

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

**MUNICIPIO DE FAJARDO**  
**AUDITORÍA 2013-2014**  
30 DE JUNIO DE 2014

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2014**

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AUTONOMOUS MUNICIPALITY OF FAJARDO  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2014**

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**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**



## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Member of the Municipal Legislature  
Autonomous Municipality of Fajardo  
Fajardo, 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 **Autonomous Municipality of Fajardo of the Commonwealth of Puerto Rico** (the 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 States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as well as to generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, 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.

**Emphasis-of-Matter**

As discussed in Note 12 to the financial statements, the 2013 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

**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 3-11 and 36-38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.

March 27, 2015



*Harroath Velez H.C. P.S.C.*

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The Management of the **Autonomous Municipality of Fajardo** offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2014. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

This MD&A is prepared to comply with Governmental Accounting Standards Board Statement *No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The *Management's Discussion and Analysis for State and Local Governments* is designed to:

- A) Assist the user in focusing on significant financial matters;
- B) Provide an overview of the Municipality's financial activities;
- C) Identify any significant changes from the original budget;
- D) Provide an overview of capital assets, debt administration, and long-term debt.

#### **FINANCIAL HIGHLIGHTS**

The following are key financial highlights for the fiscal year:

- At June 30, 2014, the Municipality's assets exceeded its liabilities by \$154,117,493 compared to an excess of assets over liabilities of \$150,194,772 at June 30, 2013, as restated;
- The Municipality's total net position increase by \$3,922,721 during fiscal year 2013-2014;
- As of June 30, 2014, the Municipality's governmental funds reported combined ending fund balance of \$82,032,143, a decrease of \$2,388,631 from the prior year;
- At June 30, 2014, the statement of net position presented an unrestricted net position of \$(1,590,664);
- The Municipality's capital assets increase as a result of this year's operations. Capital assets (net of accumulated depreciation) and net position invested in capital assets (net of related debt) as of June 30, 2014 were \$97,400,993;

#### **USING THIS ANNUAL REPORT**

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

#### **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements can be found immediately following this MD&A, and are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

**STATEMENT OF NET POSITION**

This statement presents all of the government's assets, liabilities and deferred outflows and inflows of resources. Net position (deficit) is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Municipality's net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating. Net position is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net position, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

The Municipality reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and improvements as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports compensated absences even though this liability might not be paid until several fiscal years into the future.

**STATEMENT OF ACTIVITIES**

The statement of activities presents information showing how the Municipality's net position changed during the fiscal year ended June 30, 2014, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although the statement of activities looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as net change in net position, which is essentially the same concept.

The focus of the statement of activities is on the net cost of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**STATEMENT OF ACTIVITIES (CONTINUED)**

general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

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

Both of the government-wide financial statements of the Municipality are principally supported by charges for services and Legislative appropriations. The governmental activities of the Municipality include; payroll and related costs, facilities and payment for public services, purchased services, transportation expenses, professional services, materials and supplies, purchase of equipment, depreciation and other operating expenses.

**FUND FINANCIAL STATEMENTS**

The Municipality's fund financial statements consist of: (1) the balance sheet and (2) the statement of revenues, expenditures and changes in fund balances. These financial statements report the financial position and the results of operations of the Municipality's governmental funds, with an emphasis on the Municipality's major governmental funds.

