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, 2014

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

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
the Municipal Legislature
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, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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..

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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 **Autonomous Municipality of Dorado, Puerto Rico**, as of June 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **4** through **13** and **70** 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 of 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 Schedule shown in pages **72** and **73** are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2015, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Municipality's** internal control over financial reporting and compliance.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 23, 2015

Stamp No. 2705459 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report

MANAGEMENT'S DISCUSSION AND ANALYSIS

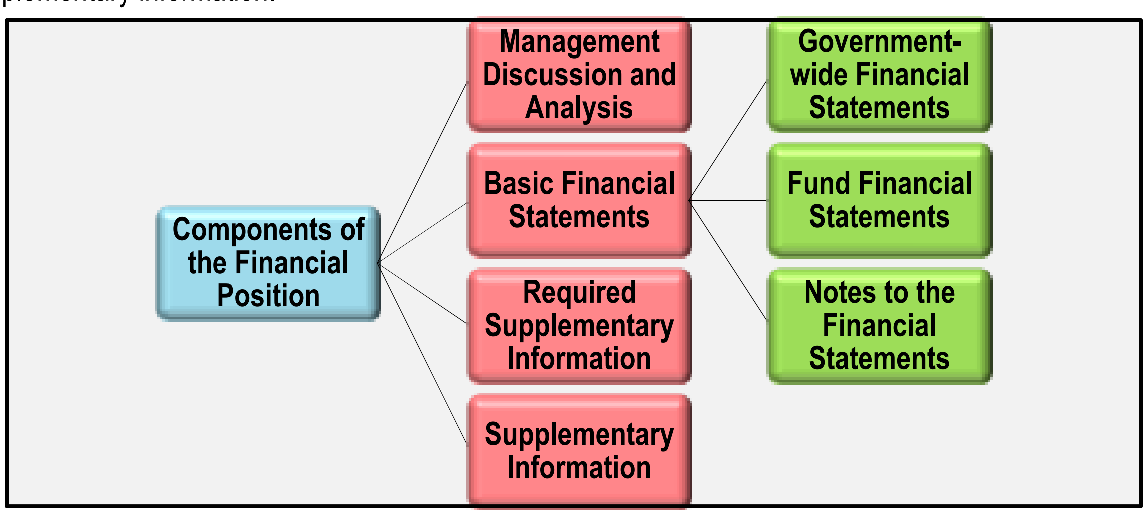
The discussion and analysis of the Municipality of Dorado's financial performance provides an overall review of the Municipality's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the Municipality's financial performance as a whole; this section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. Our analysis follows this section.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2014 by $94,099,745 (net position), an increase of 3% in comparison with 2013, as restated. Of this amount, the Municipality presented an unrestricted net position (deficit) of $10,975,474.
- Revenues increased 6% and expenses increased 12% when compared with fiscal year 2013, as restated. Net position increased $4,872,071 in 2014.
- A positive net change in the fund balances of the Municipality's governmental funds of $10,366,859 in the fiscal year 2014 resulted in reported ending fund balances of $37,215,750.
- For the fiscal year 2014, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of $2,331,739. The unassigned fund balance amounts to $3,697,199 for an increase of 64% as compared to 2013, as restated.
- The investment in capital assets net of related debt as of June 30, 2014 was $79,794,222.
- Long-term debt (total primary government) increased to $81,013,680 or approximately 83% with respect to the prior year, as restated.
- On a budgetary basis, actual revenues exceeded actual expenditures by $6,309,673.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components: (1) management's discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

- ***Government-Wide Financial Statements***

  The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement, the s*tatement of net position,* presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in the Municipality's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement, the *statement of activities*, presents information showing how the net position changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

  The government-wide statements report as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, community, urban and economic development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- ***Fund Financial Statements***

  The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well as by bond covenants.

  The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified-accrual basis of accounting. Under this approach, the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of spendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that comply with a minimum criterion that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users. Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to financial statements***

  The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Supplementary information

The supplementary information also includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net position

The following table presents a summary of the Statements of Net Position as of June 30, 2014 and 2013:

TABLE 1

Summary Statement of Net Position
As of June 30,

	Governmental Activities	
	2014	**2013, as restated**
Assets		
Current and other assets	$ 45,320,134	$ 32,202,603
Capital assets	141,981,616	137,576,530
Total assets	$ 187,301,750	$ 169,779,133
Liabilities		
Current and other liabilities	12,014,325	10,378,173
Long-term liabilities	81,187,680	68,079,813
Total liabilities	93,202,005	78,457,986
Net Position		
Net investment in capital assets	79,794,222	88,347,530
Restricted	25,280,997	25,110,032
Unrestricted (deficit)	(10,975,474)	(22,136,415)
Total net position	$ 94,099,745	$ 91,321,147

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) serve as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. At June 30, 2014, assets exceeded its liabilities by $94,099,745. Of this amount, $(10,975,474) represents unrestricted net position (deficit). This deficit primarily arises from long-term obligations such as compensated absences, debts to CRIM, landfill, among other debts, for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a "pay as you go" basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as net investment in capital assets. Therefore, they are reported as part of the unrestricted net position section. Restricted net position represents resources that are subject to external restrictions on how they may be used. Net position reported an increase of .02% with respect to fiscal period 2013.

The largest portion of the Municipality's net position reflects its investment in capital assets (land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

Changes in net position

The following table summarizes the changes in net position for the fiscal years ended 2014 and 2013:

TABLE 2

Summary of Changes in Net Position
As of June 30,

	Governmental Activities	
	2014	**2013, as restated**
Program revenues:		
Fees, fines and charges for services	$ 341,662	$ 552,847
Operating grants and contributions	7,068,103	9,135,752
Capital grants and contributions	1,619,145	311,356
General revenues:		
Property taxes	17,564,630	16,129,651
Municipal license taxes	4,571,585	3,970,833
Sales and use taxes	3,934,427	2,741,670
Grants and contributions not restricted to specific programs	2,826,865	3,035,750
Other local taxes	1,456,392	884,927
Interest	557,233	707,933
Miscellaneous	270,566	583,975
Total revenues	40,210,608	38,054,694
Expenses:		
General government	12,274,825	15,092,998
Public safety	1,785,272	1,876,413
Public work	8,042,619	180,736
Health and welfare	6,682,328	6,921,573
Culture and recreation	1,303,066	2,496,027
Economic development	154,529	140,515
Community development	2,010,886	1,244,239
Urban Development	40,116	85,337
Interest on long-term debt	3,044,898	3,619,676
Total expenses	35,338,539	31,657,514
Change in net position	4,872,071	6,397,180
Net position-beginning of year, as restated	89,227,674	84,923,967
Net position-end of year	$ 94,099,745	$ 91,321,147

The three major sources of revenues of the Municipality in fiscal year 2014 are: property taxes with 9% of total revenues, operating grants and contributions with 23% and municipal license taxes with 15%. Revenues increased 5% due mainly to an increase of 15%, 7% and 9% in municipal license taxes, unrestricted grants and contributions and property taxes, respectively, which were offset by an increase of 420% and 44% in capital grants and contributions and sales and use taxes, respectively. The following chart illustrates the revenue comparison between 2014 and 2013:

