<u>\$ 9,510,531</u>	<u>\$ 4,087,353</u>	<u>\$ 8,418,681</u>	<u>\$ 359,748</u>	<u>\$25,064,539</u>

17. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

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

<u>Description</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net position, beginning	\$ 84,923,966	\$ 2,210,900	\$ 87,134,866
To adjust overstated fund balance	(2,694,899)		(2,694,899)
To adjust general long-term debt	<u>484,000</u>	<u>-</u>	<u>484,000</u>
Net position, beginning as restated	<u>\$ 82,713,067</u>	<u>\$ 2,210,900</u>	<u>\$ 84,923,967</u>

18. SUBSEQUENT EVENTS

Act. No 3 of April 4, 2013

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited, to the following:

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from \$400 to \$500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate will increase from 8.275% to 10%.

18. SUBSEQUENT EVENT (CONTINUED)

- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.

In addition, the Commonwealth has proposed incremental annual contributions from the General Fund of \$140 million per year, for the next 20 years, to increase the liquidity and solvency of the ERS. An appropriation for such annual contribution has been included in the Commonwealth's proposed budget for the fiscal year 2014.

Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contributions of \$140 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the System's current and future obligations.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42).

18. SUBSEQUENT EVENT (CONTINUED)

Act. No. 18 of 2014

On January 24, 2014, was signed the Act No. 18 of 2014, to create the "Law of Municipal Administration Fund", to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of debt, whose repayment source are the funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in this Act, amend paragraph (b) of Section 4020.01, amend paragraph (b) of Section 4020.02, and amend paragraph (a) and to repeal paragraph (e) of Section 6080.14 of the Act No. 1-2011, as amend, known as the "Internal Revenue Code for a New Puerto Rico", in order to restructure the sales and use tax so that the tax rate is six (6) percent state level and one (1) percent at the municipal level.

Act. No 19 of 2014

On January, 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 19 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with the power to issue and/or use other mechanisms to pay or refinance the debt incurred by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico".

Bond and Notes Issuances

On January 1, 2013, the Municipal Legislature approved the issuance of a general obligation note for the amount of \$620,000, due in installments of \$70,000 to \$110,000 for the acquisition of equipment and bond issuance cost. Repayment of the note is scheduled from July 1, 2014 through July 1, 2020.

18. SUBSEQUENT EVENT (CONTINUED)

On August 19, 2013, the Municipal Legislature approved the issuance of a general obligation note for the amount of \$6,940,000, due in installments of \$195,000 to \$5,600,000 construction and improvements of infrastructure. Repayment of the note is scheduled from July 1, 2014 through July 1, 2020.

On November 27, 2013, the Municipal Legislature approved the issuance of a general obligation bond for the amount of \$1,141,000, due in installments of \$15,000 to \$101,000 for property acquisitions. Repayment of the note is scheduled from July 1, 2009 through July 1, 2033.

On November 27, 2013, the Municipal Legislature approved the issuance of a general obligation bond for the amount of \$930,000, due in installments of \$15,000 to \$85,000 for construction and improvements of infrastructure. Repayment of the note is scheduled from July 1, 2009 through July 1, 2028.

On November 27, 2013, the Municipal Legislature approved the issuance of a general obligation bond for the amount of \$3,720,000, due in installments of \$0 to \$310,000 for construction and improvements of infrastructure. Repayment of the note is scheduled from July 1, 2008 through July 1, 2032.

On January 1, 2014, the Municipal Legislature approved the issuance of a general obligation bond for the amount of \$100,000, due in installments of \$5,000 to \$10,000 for the acquisition of equipment and bond issuance cost. Repayment of the note is scheduled from July 1, 2014 through July 1, 2028.

On January 1, 2014, the Municipal Legislature approved the issuance of a general obligation bond for the amount of \$3,230,000, due in installments of \$70,000 to \$295,000 for construction and improvements of infrastructure. Repayment of the note is scheduled from July 1, 2014 through July 1, 2033.