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

**GOVERNMENTAL FUNDS**

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

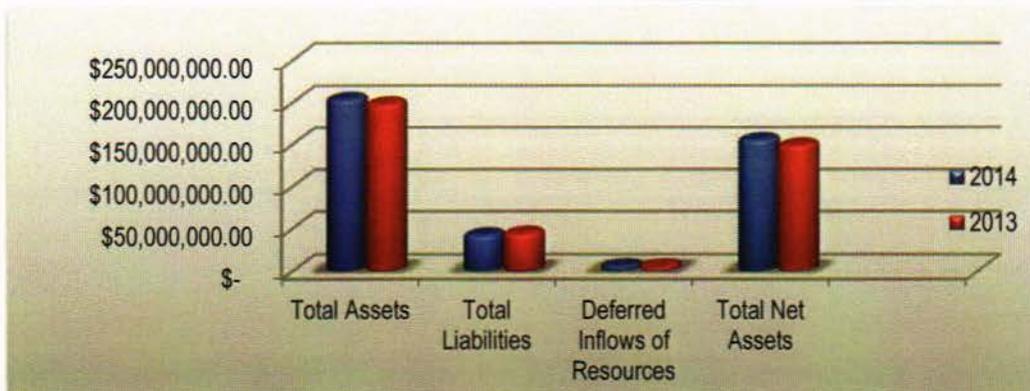
In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**GOVERNMENTAL NET POSITION**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities and deferred inflows of resources by \$154,117,493 as of June 30, 2014, versus \$150,194,772 as of June 30, 2013. Our analysis below focuses on the net position (Table 1) and changes in net positions of the Municipality's governmental activities.

<u>Table 1</u> <u>Statement of Net Position</u>	<u>2014</u>	<u>As Restated</u> <u>2013</u>
Current and non-current assets	\$ 94,375,583	\$ 97,142,946
Capital assets, net	<u>108,207,858</u>	<u>102,490,367</u>
<b>Total Assets</b>	<b><u>202,583,441</u></b>	<b><u>199,633,313</u></b>
Current liabilities	3,003,444	5,047,852
Long-term liabilities	<u>39,492,570</u>	<u>38,954,254</u>
<b>Total Liabilities</b>	<b><u>42,496,014</u></b>	<b><u>44,002,106</u></b>
<b>Deferred inflows of resources</b>	<b><u>5,969,934</u></b>	<b><u>5,436,428</u></b>
Net positions:		
Net investment in capital assets	97,400,993	92,848,173
Restricted	58,307,164	45,800,100
Unrestricted	<u>(1,590,664)</u>	<u>11,546,499</u>
<b>Total Net Position</b>	<b><u>\$154,117,493</u></b>	<b><u>\$150,194,772</u></b>



**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

The largest portion of the Municipality's net position reflects its investment in capital assets, such land, buildings and equipment. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. Restricted net position amounting to \$58,307,164 represents resources that are subjected to external restrictions as how they may be used. The additional portion of the Municipality's net position represents unrestricted resources.