Figure 1

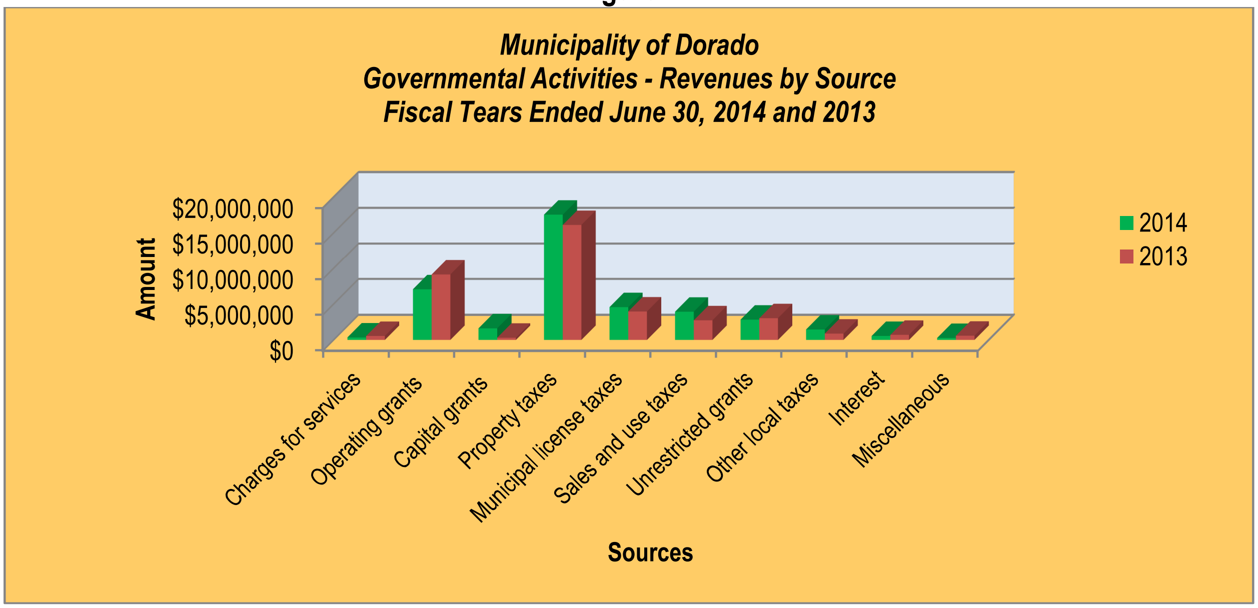
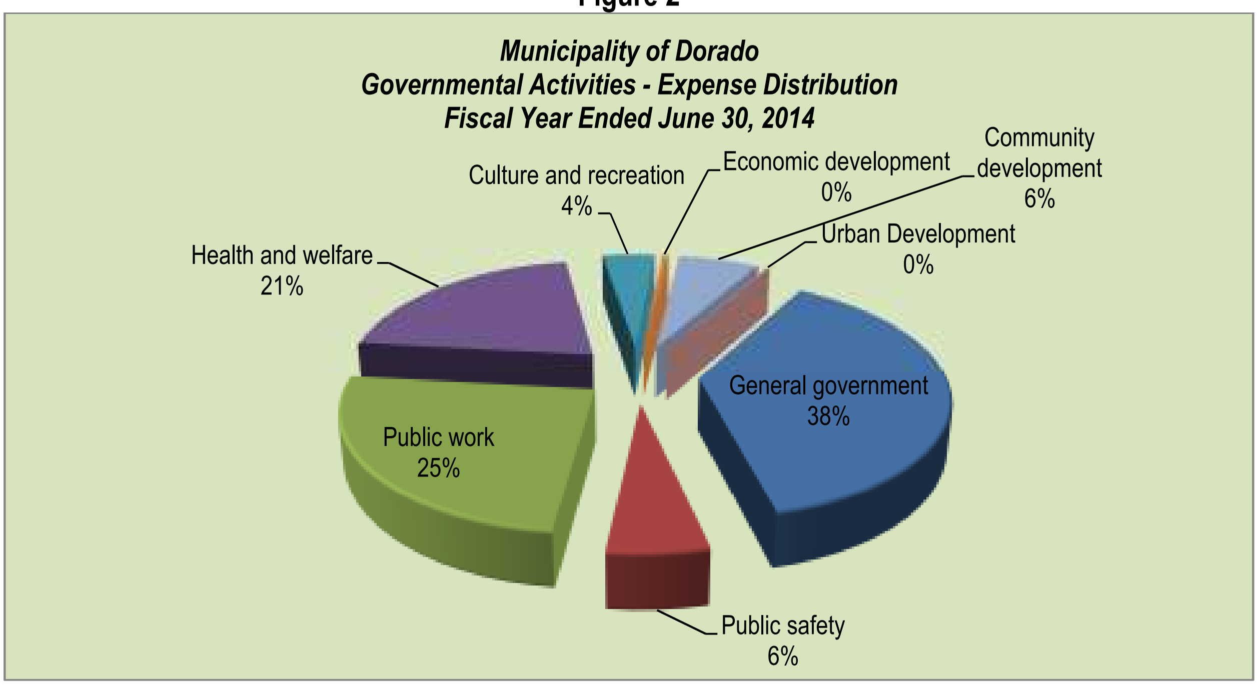


Figure 2



The Municipality's expenses cover a range of services. **Figure 2** illustrates the distribution of expenses in fiscal year 2014. As disclosed, the largest governmental activities expenses are general government with 45% and public works and sanitation with 31%. Total expenses decreased 12% when compared with fiscal year 2013.

The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. The following table discloses the 2014 expenses net of program revenue and the general revenues available to finance remaining costs:

TABLE 3

Expenses Net of Program Revenues - Governmental Activities
Fiscal Year ended June 30, 2014

Net expenses	**2014**
General government	$ (11,716,819)
Public safety	(1,663,924)
Public works	(8,042,619)
Health and welfare	(5,805,623)
Culture and recreation	5,276,303
Economic development	(142,104)
Community development	(1,163,698)
Urban development	26,295
Interest on long term debt	(3,044,898)
Total expenses, net of program revenues	(26,277,087)
General revenues	
Taxes	27,527,034
Grants and contributions not restricted to specific programs	2,826,865
Interest and other	557,233
Miscellaneous	270,566
Transfer	36,605
Total general revenues	31,181,698
Change in net position	$ 4,904,611

Expenses of governmental activities not covered by program revenues were finally covered by other general revenues.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party.

For the fiscal year ended June 30, 2014, the governmental funds reported ending fund balances of $37,215,750 a net increase of $10,782,749 or 28% due to an overall increase of 1% in total revenues and an 2% increase in total expenditures. Of the total fund balances, $3,697,199 or 9% constitutes unrestricted fund balance. The remaining fund balance is restricted to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. The fund balance of the general fund represents approximately 10% of total ending fund balances. Of the total fund balance, 3% is restricted for public works. The remaining unrestricted fund balance of $3,697,199 is unassigned fund balance, which represents 9% of the total fund balance of the general fund. Unassigned fund balance increased 64% with respect to the prior year.

During the fiscal year, the fund balances of the general fund increased by $2,331,739. The main sources of revenues of the general fund in fiscal year 2014 are: taxes (property taxes, sales and use taxes and municipal license taxes) with 12%, and intergovernmental subsidies from the Commonwealth and charges for services, with 14% each. Revenues increased 5% in comparison to 2013 due to increases in taxes and intergovernmental revenues. The largest expenditures of the general fund are general government with 34% and public works and sanitation with 5%. Expenditures increased 13%.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal year 2013-2014 presented a 1% increase with respect to the prior year budget. Actual revenues exceeded revised budgeted revenues by $4,229,175 (net). However, the Municipality reported a positive variance of $6,417,699 between revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by $6,417,699.