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 10,539,982	\$ 11,338,867	\$ 11,425,985	\$ 87,118
Municipal license tax	3,629,383	3,629,383	3,944,961	315,578
Municipal sales and use tax	1,823,315	1,823,315	1,692,257	(131,058)
Licenses, permits and other local taxes	820,000	820,000	875,966	55,966
Charges for services	23,500	23,500	41,080	17,580
Intergovernmental	2,026,952	2,026,952	2,239,542	212,590
Interest, fines and penalties	56,600	56,600	34,337	(22,263)
Miscellaneous	<u>685,000</u>	<u>2,771,322</u>	<u>986,808</u>	<u>(1,784,514)</u>
Total revenues	<u>19,604,732</u>	<u>22,489,939</u>	<u>21,240,936</u>	<u>(1,249,003)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	10,516,152	13,926,278	12,770,493	1,155,785
Public safety	1,871,804	1,809,038	1,700,674	108,364
Public works	6,469,289	5,949,785	5,880,629	69,156
Culture and recreation	668,237	722,438	606,376	116,062
Transfer out	<u>79,250</u>	<u>82,400</u>	<u>82,400</u>	<u>-</u>
Total expenditures, encumbrances and other financing uses	<u>19,604,732</u>	<u>22,489,939</u>	<u>21,040,572</u>	<u>1,449,367</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,364</u>	<u>\$ 200,364</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 21,240,936
Differences-budget to USGAAP:				
Non-budgeted transfer in				556,544
USGAAP adjustment to revenues				<u>385,724</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 22,183,204</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 21,040,572
Differences-budget to USGAAP:				
Non-budgeted transfer out				116,406
USGAAP adjustments to expenditures				1,367,790
Prior year encumbrances recorded as current year expenditures for USGAAP basis				(537,208)
Current year encumbrances recorded as expenditures for budgetary purposes				<u>854,410</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 22,841,970</u>

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

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

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

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

Assets

Current assets cash

Cash -unrestricted	\$ 243,343
Cash -other restricted	81,770

Receivable

Fraud Recovery	45,076
Total current assets	<u>370,189</u>

Capital assets

Furniture, equipment & machinery-Administration	53,311
Less: Accumulated depreciation	<u>(53,311)</u>
Total capital assets, net of accumulated depreciation	<u>-</u>

Total assets	<u>\$ 370,189</u>
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Liabilities and Net Position

Net position

Net investment in capital assets	-
Restricted net position	104,308
Unrestricted net position	<u>265,881</u>
Total net position	<u>370,189</u>

Total liabilities and net position	<u>\$ 370,189</u>
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See notes to the Financial Data Schedule.

Revenues

Housing assistance payments	\$ 1,643,095
Ongoing administrative fee earned	<u>186,124</u>
Total HUD PHA operating revenues	1,829,219
Investment Income - Unrestricted	-
Fraud recovery	10,342
Other revenues	<u>80,626</u>
Total revenues	<u>1,920,187</u>

Expenses

Operating - administrative expenses	
Administrative salaries	125,627
Other general expenses	<u>15,670</u>
Total operating expenses	141,297
Housing Assistance Payments	1,724,789
HAP Portability-in	75,169
Depreciation	-
Total expenses	<u>1,941,255</u>

Other financing uses

Transfer out	-
Excess (Deficiency) of total revenue over (under) total expenses	(21,068)
Total net position, beginning	<u>391,257</u>
Total net position, ending	<u>\$ 370,189</u>

-See notes to the Financial Data Schedule.

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 446,612
Total U.S. Department of Agriculture			446,612
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Community Development Block Grant - Section 108 Loan Guarantees	14.248	Not Available	602,024
Section 8 Housing Choice Voucher Program	14.871		1,829,219
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant - State Program	14.228	Not Available	1,631,160
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	30,048
Total U.S. Department of Housing and Urban Development			4,092,451
U.S DEPARTMENT OF TRANSPORTATION:			
Direct Program:			
Federal Transit- Formula Grants(Recovery Act Funded)	20.507		85,337
Total U.S. Department of Transportation			85,337

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S DEPARTMENT OF ENERGY:			
Direct Program:			
Energy Efficiency and Conservation Block Grant Program (Recovery Act Funded)	81.128		<u>44,102</u>
Total U.S. Department of Energy			<u>44,102</u>
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico Governor's Office (OGAVE) (Cluster of Programs)			
Special Programs for Aging - Title III, Part C - Nutrition Services	93.045	Not Available	199,788
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES: (CONTINUED)			
<i>Head Start Cluster:</i>			
Direct Program:			
Early Head Start	93.600	Not Available	1,303,360
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Head Start Program	93.600	Not Available	<u>3,228,156</u>
Total U.S. Department of Health and Human Services			<u>4,731,304</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$9,399,806</u>