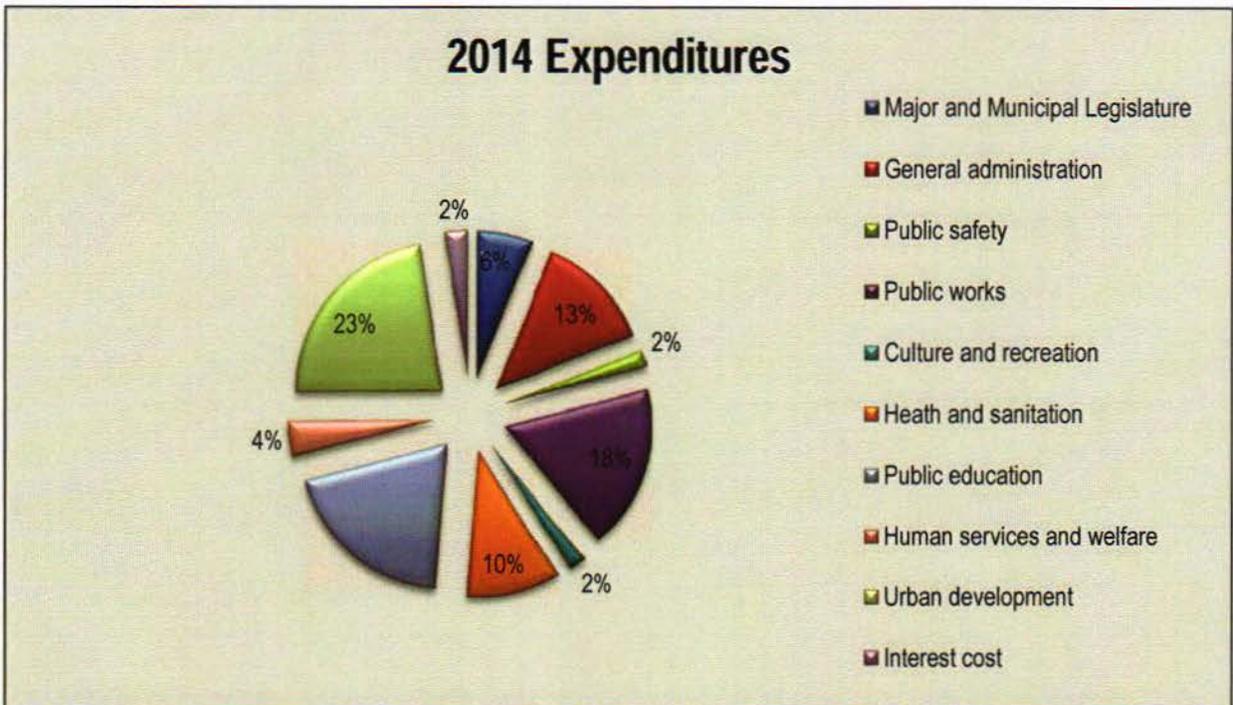
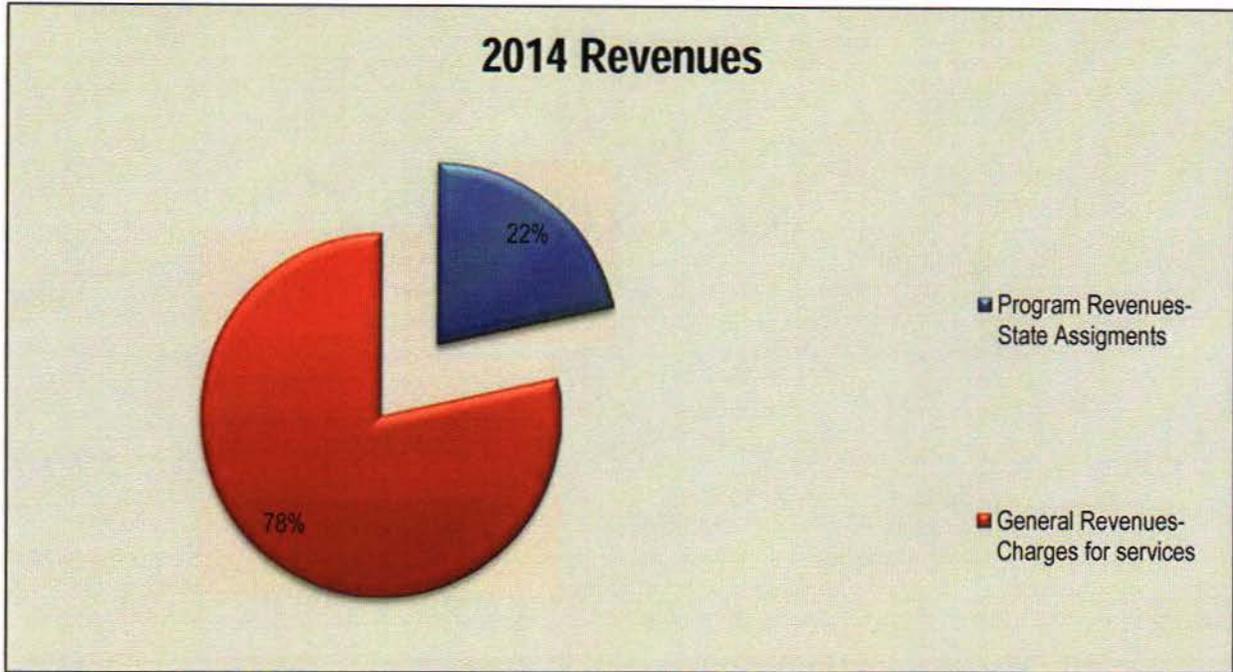
**GOVERNMENTAL ACTIVITIES**

The cost of all governmental activities this year was \$38,185,247. **Table 2** presents the revenue and cost of the Municipality's programs.