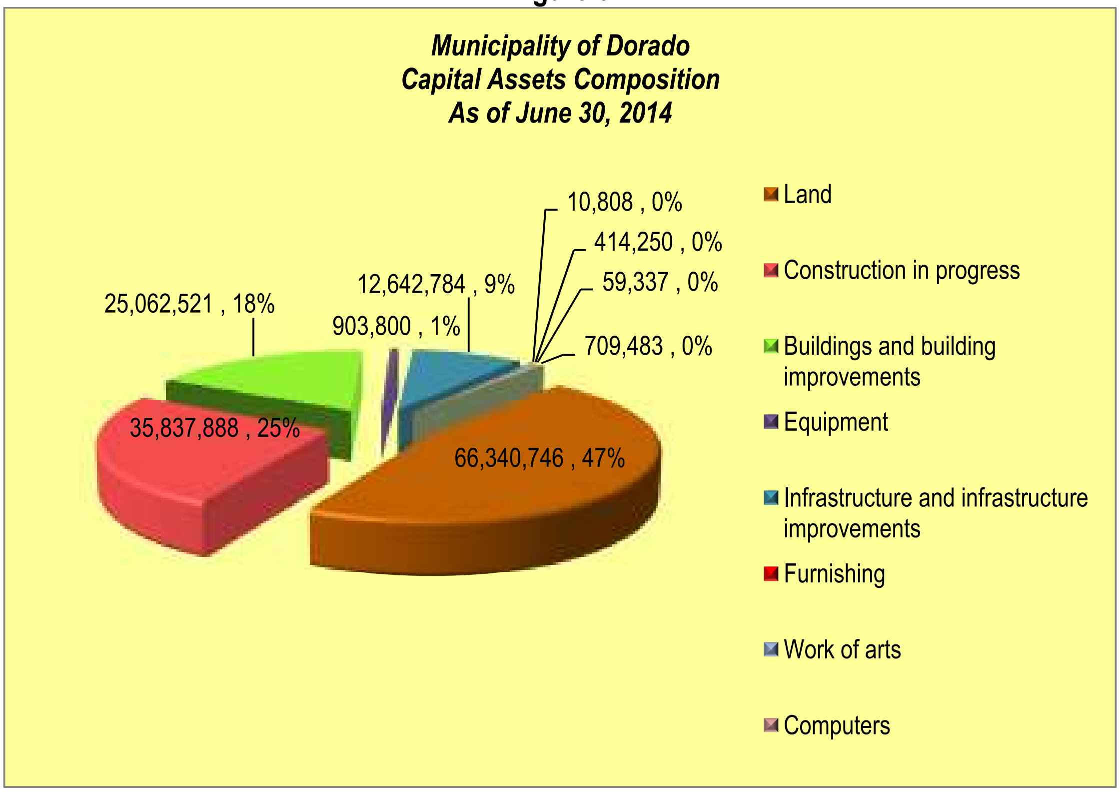
CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested $141,981,617 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land, furniture, works of art and equipment. The following graphic discloses the capital assets balances composition as of June 30, 2014:

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Figure 3



Long-term debt

The following is a summary of the Municipality's outstanding debt as of June 30, 2014 and 2013:

TABLE 4

Outstanding Long-term Debt *Fiscal years ended June 30,*	Governmental Activities	
	2014	2013, as restated
General and special obligation bonds and notes	$ 68,333,000	$ 54,648,000
General obligation bond anticipation notes	7,132,000	7,328,000
Compensated absences	3,296,669	2,785,000
Claims and judgments	377,975	392,975
Landfill obligation	1,658,783	1,970,383
Advances from CRIM – Ley 146	-	249,556
Advances from CRIM – Ley 42	215,253	221,349
Total	$ 81,013,680	$ 67,595,813

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

At year-end, the Municipality had outstanding $75,465,000 in general and special bonds and notes, an increase with respect to the prior year of $13,489,000, main due to the issuance of bonds and notes in the total amount of $16,980,000. The notes payable to CRIM – property tax advances, decreased by $12,575 or 2%.

More detailed information about the Municipality's long-term liabilities is presented in Note 12 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when establishing the fiscal year's 2014-2015 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth or decline in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate at June 2014 stands at 13.2%, and the Commonwealth rate stands at 13.1%.

For the fiscal year 2014-2015, the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are $26,456,300 a decrease of approximately 1% with respect to prior year estimates. Budgeted expenditures are expected to decrease according to the decrease of budgeted revenues. If these estimates are realized, the Municipality's budgetary general fund balance is expected to increase modestly by the close of the 2014-2015 fiscal year. In addition to the general fund estimated budget, the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

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	$ 13,819,115	$ 3,017	$ 13,822,132
Cash with fiscal agent	30,582,159	100,936	30,683,095
Accounts receivable:			
Property taxes	132,147		132,147
Intergovernmental	198,588		198,588
Federal grants	173,681		173,681
Others	310,491		310,491
Capital assets			
Land, improvements, and construction in progress	101,789,844	388,790	102,178,634
Other capital assets, net of depreciation	37,814,826	1,988,157	39,802,983
Total capital assets	139,604,670	2,376,947	141,981,617
Total assets	184,820,851	2,480,900	187,301,751
Liabilities			
Accounts payable and accrued liabilities	6,424,035		6,424,035
Due to other governmental entities	544,293		544,293
Unearned revenues:			
Municipal license tax	3,180,958		3,180,958
Federal grant revenues	339,772		339,772
Intergovernmental	52,820		52,820
Interest payable	1,464,053	8,395	1,472,448
Noncurrent liabilities:			
Due within one year	4,478,502	174,000	4,652,502
Due in more than one year	76,535,178		76,535,178
Total liabilities	93,019,611	182,395	93,202,006
Net Position			
Net investment in capital assets	77,599,670	2,194,552	79,794,222
Restricted for:			
Capital projects	8,952,199		8,952,199
Debt service	9,949,677		9,949,677
Other purposes	6,379,121		6,379,121
Unrestricted (deficit)	(11,079,427)	103,953	(10,975,474)
Total net position	$ 91,801,240	$ 2,298,505	$ 94,099,745

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position — Primary Government: Governmental Activities	Business-type Activities	Total
General government	$ 12,164,147	$ 209,234	$ 238,094		$ (11,716,819)	$ -	$(11,716,819)
Public safety	1,785,272	54,290	67,058		(1,663,924)		(1,663,924)
Public works	8,042,619				(8,042,619)		(8,042,619)
Health and welfare	6,682,328			876,705	(5,805,623)		(5,805,623)
Culture and recreation	1,303,066		6,579,369		5,276,303		5,276,303
Economic development	154,529		12,425		(142,104)		(142,104)
Community development	2,010,886		104,748	742,440	(1,163,698)		(1,163,698)
Urban development	40,114		66,409		26,295		26,295
Interest on long-term debt	3,044,898				(3,044,898)		(3,044,898)
Total governmental activities	$ 35,227,859	$ 263,524	$ 7,068,103	$ 1,619,145	(26,277,087)	-	(26,277,087)
Business type activities:							
General government	110,678	78,138				(32,540)	(32,540)
Interest expenses						-	-
Total business type activities	110,678	78,138	-	-	-	(32,540)	(32,540)
Total primary government	35,338,537	341,662	7,068,103	1,619,145	(26,277,087)	(32,540)	(26,309,627)
General revenues:							
Property taxes					17,564,630		17,564,630
Municipal license tax					4,571,585		4,571,585
Municipal sales and use tax					3,934,427		3,934,427
Other local taxes					1,456,392		1,456,392
Grants and contributions not restricted to specific programs					2,826,865		2,826,865
Interest and investment earnings					557,233		557,233
Miscellaneous					270,566		270,566
Transfers					36,605	(36,605)	-
Total general revenues and transfers					31,218,303	(36,605)	31,181,698
Change in net position					4,941,216	(69,145)	4,872,071
Net position - beginning, as restated					86,860,024	2,367,650	89,227,674
Net position - ending					$ 91,801,240	$ 2,298,505	$ 94,099,745