The accompanying notes are an integral part of this schedule

A. BASIS OF PRESENTATION:

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

B. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

Description	Special Revenue Fund Head Start	Capital Projects Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 4,531,516	\$ 742,615	\$ 4,125,675	\$ 9,399,806
Non - federal programs Expenditures	1,225	332,137	-	333,362
Total expenditures and other financing uses in the basic financial statements	\$ 4,532,741	\$ 1,074,752	\$ 4,125,675	\$ 9,733,168



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

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

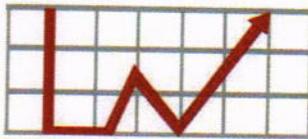
We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Autonomous Municipality of Dorado**, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise **Autonomous Municipality of Dorado's** basic financial statements and have issued our report thereon dated June 30, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Autonomous Municipality of Dorado'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 **Autonomous Municipality of Dorado's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Autonomous Municipality of Dorado's** internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item **13-01**, that we consider to be significant deficiencies.



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

Compliance and Other Matters

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

Autonomous Municipality of Dorado's Response to Findings

Autonomous Municipality of Dorado's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Autonomous Municipality of Dorado'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.

LOPEZ-VEGA, CPA, PSC

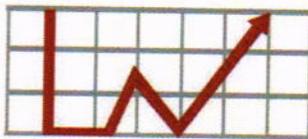
San Juan, Puerto Rico
March 28, 2014

Stamp No.2675833 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- Puerto Rico Society of Certified Public Accountants

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

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

Report on Compliance for Each Major Federal Program

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

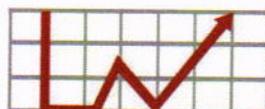
Management's Responsibility

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

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



López-Vega, CPA, PSC

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **13-02** and **13-03**. Our opinion on each major program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of the **Autonomous Municipality of Dorado** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Autonomous Municipality of Dorado'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 **Autonomous Municipality of Dorado's** internal control over compliance.

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



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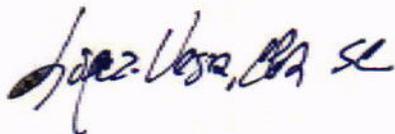
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items **13-02** and **13-03** that we consider to be significant deficiencies.

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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Autonomous Municipality of Dorado** in a separate letter dated March 28, 2014.

The purpose of this report on internal control 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. However, this report is a matter of public record and its distribution is not limited.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 28, 2014

Stamp No. 2675834 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report



López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: **Unmodified**

Internal control over financial reporting:

Material weakness identified? Yes No **X**

Significant deficiencies identified not considered to be material weaknesses? Yes **X** None reported

Noncompliance material to financial statements noted? Yes No **X**

Federal awards

Internal Control over major programs:

Material weakness identified? Yes No **X**

Significant deficiencies identified not considered to be material weaknesses? Yes **X** None reported

Type of auditor’s report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes **X** No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Voucher Program
93.600	Head Start Cluster: Head Start Program
93.600	Early Head Start

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

Auditee qualified as low-risk auditee? Yes No **X**

Section II – Financial Statements Findings

Finding Reference **13-01**

Requirement **Financial Reporting – Accounting Records**

Statement of Condition During our examination of the Municipality's accounting system, we noted that the Municipality's accounting records for its Local, State and Federal Funds does not provide modified basis financial statements. Also, the accounting system does not offer subsidiaries to produce government-wide financial statements. The computerized system authorized by the Office of the Commissioner of Municipal Affairs (OCAM) and manual systems maintained by the finance department personnel, do not provide adequate and effective financial information to generate the basic financial statements since the account balances were affected by accounting errors in the first years of the system operations.

Therefore, the Municipality hires the professional services of local accounting firms to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and compile the necessary information as required by GAAP and State Act 81.