<u>Table 2</u> <u>Statement of Activities</u>	<u>2014</u>	<u>Unrestated</u> <u>2013</u>
<b>Revenues:</b>		
Program Revenues:		
Charges for Services		\$ 336,328
Operating Grants and Contributions	\$ 8,354,141	4,236,686
Capital Grants and Contributions	1,199,004	
General Revenues:		
Property Taxes	14,769,626	13,965,976
Volume of Business Taxes	6,697,514	7,534,909
Sales and Usage Taxes	5,393,755	5,641,303
Construction Excise Taxes	550,608	1,717,101
Grant and Entitlements	3,328,990	4,485,543
Other General Revenues	<u>1,814,330</u>	<u>1,329,657</u>
Total Revenues	<u>42,107,968</u>	<u>39,247,503</u>
<b>Expenses:</b>		
Mayor and municipal legislature	2,339,619	2,758,725
General administration	4,948,158	9,151,336
Public safety	704,865	994,246
Public works	6,920,750	2,107,379
Culture and recreation	714,756	1,545,774
Health and sanitation	3,958,256	3,493,982
Public education	7,495,639	5,449,515
Human services and welfare	1,511,692	1,908,051
Urban development	8,628,017	10,093,998
Interest costs	<u>963,495</u>	<u>1,112,918</u>
Total Expenses	<u>38,185,247</u>	<u>38,615,924</u>
Changes in Net Position	3,922,721	631,579
Net Position-Beginning, as Restated	<u>150,194,772</u>	<u>148,336,983</u>
Net Position-Ending	<u>\$154,117,493</u>	<u>\$148,968,562</u>

**COMMONWEALTH OF PUERTO RICO  
 AUTONOMOUS MUNICIPALITY OF FAJARDO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**



**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

Approximately fifty-five percent of the Municipality's governmental activities total revenue came from Legislative appropriations, while forty-five percent resulted from charges for services. The Municipality's governmental activities expenses included items such as payroll and related costs, facilities and payment for public services, purchased services, transportation, professional services, materials, supplies and purchase of equipment.

Approximately sixty-one percent of total expenses resulted from payroll and related costs, eleven percent resulted from utilities and eight percent resulted from professional services.

**GOVERNMENTAL FUNDS**

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

**FINANCIAL ANALYSIS**

For the year ended June 30, 2014, the governmental funds reported combined ending fund balances of \$82,032,143 a net decrease of \$2,388,631 in comparison with the prior year. Of total combined fund balances, \$23,775,577 constitutes unassigned fund balance of general fund. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unassigned fund balance of the general fund represents approximately 98% of total ending general fund balance. For the year ended June 30, 2014, the fund balance of the general fund increased by \$1,636,544 when compared with the prior year. During the year ended June 30, 2014 the Municipality transferred \$1,024,613 to capital project funds for the improvement and constructions of facilities and infrastructure.

**BUDGETARY HIGHLIGHTS**

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund and the State Assignment Fund. The Budgetary Comparison Schedule shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results. **Table 5** summarizes the results of the Budgetary Comparison Schedule:

<b>Table 5</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance</b>
Total resources	\$27,433,719	\$27,472,315	\$ 38,596
Total charges to appropriations	<u>27,433,719</u>	<u>20,449,187</u>	<u>6,984,532</u>
<b>Excess</b>	<b><u>\$ _____</u></b>	<b><u>\$ 7,023,128</u></b>	<b><u>\$7,023,128</u></b>

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**BUDGETARY HIGHLIGHTS (CONTINUED)**

The total actual resources (budgetary basis) for the fiscal year ended June 30, 2014 were \$27,472,315, which is \$38,596 more than the budgeted resources. In addition, the total actual charges to appropriations (budgetary basis) for the fiscal year ended June 30, 2014 were \$20,449,187, which is \$6,984,532 less than the budgeted charges to appropriations.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Municipality investment in capital assets for its governmental type activities as of June 30, 2014 amounted to \$108,207,858 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, furniture and fixtures, and motor vehicles. **Table 6** presents the major classes of capital assets.