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

	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	$ 6,012,958	$ 664,497	$ 369,899	$ 2,129,774	$ 3,969,463	$ -	$ 672,524	$ 13,819,115
Cash with fiscal agent		1,078,412		19,166,347		10,337,400		30,582,159
Accounts receivable:								
Property taxes	132,147							132,147
Intergovernmental	42,295	70,705				85,588		198,588
Federal grants			115,057				58,624	173,681
Others	265,409						41,318	306,727
Due from other funds	4,337,484						23,368	4,360,852
Advances to other funds	202,435							202,435
Other assets							3,764	3,764
Total assets	$ 10,992,728	$ 1,813,614	$ 484,956	$ 21,296,121	$ 3,969,463	$ 10,422,988	$ 799,598	$ 49,779,468
Liabilities, deferred inflows of resources and fund balances								
Liabilities:								
Accounts payable and accrued liabilities	$ 3,235,696	$ 72,046	$ 201,976	$ 49,333	$ 1,000	$ -	$ 190,390	$ 3,750,441
Due to other governmental entities	544,293							544,293
Due to other funds		387,854		3,727,047	174,472		71,479	4,360,852
Advances from other funds		86,965	76,625				38,845	202,435
Unearned revenues:								
Municipal license tax	3,180,958							3,180,958
Intergovernmental		52,820						52,820
Federal grant revenues			93,333				246,439	339,772
Total liabilities	6,960,947	599,685	371,934	3,776,380	175,472	-	547,153	12,431,571
Deferred Inflows of Resources								
Unavailable revenues -								
Commonwealth Government - Property taxes	132,147							132,147
Fund balances:								
Nonspendable	202,435							202,435
Restricted		1,213,929	113,022	17,519,741	3,793,991	10,422,988	252,445	33,316,116
Unassigned	3,697,199	-	-	-	-	-	-	3,697,199
Total fund balances	3,899,634	1,213,929	113,022	17,519,741	3,793,991	10,422,988	252,445	37,215,750
Total liabilities, deferred inflows of resources and fund balances	$ 10,860,581	$ 1,813,614	$ 484,956	$ 21,296,121	$ 3,969,463	$ 10,422,988	$ 799,598	$ 49,779,468

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, 2014

	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	$ 11,049,783	$ -	$ -	$ -	$ -	$ 6,382,700	$ -	$ 17,432,483
Municipal license taxes	4,571,585							4,571,585
Municipal sales and use tax	3,151,958					782,469		3,934,427
Licenses,permits and other local taxes	1,456,392							1,456,392
Charges for services	113,002	23,038						136,040
Intergovernmental	3,064,960	131,173		876,705				4,072,838
Fines and forfeitures	54,290							54,290
Rent of property	209,234							209,234
Interest	429,386			21,538	28,813	1,107		480,844
Federal grants			4,425,348				2,759,347	7,184,695
Miscellaneous	133,626	13,325			76,390		244,156	467,497
Total revenues	24,234,216	167,536	4,425,348	898,243	105,203	7,166,276	3,003,503	40,000,325
Expenditures								
Current:								
General government	11,686,391	20,460		982				11,707,833
Public safety	1,695,266	89,448					560	1,785,274
Public works	8,223,515	910,413		3,860,486				12,994,414
Health and welfare		60,788	4,312,326				2,309,215	6,682,329
Culture and recreation	699,870	102,546		1,138,324				1,940,740
Economic development		151,599					2,929	154,528
Community development				3,980,833	583,276		485,769	5,049,878
Urban development							40,115	40,115
Debt service:								
Principal						3,185,000	306,000	3,491,000
Interest						2,588,355	215,606	2,803,961
Total expenditures	22,305,042	1,335,254	4,312,326	8,980,625	583,276	5,773,355	3,360,194	46,650,072

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, 2014 (Continued)

	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	$ 1,929,174	$ (1,167,718)	$ 113,022	$ (8,082,382)	$ (478,073)	$ 1,392,921	$ (356,691)	$ (6,649,747)
Other financing sources (uses)								
Transfers in	1,023,529	63,726		299,019	200,000	94,825	171,606	1,852,705
Transfers out	(620,964)			(9,095)	(171,606)	(1,014,434)		(1,816,099)
Long-term debt issued		620,000		16,360,000				16,980,000
Total other financing sources (uses)	402,565	683,726	-	16,649,924	28,394	(919,609)	171,606	17,016,606
Net change in fund balances	2,331,739	(483,992)	113,022	8,567,542	(449,679)	473,312	(185,085)	10,366,859
Fund balances (deficit), beginning as restated	1,567,895	1,697,921		8,952,199	4,243,670	9,949,676	437,530	26,848,891
Fund balances (deficit), ending	$ 3,899,634	$ 1,213,929	$ 113,022	$ 17,519,741	$ 3,793,991	$ 10,422,988	$ 252,445	$ 37,215,750

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

Total Fund Balances - Governmental Funds		$ 37,215,750
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	$ 101,789,844	
Depreciable capital assets	66,728,569	
Accumulated depreciation	(28,913,743)	
Total Capital Assets		139,604,670
Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:		
Due from Commonwealth Government:		
Property taxes - General Fund		132,147
Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds		(1,464,053)
Accounts payable related to Construction in Progress are not due and payable in the current period and, therefore, are not reported in the funds.		(2,673,594)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
General obligation bonds and notes	(75,465,000)	
Property Taxes Debt-Law. No 42	(215,253)	
Claims and judgments	(377,975)	
Compensated Absences	(3,296,669)	
Landfill Obligation	(1,658,783)	
Total Long-Term Liabilities		(81,013,680)
Total Net Position of Governmental Activities		$ 91,801,240

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

Net Change in Fund Balances - Total Governmental Funds		$ 10,366,859
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:		
Expenditures for capital assets	$ 9,459,883	
Less: current-year depreciation	(2,206,930)	7,252,953
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Property taxes - General Fund (current year)		132,147
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.		1,103,713
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.		(247,033)
Proceeds from general obligation bonds is an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position		(16,980,000)
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:		
General obligation bonds and notes	3,491,000	
Other long-term liabilities	1,065,715	4,556,715
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:		
Compensated absences		(1,244,138)
Change in Net Position of Governmental Activities		$ 4,941,216

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

Statement of Net Position
Proprietary Fund-Business Type Activity
Enterprise Fund
Year Ended June 30, 2014

	Business Type Activities Enterprise
Assets	
Current Assets:	
Cash and cash equivalents	$ 3,017
Cash with fiscal agent	100,936
Total current assets	103,953
Noncurrent Assets:	
Capital Assets:	
Property, and equipment:	
Land	388,790
Building	3,582,858
Accumulated depreciation	(1,594,701)
Total non-current assets	2,376,947
Total assets	2,480,900
Liabilities	
Current Liabilities:	
Interest payable	8,395
Total current liabilities	8,395
Non-current liabilities:	
Due within one year	174,000
Total non-current liabilities	174,000
Total liabilities	182,395
Net Position	
Invested in Capital Assets, net of related debt	2,194,552
Unrestricted	103,953
Total Net Position	$ 2,298,505

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

Statement of Revenues, Expenses and Changes in Net Position Proprietary Fund
Business Type Activity - Enterprise Fund
Year Ended June 30, 2014

		Business - Type Activities Enterprise
Operating revenues:		
Charges for services	$	78,137
Total operating revenues		78,137
Operating expenses:		
Operations and maintenance		21,731
Depreciation and amortization		88,946
Total operating expenditures		110,677
Operating income (Loss)		(32,540)
Non-operating revenues (expenses):		
Interest expense		(36,605)
Total non-operating revenues (expenses)		(36,605)
Change in Net Position		(69,145)
Total net position-beginning		2,367,650
Total net position-ending	$	2,298,505

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

Statement of Cash Flows
Proprietary Fund-Business Type Activity
Enterprise Fund
Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	$ 78,137
Payment to Suppliers	(21,731)
Net Cash Provided (Used) by Operating Activities	56,406
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Repayment of Bond	(310,000)
Interest paid	(39,900)
Net Cash Provided (Used) in Capital and Related Financing Activities	(349,900)
Net Decrease in Cash and Cash with Fiscal Agent, Restricted	(293,494)
Cash and Cash with Fiscal Agent at Beginning of Period, Restricted	397,447
Cash and Cash with Fiscal Agent at End of Period, Restricted	$ 103,953
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	$ (32,540)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation expenses	88,946
Total Adjustments	88,946
Net Cash Provided (Used) by Operating Activities	$ 56,406
NONCASH INVESTING CAPITAL AND FINANCING ACTIVITIES:	**NONE**

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Autonomous Municipality of 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.