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

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

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

Recommendation We recommend that the Municipality should establish internal control procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

Section II – Financial Statements Findings

Finding Reference **13-01 (Continued)**

Questioned Costs None

Management Response

And Corrective Action

The Commissioner of Municipal Affairs (“OCAM”), amended the Law so that the Municipality, could select the accounting system, according to the Generally Accepted Accounting Principles. The Municipality is in the final stages of selecting the accounting software and expects its implementation in the beginning of the next fiscal year.

Implementation date: July, 2014

Responsible Person: Mr. Luis R. Sierra Salgado- Finance Director

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	13-02
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services Early Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services.
Requirement	Cash Management
Statement of Condition	<p>During our Cash Management Test to Head Start Program, we found the following exceptions:</p> <ul style="list-style-type: none">a. We noted that the Program requested funds that were not disbursed on a reasonable lapse of time.b. During three (3) months the bank reconciliations reflected an overdraft. <p>In our Cash Management Test of Early Head Start Program, we found the following:</p> <ul style="list-style-type: none">a. During three (3) months the bank reconciliations reflected an overdraft.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursements made by the grantee.
Cause of Condition	There are no adequate internal controls to assure that funds requested to the federal agency are disbursed for immediate needs.
Effect of Condition	The Program is not in compliance with Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7).

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **13-02 (Continued)**

Recommendation We recommend management to follow cash management system procedures developed by it in order to assure that funds requested are disbursed as required by the regulation.

Questioned Costs None

**Management Response
and corrective Action
for Head Start
Program**

The Municipality's Management concurs with the auditor's recommendation.

Implementation Date: April, 2014

Responsible Person: Mrs. Sarahí Meléndez – Program Director
Mrs. Teresa Acevedo – Program Accountant

**Management Response
and corrective Action
for Early Head Start
Program**

The Municipality's Management concurs with the auditor's recommendation.

Implementation Date: January, 2015

Responsible Person: Mrs. Sarahí Meléndez – Program Director
Mrs. Grimaldi Zabaleta – Program Accountant

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **13-03**

Program **Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services**
Early Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services.

Requirement **Reporting Test**

Statement of Condition In our Reporting Test, to Early Head Start Program, we observed the following exceptions:

- a. The Federal Financial Report (SF-425) for the periods ended on 3/31/13, 6/30/13, 9/30/13 and 12/31/13 were not submitted in the stipulated time. The Municipality made the submission between one (1) to eighteen (18) days after the due date.
- b. We found differences between the amounts in the Federal Financial Report with General Ledger and Supporting Documents.

In our Reporting Test, to Head Start Program, we observed the following exceptions:

- a. The Federal Financial Report (SF-425), Monthly Reports, Funds Liquidation Report and Trial Balance for the period ended on 2/28/13 were not submitted in the stipulated time. The Municipality made the submission between one (1) to twenty (20) days after the due date.
- b. We found differences between the amounts reported in the monthly "In Kind" certifications details and the amounts detailed in the general ledger from March 2012 to February 2013. Also we found differences between the amounts reported in the monthly reports of expenditures of federal funds and the federal expenditure amount reported in the Quarterly Federal Financial Report (SF-425).
- c. The expenditures detailed in the monthly financial reports are based on estimates. As result, the financial reports are not in accordance with the program accounting records. The differences in the monthly reports were adjusted, but we couldn't reconcile the adjustments with the reports. The adjustments in the Project Expenditure Report were for \$(966,213) as of February 2013.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **13-03 (Continued)**

Criteria Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.

Cause of Condition Adequate internal controls do not exist to assure the correctness of closing reports submitted to the federal agencies.

Effect of Condition The program is not in compliance with the Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (1).

Recommendation We recommend the Program to establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. The program fiscal area must establish adequate communication channels with the Finance Department in order to obtain documental evidence related to obligations issued, cash receipt and disbursements in a daily manner, in order to be posted in the accounting register maintained by the Program. The Program fiscal area must assure that accounting records are updated at the end of each month in order to prepare accurate reports to the federal agency. In addition the accountant must assure that the cash register and the general ledger are duly reconciled and journal entries posted in the general ledger and duly documented and explained. We consider that the Program Director must evaluate the implementation of a computer accounting software to maintain the program books. Due to the large volume of transactions manual books are considered inefficient.