<b>Table 6 Capital Assets</b>	<b>2014</b>	<b>As Restated 2013</b>
<b>Non-depreciable assets:</b>		
Land and construction in progress	\$ 49,361,014	\$47,049,296
Others	765,615	765,615
<b>Depreciable assets:</b>		
Building	31,888,511	29,487,422
Infrastructure	24,728,034	24,311,946
Vehicles	292,876	405,064
Equipment	<u>1,171,808</u>	<u>471,018</u>
<b>Total Assets</b>	<b><u>\$108,207,858</u></b>	<b><u>\$102,490,361</u></b>

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

The Municipality acquired a total of \$8,083,855 of capital assets, including interest cost capitalized during the fiscal year 2013-14 as follows:

- Land - \$101,011
- Infrastructure - \$1,128,567
- Acquisition of Equipment and Vehicles - \$1,200,275
- Buildings and Improvements and Infrastructure - \$1,500,266
- Construction in Progress - \$4,153,736

Other projects related to repair and maintenance of roads (not capitalized) were in progress during the fiscal year 2014.

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

More detailed information about the Municipality's capital assets is presented in Note 7 to the financial statements.

**LONG-TERM DEBT**

At June 30, 2014 the Municipality had a total of \$39,492,570 in outstanding long-term debts, as shown in **Table 7**.

<b>Table 7 Long Term Debts</b>	<b>2014</b>	<b>2013</b>
General and special obligations	\$36,858,000	\$39,394,000
Others	189,891	529,133
Compensated absences	<u>2,444,679</u>	<u>2,477,000</u>
<b>Total</b>	<b><u>\$39,492,570</u></b>	<b><u>\$42,400,133</u></b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues charges for services, as well as state grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues. All of these factors were considered in preparing the Municipality's budget for the 2014 fiscal year.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality Finance Department at (787) 863-4013.

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2014**

<b>ASSETS</b>	<b>GOVERNMENTAL ACTIVITIES</b>
Cash and cash equivalents	\$ 44,617,705
Cash with fiscal agent	47,380,238
Accounts receivable:	
Due from other government	1,318,797
Federal grants	352,850
Property tax	320,720
Sale and use tax	359,527
Other	25,746
Capital assets, net	<u>108,207,858</u>
<b>Total Assets</b>	<u>202,583,441</u>
 <b>LIABILITIES AND NET POSITION</b>	
<b>Liabilities:</b>	
Accounts payable and accrued expenses	2,161,513
Accrued interest	556,046
Due to other governments	155,239
Advance from other government	130,646
Long-term debt:	
Due within one year	5,176,395
Due in more than one year	<u>34,316,175</u>
<b>Total liabilities</b>	<u>42,496,014</u>
 <b>Deferred inflows of resources:</b>	
Deferred municipal license	<u>5,969,934</u>
 <b>Net Position:</b>	
Net investment in capital assets	97,400,993
Restricted for:	
Debt service	19,871,857
Capital project and others	38,435,307
Unrestricted	<u>(1,590,664)</u>
<b>Total Net Position</b>	<u>\$154,117,493</u>

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

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

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUE</u>		<u>NET (EXPENSE)/ REVENUE</u>
		<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:				
Mayor and Municipal Legislature	\$ (2,339,619)			\$ (2,339,619)
General administration	(4,948,158)	\$ 66,956		(4,881,202)
Public safety	(704,865)	35,471		(669,394)
Culture and recreational	(714,756)			(714,756)
Public works	(6,920,750)			(6,920,750)
Public education	(7,495,639)	6,060,701		(1,434,938)
Urban development	(8,628,017)	1,584,365	\$1,199,004	(5,844,648)
Health and sanitation	(3,958,256)			(3,958,256)
Human services and welfare	(1,511,692)	606,648		(905,044)
Interest	<u>(963,495)</u>	<u>                    </u>	<u>                    </u>	<u>(963,495)</u>
Total governmental activities	<u>\$(38,185,247)</u>	<u>\$ 8,354,141</u>	<u>\$ 1,199,004</u>	<u>(28,632,102)</u>
General revenue:				
Taxes:				
Property taxes				14,769,626
Municipal tax				6,697,514
Sales tax				5,393,755
Construction excise tax				550,608
Grants and entitlements				3,328,990
Rent				253,708
Other				<u>1,560,622</u>
Total general revenues				<u>32,554,823</u>
Changes in net position				3,922,721
Net position at beginning of year, as restated				<u>150,194,772</u>
Net position at end of year				<u>\$154,117,493</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**As of June 30, 2014**