GASB No. 5 6 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.

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

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 components 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".

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP).

A. Financial reporting entity

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

1. The primary government appoints a voting majority of the entity's governing body, and either:

    - A financial benefit/ burden exist between the primary government and the entity or
    - The primary government can impose its will on the entity.

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

A. Financial reporting entity (continued)

2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

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

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

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

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

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

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

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

A. Financial reporting entity (continued)

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

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

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

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

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

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

Management's Discussion and Analysis

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

Basic financial statements

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

Government-wide Financial Statements (GWFS)

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

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

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

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

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

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

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

Fund Financial Statements (FFS)

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

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

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

determined based on a minimum criteria, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

General Fund- 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 – Local and State 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. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

Debt Service Fund – is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

Capital Projects Funds – State and Federal 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 only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as

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

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

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

The other governmental funds of the Municipality account for grants and other resources whose use is restricted to a particular purpose.

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

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

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

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

Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds of the FFS. Likewise, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are also not accounted for in the FFS.

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

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

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

Notes to financial statements

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

Required Supplementary Information (RSI)

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

C. Financial reporting presentation

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

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

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

Capital Projects Fund – is a governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of

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

C. Financial reporting presentation (continued)

major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

Debt Service Fund – is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

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.

The other governmental funds of the Municipality account for grants and other resources whose use is restricted to a particular purpose.

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.

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

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

C. Financial reporting presentation (continued)

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 – **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 – 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

D. Deposits and investments

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

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the GDB.

E. Restricted assets

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

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

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

F. Receivables and due from governmental entities

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.

G. Interfund receivables and payables

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

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

H. Inventory

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

I. Capital assets

Capital assets, 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.

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

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

Description	Useful Life	Capitalization threshold
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

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

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

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

K. **Long-term obligations**- 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)

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

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

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

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

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

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

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

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

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

Unrestricted net position: Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

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

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

P. Fund balances-

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

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

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

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

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

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

P. Fund balances (continued)

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: 1) such resources meet the other criteria for those classifications, as described above and 2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2014.

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

R. Accounting for pension costs

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

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.

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

R. Accounting for pension costs (continued)

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

S. Interfund and intra-entity transactions

The Municipality has the following types of transactions among funds:

a. **Operating Transfers**- Legally required transfers that are reported when incurred as "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.

T. Risk financing

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

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. 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, 2014 amounted to $443,303.

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

T. Risk financing

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.

U. 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.

V. Future adoption of accounting pronouncements

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

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

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

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

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

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 it's custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2014.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2014, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2014, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2014, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. 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, 2014. Therefore, the Municipality's management has concluded that at June 30, 2014 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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

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 $6,012,958, $664,497, $369,899, $2,129,774 and $3,969,463, 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, 2014. In the other governmental funds there were deposits with commercial banks of $672,524 that were fully collateralized.

The deposits at GDB of $1,078,412 in the Special Revenue fund–local and state grant, $19,166,347 that is restricted principally for capital projects in the capital project fund–local and state grant and the $10,377,400 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. 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, 2014, 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 $3,180,958 in the general fund relates to municipal license tax collected in fiscal year 2012-12 that will be earned in fiscal year 2013-14.

3. RECEIVABLES (CONTINUED)

B. Other accounts receivable -The $306,727 reported as other accounts receivable consists of the following:

Description	Amount
Section 8 Housing choice voucher program	$ 41,318
Municipal sales and use tax	265,409
Total	$ 306,727

C. 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:

Program Description	Amount
Child and Adult Care – Food Program	$ 81,335
Early Head Start Program	33,722
Total	$115,057

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

Program Description	Amount
Community Services Block Grant	$ 13,180
Hazard Mitigation	28,000
Community Development Block Grant	17,444
Total	$ 58,624

4. Intergovernmental receivable – Amount due from governmental entities as of June 30, 2014 are as follows:

Governmental Entity	General Fundt	Special Revenue Fund – State & Local	Debt Service Fund
Solid Waste Authority		17,885	
P.R. Office for improvement of Public School	42,295		
Department of Labor	-	58,820	
Municipal Revenue Collection Center (CRIM) – property taxes	-	-	85,588
Total	$ 42,295	$ 70,705	$ 85,588

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

5. INTERFUND TRANSACTIONS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds" (i.e., current portion of interfund loans).

Interfund receivables and payables at June 30, 2014, and interfund transfers during the fiscal year ended at June 30, 2014, are summarized as follows:

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

Receivable Fund	Payable Fund	Purpose		Amount
General Fund	Special Revenue Fund-state and local grants	Payroll and related accruals paid and not reimbursed	$	387,854
General Fund	Capital Projects Fund-State & Local Funds	Reimbursable expenditures		3,727,047
General Fund	Capital Projects Fund-Federal Grants	Reimbursable expenditures		174,472
General Fund	Other Governmental Funds-Federal Program	Reimbursable expenditures		48,111
Other Governmental Funds-Federal Program	Other Governmental Funds-Federal Program	Reimbursable expenditure		23,368
			$	4,360,852
General Fund	Special Revenue Fund-Federal Program	Advances		86,965
General Fund	Other Governmental Funds-Federal Programs	Advances		38,845
General Fund	Head Start Program Fund	Advances		76,625
Total			$	202,435

5. INTERFUND TRANSACTIONS (CONTINUED)

b. Transfer in/out to other fund

Following is a summary of interfund transfers for the year:

Transfer out	Transfer in	Amount
Debt Service Fund	General Fund	$ 1,008,456
Debt Service Fund	General Fund	5,977
Capital Project Fund State	General Fund	9,095
General Fund	Special Revenue Fund – State Grant & Local Grants	63,726
General Fund	Capital Project Fund State – State and Local Grants	299,019
General Fund	Capital Project Fund – Federal Grants	200,000
Enterprise Fund	Debt Service Fund	94,825
General Fund	Special Revenue Fund – Other Governmental Funds	171,606
Total		$1,852,705

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable, and accrued liabilities at June 30, 2014 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	$ 3,093,696	$ 72,046	$ 201,976	$ 49,333	$ 1,000	$ -	$ 190,390	3,608,441
Accrued liabilities	142,000	-	-	-	-	-	-	142,000
Total	$ 3,235,696	$ 72,046	$ 201,976	$ 49,333	$ 1,000	$ -	$ 190,390	3,750,441

7. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

Governmental Entity	Amount
Puerto Rico Aqueduct and Sewer Authority	$ 385,764
Retirement System Administration	139,919
Government of Puerto Rico	19,271
General Services Administration	2,339
Total	$ 544,293

8. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

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

Major fund – General fund:	Amount
Municipal Revenue Collection Center (CRIM) – property taxes	$ 132,147
Total	$ 132,147