**Management Response
and corrective Action
for Head Start
Program**

The Municipality's Management concurs with the auditor's recommendation.

Implementation Date: April, 2014

Responsible Person: Mrs. Sarahí Meléndez – Program Director
Mrs. Teresa Acevedo – Program Accountant

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **13-03 (Continued)**

**Management Response
and corrective Action
for Early Head Start
Program**

The Municipality's Management concurs with the auditor's recommendation.

Implementation Date: January, 2015

Responsible Person: Mrs. Sarahí Meléndez – Program Director
Mrs. Grimaldi Zabaleta – Program Accountant

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
12-02	93.600 93.709	<p><u>During our Cash Management Test to Head Start Program, we found the following exceptions: (a) We noted that the Program requested funds that were not disbursed on a reasonable lapse of time. (b) During two (2) months the bank reconciliations reflected an overdraft. In our Cash Management Test of ARRA Early Head Start Program, we found the following: (a) We noted that the Program requested funds that were not disbursed on a reasonable lapse of time. (b) During three (3) months the bank reconciliations reflected an overdraft.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-02.</p>
12-03	93.600	<p><u>In our Reporting Test, to Head Start Program, we observed the following exceptions: (a) The Monthly Financial Reports for January 2012 and February 2012, and the Funds Liquidation and Trial Balance for the Program Year ended on February 28, 2012, were submitted to the Commonwealth of Puerto Rico Administration for Children and Families after the due date. (b) We found differences between the amounts reported as federal expenditures in the monthly financial reports (January and February 2012) and in the Closing Report for the Fiscal Year 2012 submitted to the pass-through agency and the amounts detailed in the cash register and the general ledger. (c) The expenditures detailed in the monthly financial reports are based on estimates. As result, the financial reports are not in accordance with the program accounting records. Differences are not adjusted in the closing reports. In addition, we noted that no adequate procedures exist to document the adjustments posted to the general ledger accounts. Also, footing errors were identified in the February 2012 Request of Funds and in the Funds Liquidation form.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-03.</p>
11-02	14.871	<p><u>We noted that the Section 8 Housing Choice Voucher Program did not comply with the compliance requirement of Depository Agreements. The PHA is required to enter into depository agreement with their financial institutions in the form required by HUD. (Form HUD-51999).</u></p> <p>Full corrective action was taken.</p>

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
11-03	14.257	<p><u>Management should follow the procedures established in the Housing Prevention and Rapid Rehousing Program Operational Manual, including the use of the forms included on it. Also, to establish control procedures to maintain a waiting list with all information required by the Federal Regulation. This control must permit proper tracing of participants selected in the waiting list in order to assure the selection from the top of the waiting list.</u></p> <p>Partial corrective action was taken. The Program established a checklist of documents that should be included in the participant's files.</p>
11-04	14.257	<p><u>We performed a Cash Management Test and after our procedures, we found that during the current fiscal year, the Program maintained a monthly average cash balance in books of approximately \$27,956. Also, at June 30, 2011, the cash balance in books was \$40,240. In addition, during four (4) months the bank reconciliations reflected an overdraft. Also, in our Cash Management- Advance Test, we found that in seven (7) cases the cash requisition was not signed by a responsible official.</u></p> <p>Full corrective action was taken.</p>
11-05	14.257	<p><u>In our Reporting Test, we observed the following exceptions: (a) We found footing error in the Monthly Expenditure Report (Form HPRP 428). (December 2010) (a) In eight (8) cases, the Monthly Expenditure Report (Form HPRP 428) available was not signed by the fiscal agent and the program director. (b) In three (3) cases, the Monthly Expenditure Report (Form HPRP 428) available was not signed by the program director. (b) We found differences between the amounts reported as federal expenditures in the Monthly Expenditure Report (August, November, December 2010 and February, March 2011) and the amounts detailed in the general ledger. (c) In seven (7) cases, the Monthly Performance Report (Form HPRP-33) was not available for our examination. (October 2010, January, February, March, April, May and June 2011) (c) In three (3) cases, the Monthly Performance Report (Form HPRP-33) was submitted to the Family Department after the due date. (July, August and November 2010) (d) We found differences between the amounts reported as federal expenditures in the Monthly Performance Report (Form HPRP-33) (November to December</u></p>