	<u>GENERAL FUND</u>	<u>DEBT FUND SERVICE</u>	<u>HEAD START PROGRAM FUND</u>	<u>SALES AND USAGE TAXES FUND</u>	<u>LOAN \$21,490,000 FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS:</b>							
<b>Cash:</b>							
Cash in bank	\$20,185,203		\$458,612	\$ 9,772,511		\$14,201,379	\$ 44,617,705
Cash with fiscal agent		\$21,701,702			\$13,829,619	11,848,917	47,380,238
<b>Accounts receivables:</b>							
Property taxes	240,540	80,180					320,720
Due from others government	318,318	325,744		228,776		445,959	1,318,797
Due from federal grants			198,914			153,936	352,850
Sale and use tax				359,527			359,527
Due from other funds	892,930		54,298			862,585	1,809,813
Other	<u>16,667</u>					<u>9,079</u>	<u>25,746</u>
<b>Total assets</b>	<b><u>\$21,653,658</u></b>	<b><u>\$22,107,626</u></b>	<b><u>\$711,824</u></b>	<b><u>\$10,360,814</u></b>	<b><u>\$13,829,619</u></b>	<b><u>\$27,521,855</u></b>	<b><u>\$96,185,396</u></b>
<b>Liabilities:</b>							
Accounts payable and accrued expenses	\$ 404,361		\$296,593	\$ 88,512	\$ 211,763	\$ 1,160,284	\$ 2,161,513
Bonds payable		\$ 2,726,000					2,726,000
Accrued interest		556,046					556,046
Due to other funds			284,585			1,525,228	1,809,813
Advance from other government			130,646				130,646
Due to other government	136,448					18,791	155,239
Unavailable revenue	<u>318,318</u>	<u>325,744</u>					<u>644,062</u>
<b>Total liabilities</b>	<b><u>859,127</u></b>	<b><u>3,607,790</u></b>	<b><u>711,824</u></b>	<b><u>88,512</u></b>	<b><u>211,763</u></b>	<b><u>2,704,303</u></b>	<b><u>8,183,319</u></b>
<b>Deferred inflows of resources:</b>							
Deferred municipal license	<u>5,969,934</u>						<u>5,969,934</u>
	<u>5,969,934</u>						<u>5,969,934</u>
<b>Fund balances:</b>							
<b>Restricted for:</b>							
Debt service		17,590,793					17,590,793
Capital project					13,617,856	14,799,631	28,417,487
Other purposes						937,580	937,580
<b>Committed</b>							
Assigned	329,684			1,900,681			2,230,365
Unassigned	<u>14,494,913</u>	<u>909,043</u>		<u>8,371,621</u>			<u>23,775,577</u>
<b>Total fund balances</b>	<b><u>14,824,597</u></b>	<b><u>18,499,836</u></b>		<b><u>10,272,302</u></b>	<b><u>13,617,856</u></b>	<b><u>24,817,552</u></b>	<b><u>82,032,143</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$21,653,658</u></b>	<b><u>\$22,107,626</u></b>	<b><u>\$711,824</u></b>	<b><u>\$10,360,814</u></b>	<b><u>\$13,829,619</u></b>	<b><u>\$27,521,855</u></b>	<b><u>\$96,185,396</u></b>