9. UNEARNED REVENUES

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

	Amount
Major fund – General fund:	
Municipal license taxes collected in the fiscal year 2013-2014 that correspond to the 2014-2015 fiscal year budget	$ 3,180,958
Special Revenue Fund – Head Start:	93,333
Special Revenue Fund – State & Federal Grants:	
P.R. Department of Labor – Law 52	52,820
Other Governmental Fund	
Special program for the aging – Title III	**110,705**
Federal transit administration	**41,096**
Emergency shelter	**19,999**
Child and adult program child care	**12,302**
Others	**62,336**
Total	**3,573,549**

10. FUND BALANCE (DEFICIT)

As of June 30 2014, 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	$ 202,435	$ -	$	$ -	$	$	$	$ 202,435
Restricted for:								
General Government								
Culture and Recreation								
Health and Welfare			113,022				252,445	365,467
Education								
Public Safety								
Public Works								
Urban Development								
Capital Projects		1,213,929		17,519,741	3,793,991			22,527,661
Debt Service						10,422,988		10,422,988
Assigned								
Culture and Recreation								
Unassigned	3,697,199							3,697,199
Total Fund Balance (Deficit)	$ 3,899,634	$ 1,213,929	$ 113,022	$ 17,519,741	$ 3,793,991	$ 10,422,988	$ 252,445	$37,215,750

11. 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 2014, 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:	Restated Balance 1-Jul-14	Additions	Retirements	Balance 30-Jun-14
Capital asset, not being depreciated:				
Land	$ 65,951,955	-	$ -	$ 65,951,955
Construction in progress	30,436,726	8,597,016	(3,195,853)	35,837,888
Total capital assets not being depreciated	96,388,681	8,597,016	(3,195,853)	101,789,844
Capital assets, being depreciated:				
Buildings	14,405,021	246,684	-	14,651,703
Buildings improvements	16,123,847	2,272,956	-	18,396,803
Infrastructure	13,036,404	239,003	-	13,275,407
Infrastructure improvements	5,515,605	368,623	-	5,884,229
Equipment	4,764,743	357,794	(24,390)	5,098,147
Furnishing	480,715	2,304	(933)	482,087
Work of Arts	306,925	288,500	-	595,425
Computers	535,695	49,855	(2,555)	582,995
Vehicles	7,758,206	233,001	(229,434)	7,761,773
Total capital assets being depreciated	**62,927,161**	**4,058,720**	**(257,312)**	**66,728,569**
Less accumulated depreciation for:				
Buildings	(7,154,368)	(364,092)	-	(7,518,460)
Buildings improvements	(2,005,140)	(450,542)	-	(2,455,682)
Infrastructure	(3,983,809)	(255,614)	-	(4,239,424)
Infrastructure improvements	(1,891,389)	(386,039)	-	(2,277,428)
Equipment	(3,866,473)	(352,264)	24,390	(4,194,347)
Furnishing	(452,546)	(19,664)	933	(471,279)
Computers	(498,636)	(27,577)	2,555	(523,658)
Work of Arts	(148,842)	(32,334)	-	(181,175)
Vehicles	(6,962,922)	(318,804)	229,434	(7,052,290)
Total accumulated depreciation	(26,964,127)	(2,206,930)	257,312	(28,913,743)
Total capital assets being depreciated,net	35,963,036	1,851,790	-	37,814,826
Governmental activities capital assets, net	**$132,351,717**	**10,448,806**	**(3,195,853)**	**139,604,670**

11. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	$ 14,473
Public works	1,076,081
Culture and recreation	191,671
Community development	924,705
Total depreciation expense-governmental activities	$ 2,206,930

Business – type activities	**Balance 30-Jun-13**	**Additions**	**Retirements**	**Balance 30-Jun-14**
Capital asset, not being depreciated:				
Land and construction in progress	$ 388,790	$ -	$ -	$ 388,790
Total capital assets not being depreciated	388,790	-	-	388,790
Capital assets, being depreciated:				
Building	3,537,458		-	3,537,458
Building improvements	45,400	-	-	45,400
Total capital assets being depreciated	3,582,858	-	-	3,582,858
Less accumulated depreciation for:				
Building	(1,505,755)	(88,946)	-	(1,594,701)
Total accumulated depreciation	(1,505,755)	(88,946)	-	(1,594,701)
Total capital assets being depreciated, net	2,077,103	(88,946)	-	1,988,157
Business - type Activities capital assets, net	$2,465,893	(88,946)	$ -	$2,376,947

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

Business –type Activities	
General government	$ 88,946
Total depreciation expense-governmental activities	$ 88,946

12. LONG-TERM LIABILITIES

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

Description	Beginning Balance	Borrowings or Additions and Adjustment	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	$54,648,000	$16,360,000	$(2,675,000)	$ 68,333,000	$2,871,000
Notes Payable	7,328,000	620,000	(816,000)	7,132,000	801,000
Property Tax Debt-Law 146	249,556	-	(249,556)	-	-
Property Tax Debt – Law 42	221,349	-	(6,096)	215,253	6,479
Compensated Absences	2,785,550	1,244,138	(733,019)	3,296,669	672,023
Claims and Judgments	392,975	-	(15,000)	377,975	50,000
Landfill obligation	1,970,383	-	(311,600)	1,658,783	78,000
Total	$67,595,813	$18,224,138	$(4,806,271)	$81,013,680	$4,478,502

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

Description	Beginning Balance	Borrowings or Additions and Adjustment	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	$ 484,000	$ -	$ (310,000)	$ 174,000	$ 174,000
Total	$ 484,000	$ -	$ (310,000)	$ 174,000	$ 174,000

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.

12. LONG-TERM LIABILITIES (CONTINUED)

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, 2014 are as follows

Description	Balance at June 30, 2014
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	$ 280,000
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	50,000
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	20,000
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	795,000
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	220,000
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	2,115,000
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	425,000
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	1,960,000
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	65,000
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	1,155,000
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	5,000
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	465,000

12. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2014
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	2,850,000
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	426,000
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	1,090,000
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	3,270,000
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	110,000
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	335,000
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	2,915,000
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	3,370,000
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	2,940,000
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	815,000
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	1,660,000
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	1,020,000
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	417,000
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	1,810,000
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	3,100,000

12. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2014
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	715,000
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	2,205,000
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	9,930,000
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	2,140,000
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	1,105,000
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	1,225,000
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	970,000
2014 General obligation bond for infrastructure improvements with an original amount of $6,940,000 due in installments of $195,000 to $560,000 through July 1,	6,940,000
2014 General obligation bond for two properties acquisitions for municipality facility development with an original amount of $100,000 due in installments of $5,000 to $10,000 through July 1,2028	100,000
2014 General obligation bond for infrastructure improvement with an original amount of $3,230,000 due in installments of $70,000 to $295,000 through July 1, 2033	3,230,000
2014 General obligation bond for infrastructure improvement with an original amount of $5,565,000 due in installments of $125,000 to $510,000 through July 1, 2033	5,565,000
2014 General obligation bond for infrastructure improvement with an original amount of $525,000 due in installments of $5,000 to $45,000 through July 1, 2038	525,000
Total general obligation bonds in Governmental Activities	$ 68,333,000
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 $174,000 through July 1, 2016	174,000
Total general obligation bonds in Governmental Activities and Business Type Activities	**$ 68,507,000**

12. LONG-TERM LIABILITIES (CONTINUED)

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.