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>2010) and the amounts detailed in the general ledger. This report was made detailing the amounts of two (2) months.</u></p> <p>Partial corrective action was taken. The Program, as per funding requirements, expected to issue all closing reports before due date.</p>
11-06	93.600, 93.708 & 93.709	<p><u>During our Cash Management Test to Head Start Program, we found the following exceptions: (a) We noted that the Program requested funds that were not disbursed on a reasonable lapse of time. (b) During two (2) months the bank reconciliations reflected an overdraft. In our Cash Management Test of ARRA Early Head Start Program, we found the following: (a) We noted that the Program requested funds that were not disbursed on a reasonable lapse of time. (b) During nine (9) months the bank reconciliations reflected an overdraft.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-02.</p>
11-07	93.600, 93.708 & 93.709	<p><u>During our equipment test, to ARRA Early Head Start Program, we found the following exceptions: (a) The equipment was not marked with property tags. (b) In three (3) cases, the equipment was not included in the Property Subsidiary Ledger.</u></p> <p>Full corrective action was taken.</p>
11-08	93.600, 93.708 & 93.709	<p><u>During our Matching Test to ARRA Early Head Start Program, we found differences between the amounts reported as cash or in-kind contributions and federal expenditures detailed in the Federal Financial Report (Form 425) and the amounts detailed in the general ledger. We can't verify if the grantee contributed at least 20 percent of the costs of the program. Also, we noted differences between Federal Financial Report (Form 425) and supporting documents. Our Matching Requirements test for Head Start Program revealed the following: (a) The cash and In-kind contributions recorded in the accounting record "Libro de Caja" (a manual cash ledger) which belong to September 2010, did not agree with the amounts recorded in the general ledger. A difference of \$9,924 was identified. (b) The cash and In-kind contributions recorded in the accounting record "Libro de Caja" (a manual cash ledger) which belong to January 2011, did not agree with the</u></p>

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>amounts recorded in the general ledger. A difference of \$1,050 was identified. (a) The cash and In-kind contributions recorded in the accounting record "Libro de Caja" (a manual cash ledger) which belong March 2010 to February 2011, did not agree with the amounts recorded in the general ledger. A difference of \$10,976 was identified.</u></p> <p>Full corrective action was taken.</p>
11-09	93.600, 93.708 & 93.709	<p><u>The accounting system maintained by ARRA Early Head Start Program did not provide for the classification of financial transactions between administrative and programmatic costs. Also, our Earmarking test (15% Administrative Cost Limits) for Head Start Program revealed the following: (a) The percentage detailed in the Others Categories (Cash and In-kind), included in the Table to Compute 15% Administrative Cost was incorrectly calculated (b) The percentage detailed in the Total PA 22 Federal and non-Federal, included in the Table to Compute 15% Administrative Cost was incorrectly calculated. (c) The amounts detailed for Administrative and Programmatic Costs, for the Equipment Account, did not agree with the amounts included in the General Ledger. A difference of \$81.00 was identified.</u></p> <p>Full corrective action was taken.</p>
11-10	93.600, 93.708 & 93.709	<p><u>In our Reporting Test, to Head Start Program, we observed the following exceptions: (a) The Monthly Financial Report and the Table to Compute 15% Administrative Cost for the program year ended February 28, 2011 were submitted to the Commonwealth of Puerto Rico Administration for Children and Families after the due date. We found differences between the amounts reported as federal expenditures in the monthly financial reports (January and February 2011) and in the Closing Report for the Fiscal Year 2011 submitted to the pass-through agency and the amounts detailed in the cash register and the general ledger. (c)The expenditures detailed in the monthly financial reports are based on estimates. As result, the financial reports are not in accordance with the program accounting records. Differences are not adjusted in the closing reports. In addition, we noted that no adequate procedures exist to document the adjustments posted to the general ledger accounts. In our Reporting Test of ARRA Early Head Start Program: (a) We found differences between the amounts reported as federal expenditures in the Federal Financial Report (September 2011) and the amounts</u></p>

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>detailed in the cash register and the general ledger. We identified differences between the amounts reported in the Trial Balance and the amounts detailed in the General Ledger</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-03.</p>

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