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

Year Ending June 30,	Principal	Interest
2015	$ 3,045,000	$ 3,289,918
2016	2,727,000	4,004,037
2017	2,893,000	3,923,021
2018	3,099,000	3,711,491
2019	3,255,000	3,567,595
2020-2024	16,176,000	15,612,616
2025-2029	17,095,000	10,203,957
2030-2034	16,937,000	4,083,065
2035-2039	3,280,000	390,150
Total Bonds Payable	$ 68,507,000	$ 48,785,850

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:

Type of notes	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2014
2008 Series	7-1-2015	230,000	1.718% to 6%	40,000
Section 108 Series 2008 A	7-1-2028	5,500,000	5.11%	4,276,000
2008 Series	7-1-2015	925,000	1.718% to 6%	165,000
2009 Series	7-1-2033	1,141,000	1.718% to 6.50%	1,046,000
2010 Series	7-1-2017	345,000	4.73%	165,000
2010 Series	7-1-2017	65,000	5% to 7%	30,000
2012 Series	7-1-2018	480,000	6% to 7.50%	310,000
2013 Series	7-1-2019	540,000	6% to 7.5%	480,000
2014 Series	7-1-2020	620,000	6% to 7.5%	620,000
Total notes payable				**$ 7,132,000**

12. LONG-TERM LIABILITIES (CONTINUED)

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.

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

Year Ending June 30,	Principal	Interest
2015	$ 801,000	$ 314,883
2016	616,000	341,107
2017	641,000	305,478
2018	591,000	270,497
2019	521,000	238,889
2020-2024	2,040,000	802,313
2025-2029	1,501,000	314,736
2030-2033	421,000	73,742
Total	**$ 7,132,000**	**$ 2,661,645**

4. **Compensated absences**- The government-wide statement of Net position includes $1,600,823 of accrued sick leave benefits, and approximately $1,695,846 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

5. **Claims and Judgments –** This amount represents the balance related to legal claims at June 30, 2014, as described in Note 17.

6. **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.Based on this, the Municipality has recognized $20,383 as the Municipality's estimated current cost for landfill closure as of June 30, 2014. The preliminary annual estimate of post closure costs has been adjusted to approximately $1,658,783 for a period of approximately 20 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. As of June 30, 2014, the Municipality's landfill facilities have been closed. The balance of closure and post-closure costs of $20,383 and $1,658,783 respectively, are reported in the government-wide statement of Net position.

13. 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.

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.

13. PROPERTY TAXES (CONTINUED)

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 $215,253 related to Law No. 42.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first $15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than $3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992.

In addition, the law grants a tax exemption from the payment of personal property taxes of up to $50,000 of the assessed value to retailers having annual net sales of less than $150,000.

The annual tax rate, 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.

14. SALES AND USE TAX

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

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

14. SALES AND USE TAX (CONTINUED)

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

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

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

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue $3,151,958 in the general fund corresponding to the 1% imposition and $782,469 in the debt service fund corresponding to the Municipal Redemption Fund.

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

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014 the Commonwealth approved Act No. 18 and 19.

Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

14. SALES AND USE TAXES (CONTINUED)

Act No. 18 of January 24, 2014

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

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

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

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

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

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

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

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

14. SALES AND USE TAXES (CONTINUED)

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

Act No. 19 of January 24, 2014

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

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

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

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 $3,151,958 during the year ended June 30, 2014. Also, $782,469 from the Municipal Redemption Fund is included in the Debt Service Fund.

15. PENSION PLAN

A. Act No. 447 and System 2000 (until June 30, 2013)

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

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

Act No. 305 of September 24, 1999 amended *Act. No. 447 of 1951* and *Act 1 of February 16, 1990* to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan.

There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was $10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

15 PENSION PLAN (CONTINUED)

The Act No. 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to $6,600 plus 8.275% of gross salary in excess of $6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 11.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

B. Act No. 3 of 2013 (beginning July 1, 2013)

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

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

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

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

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

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

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

15. PENSION PLAN (CONTINUED)

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

- Retirement age was modified as follows:

  - ✓ Act No. 447 regular employees: age 58 to 61,
  - ✓ Act No. 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
  - ✓ Act No. 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).

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

- Due to changes to Special Laws (see note 14), the minimum monthly pension for current retirees was increased from $400 to $500.

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

- Survivor benefits were modified.

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

Fiscal year ended:	Law No. 447	System 2000	Law No. 3
2014	$ -	$ -	$ 578,670
2013	$ 344,902	$ 264,212	$ -
2012	$ 344,089	$ 267,049	$ -

15. PENSION PLAN (CONTINUED)

A. Act No. 32 of 2013 (beginning July 1, 2013)

On June 25, 2013, Act No. 32 was approved in order to amend Act No. 447 of 1957 by creating a new Article 5-117 *Additional Uniform Contribution* (AUC), with the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer.

Act No. 32 defines the concept of the AUC as follows:

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

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

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

For the fiscal year 2013-2014, $41.142 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)). For the fiscal year ended June 30, 2014, the AUC partially subsidy received by the Municipality from OMB was $297,892 which equaled the total contribution required.

16. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 16, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from $600 to $200 (current retirees)
- Elimination of summer bonus of $100 (current retirees),
- No change in medical plan contribution of up to $1,200 and medicine bonus of $100 (current retirees).
- Eliminated all Special Law benefits to future retirees.

Act No. 3 also established that employers will contribute $2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

17. COMMITMENTS AND CONTINGENCIES

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2014, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the grating agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

B. Claims and lawsuits:

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

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 $377,975 for awarded or anticipated unfavorable judgments in the Government-Wide Financial Statements. This

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

18. RESTATEMENT OF FUND BALANCE AND NET POSITION

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

	Fund Balance				Net Position
Description	General Fund	Special Revenue Fund - State Local Grants	Capital Projects Fund-State & Local Grants	Other Governmental Funds	Government-Wide Statements
Fund balance / net position, at beginning of year, as previously reported	**1,961,849**	**1,286,792**	**3,839,292**	**443,193**	**82,713,067**
Correction of errors:					
Overstatement of due to general fund	(393,954)	411,130	404,378		
Overstatement of unearned revenues – Federal Government				(5,663)	
Overstatement of due to long term liabilities					249,556
Understatement of due from Federal Government					
Understatement of payable to P.R.E.P.A.					
Understatement of Christmas Bonus debt					
Understatement of Intergovernmental revenues					
Fund balance / net position, at end of year, as restated	**1,567,895**	**1,697,920**	**4,243,670**	**437,530**	**82,962,623**

19. SUBSEQUENT EVENT

Implementation of Acts 18 and 19 of 2014

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

For those municipalities that signed the agreement to be covered by these Acts, the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM and FRM with the monthly advances made to each municipality.

If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act No. 19, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be $65,541,281 and, thereafter, 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the FRM as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act.

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

19. SUBSEQUENT EVENT (CONTINUED)

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

Bond and Notes Issuances

On October 15, 2014, the Municipal Legislature approved the issuance of a general obligation note for the amount of $920,000, due in installments of $65,000 to $110,000 for the acquisition of equipment and bond issuance cost. Repayment of the note is scheduled from July 1, 2015 through July 1, 2022.

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
REVENUES:				
Property taxes	$ 9,739,359	$ 9,739,359	$ 11,049,783	$ 1,310,424
Municipal license tax	3,636,863	3,636,863	4,571,585	934,722
Municipal sales and use tax	2,204,000	2,204,000	3,151,958	947,958
Licenses, permits and other local taxes	705,000	705,000	1,456,392	751,392
Charges for services	55,000	55,000	113,002	58,002
Intergovernmental	2,834,718	2,834,718	3,064,959	230,242
Fines and forfeitures	35,000	35,000	54,290	19,290
Rent of property	175,000	175,000	209,234	34,234
Interest	420,000	420,000	429,386	9,386
Miscellaneous	200,100	200,100	133,626	(66,474)
Budgeted Carryover (1)	-	3,666,569	3,666,569	-
Total revenues	20,005,040	23,671,609	27,900,784	4,229,176
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	11,802,726	15,246,343	11,161,279	4,085,063
Public safety	1,934,622	1,830,273	1,669,344	160,929
Public works	5,428,792	5,726,918	8,018,148	(2,291,230)
Culture and recreation	770,200	799,375	684,120	115,255
Transfer out	68,700	68,700	58,220	10,480
Total expenditures, encumbrances and other financing uses	20,005,040	23,671,609	21,591,111	2,080,497
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	$ -	$ -	$ 6,309,673	$ 6,309,673

Explanation of Differences:

Sources/inflows of resources:	
Actual amounts (budgetary basis)“available for appropriation” from the budgetary comparison schedule	$ 27,900,785
Differences-budget to USGAAP:	
Budget carryover	(3,666,569)
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	$ 24,234,216
Uses/outflows of resources:	
Actual amounts (budgetary basis)“total charges to appropriations” from the budgetary comparison schedule	$ 21,591,111
Budgeted transfer out	(58,220)
Prior year encumbrances recorded as current year expenditures for US GAAP basis	772,149
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	$ 22,305,040

(1) Represents fund balances carried over from prior years

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.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
	BALANCE SHEET	
Assets	**Current Assets Cash**	
111	Cash - Unrestricted	$ 247,329
113	Cash - Other Restricted	14,362
100	**Total Cash**	261,691
121	Accounts Receivable - PHA Projects	5,421
125	Accounts Receivable - Miscellaneous	1,603
128	Fraud Recovery	79,006
128.1	Allowance for Doubtful Accounts - Fraud	(44,712)
150	**Total Current Assets**	303,009
	Non-Current Assets	
	Fixed Assets:	
164	Furniture, Equipment & Machinery - Administration	60,233
166	Accumulated Depreciation	(56,469)
160	**Total Capital Assets, Net of Accumulated Depreciation**	3,764
180	**Total Non-Current Assets**	3,764
290	**Total Assets and Deferred Outflow of Resources**	$ 306,773
Liabilities and Equity	**Liabilities**	
312	Accounts Payable (less 90 days)	22,734
332	Accounts Payable – PHA Projects	60
333	Accounts Payable – Other Government	22,030
345	Other Current Liabilities	343
310	**Total Current Liabilities**	45,167
353	Non-Current Liabilities - Other	9,431
350	**Total Non-Current Liabilities**	9,431
300	**Total Liabilities**	54,598
400	**Deferred Inflow of Resources**	-
Equity	**Equity**	
508.4	Net Investment in Capital Assets	3,764
511.4	Restricted Net Position	16,482
512.4	Unrestricted Net Position	231,929
513	**Total Equity - Net Assets/Position**	252,175
600	**Total Liab., Def. Inflow of Res., and Equity - Net Assets/Position**	$ 306,773

See notes to the Financial Data Schedule

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
	INCOME STATEMENT	
70600	HUD PHA Operating Grants	$ 1,805,671
71400	Fraud Recovery	4,849
71500	Other Revenue	64,350
70000	**Total Revenues**	1,874,870
	Expenses Administrative:	
91100	Administrative Salaries	75,247
91200	Auditing Fees	2,930
91500	Employee Benefit Contributions - Administrative	25,593
91600	Offices Expenses	43,149
91800	Travel	48
91000	**Total Operating - Administrative**	146,967
96200	Other General Expenses	4,829
96600	Bad Debt - Other	1,376
96000	**Total Other General Expenses**	6,205
96900	**Total Operating Expenses**	153,172
97000	**Excess of Operating Revenue over Operating Expenses**	1,721,698
97300	Housing Assistance Payments	1,728,635
97350	HAP Portability-In	58,907
97400	Depreciation Expense	1,158
90000	**Total Expenses**	1,941,872
10000	**Excess (Deficiency) of Total Revenues Over (Under) Total Expenses**	$ (67,002)
	Memo Account Information:	
*11030	Beginning Equity	$ 370,189
11040	Prior Period Adjustment	$ (51,012)
*11170	Administrative Fee Equity	$ 235,693
*11180	Housing Assistance Payments Equity	$ 16,482
*11190	Unit Months Available	3,324
*11210	Number of Unit Months Available	3,260

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	$ 425,209
Total U.S. Department of Agriculture			**425,209**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Community Development Block Grant – Section 108 Loan Guarantees	14.248	Not Available	649,686
Section 8 Housing Choice Voucher Program	14.871	Not Available	1,805,671
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant - State Program	14.228	Not Available	769,360
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	27,117
Total U.S. Department of Housing and Urban Development			**3,251,834**
U.S DEPARTMENT OF TRANSPORTATION:			
Direct Program:			
Federal Transit- Formula Grants(Recovery Act Funded)	**20.507**		**40,114**
Total U.S. Department of Transportation			**40,114**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
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 – Supportive Services and Seniors Center	93.044	Not Available	75,669
Special Programs for Aging – Title III, Part C - Nutrition Services	93.045	Not Available	44,238
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES: (CONTINUED)			
Head Start Cluster:			
Direct Program:			
Early Head Start	93.600	Not Available	1,098,790
Community Services Block Grant	93.569	Not Available	12,230
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Head Start Program	93.600	Not Available	2,604,158
Total U.S. Department of Health and Human Services			**3,835,085**
Other Non-federal Program Expenditures		Not Available	**3,528**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$7,555,770**

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	$ 4,059,884	$ 649,686	$ 2,846,200	$ 7,555,770
Non - federal programs Expenditures	252,443	-	447,583	700,026
Total expenditures and other financing uses in the basic financial statements	$ 4,312,327	$ 649,686	$ 3,293,783	$ 8,255,796

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

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

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, 2014, 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 March 23, 2015.

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 2014-01, 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.

López-Vega, CPA, PSC

LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 23, 2015

Stamp No 2705460 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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

To the Honorable Mayor
and the Municipal Legislature
Autonomous Municipality of 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, 2014. 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.

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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **14-01**. 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.

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 **2014-001** 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 23, 2015.

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.

López-Vega CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 23, 2015

Stamp No. 2705461 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report

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:

CFDA Number	Name of Federal Program or Cluster
14.871	Section 8 Housing Choice Voucher Program
	Head Start Cluster:
93.600	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	**14-01**
Program	**Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.**
Requirement	**Cash Management**
Statement of Condition	During our Cash Management Test to Head Start Program, we found the following exception: a. We noted that the Program requested funds that were not disbursed on a reasonable lapse of time.
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).
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	The Program will establish a double verification procedure for the supporting documents related to each fund request in order to assure its correction and accuracy. Also, a daily verification of the bank account balances will be realized to avoid unnecessary or excessive requests. Implementation date: July, 2015 Responsible Person: Sarahí Meléndez – Program Director Teresa Acevedo – 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	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. No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-02.
12-03	93.600	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. No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-03.
11-02	14.871	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 depositary agreement with their financial institutions in the form required by HUD. (Form HUD-51999). Full corrective action was taken.

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	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. Partial corrective action was taken. The Program established a checklist of documents that should be included in the participant's files.
11-04	14.257	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. Full corrective action was taken.
11-05	14.257	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 2010) and the amounts detailed in the general ledger. This report was made detailing the amounts of two (2) months. Partial corrective action was taken. The Program, as per funding requirements, expected to issue all closing reports before due date.

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
11-06	93.600, 93.708 & 93.709	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. No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-02.
11-07	93.600, 93.708 & 93.709	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. Full corrective action was taken.
11-08	93.600, 93.708 & 93.709	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 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. Full corrective action was taken.

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
11-09	93.600, 93.708 & 93.709	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. Full corrective action was taken.
11-10	93.600, 93.708 & 93.709	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 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 . No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-03.