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2014**

<b>Fund balances in governmental funds</b>	<b>\$ 82,032,143</b>
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	108,207,858
Amount recorded as deferred income in governmental funds and as income in governmental activities:	
Amount due from MRCC	644,062
 Long-term liabilities and accrual expenses are not due and payable in the current period and therefore are not reported in the governmental funds:	
Bonds and notes payable	(34,132,000)
Compensated absences	(2,444,679)
Amount due to MRCC	<u>(189,891)</u>
 <b><i>Total Net Position of Governmental Activities</i></b>	 <b><u>\$154,117,493</u></b>

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	GENERAL FUND	DEBT SERVICE	HEAD START PROGRAM	SALES AND USAGE TAXES FUND	LOAN \$21,490,000 FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Revenues:</b>							
Taxes:							
Property taxes	\$ 9,532,895	\$ 5,514,546					\$15,047,441
Municipal taxes	6,697,514						6,697,514
Sales tax		995,167		\$ 4,398,588			5,393,755
Construction excise tax	550,608						550,608
Intergovernmental	5,387,953					\$ 1,825,333	7,213,286
Federal grants			\$5,957,527			1,770,284	7,727,811
Rental income	253,708						253,708
Other	<u>1,436,900</u>	<u>20,016</u>			<u>\$ 89,086</u>	<u>14,620</u>	<u>1,560,622</u>
<b>Total Revenues</b>	<u><b>23,859,578</b></u>	<u><b>6,529,729</b></u>	<u><b>5,957,527</b></u>	<u><b>4,398,588</b></u>	<u><b>89,086</b></u>	<u><b>3,610,237</b></u>	<u><b>44,444,745</b></u>
<b>Expenditures:</b>							
Mayor and municipal legislature	2,339,619						2,339,619
General administration	4,657,083					72,854	4,729,937
Public safety	659,211					7,217	666,428
Culture and recreational	676,283						676,283
Public works	6,207,587						6,207,587
Public education	964,613		5,600,456			521,317	7,086,386
Urban development	244,099			2,121,095	571,038	5,240,816	8,177,048
Health and sanitation	3,742,167						3,742,167
Human services and welfare	835,569					593,623	1,429,192
Capital outlays	329,143		357,071	1,466,981	2,407,534	3,424,354	7,985,083
Debt service:							
Principal	5,378	2,726,000					2,731,378
Interest	<u>12,000</u>	<u>1,050,268</u>					<u>1,062,268</u>
<b>Total expenditures</b>	<u><b>20,672,752</b></u>	<u><b>3,776,268</b></u>	<u><b>5,957,527</b></u>	<u><b>3,588,076</b></u>	<u><b>2,978,572</b></u>	<u><b>9,860,181</b></u>	<u><b>46,833,376</b></u>
<b>Excess (deficiency) of revenue over expenditures</b>	<u><b>3,186,826</b></u>	<u><b>2,753,461</b></u>		<u><b>810,512</b></u>	<u><b>(2,889,486)</b></u>	<u><b>(6,249,944)</b></u>	<u><b>(2,388,631)</b></u>
<b>Other financing sources (uses):</b>							
Operating transfer in	17,868			5,172,877		5,174,772	10,365,517
Operating transfer out	<u>(1,568,150)</u>	<u>(5,190,745)</u>				<u>(3,606,622)</u>	<u>(10,365,517)</u>
<b>Total other financing sources</b>	<u><b>(1,550,282)</b></u>	<u><b>(5,190,745)</b></u>		<u><b>5,172,877</b></u>		<u><b>1,568,150</b></u>	
<b>Excess (deficiency) of revenues and other financing source over expenditures and other financing sources</b>	1,636,544	(2,437,284)		5,983,389	(2,889,486)	(4,681,794)	(2,388,631)
<b>Fund balance at beginning of year</b>	<u><b>13,188,053</b></u>	<u><b>20,937,120</b></u>		<u><b>4,288,913</b></u>	<u><b>16,507,342</b></u>	<u><b>29,499,346</b></u>	<u><b>84,420,774</b></u>
<b>Fund balance at end of year</b>	<u><b>\$14,824,597</b></u>	<u><b>\$18,499,836</b></u>	<u><b>\$</b></u>	<u><b>\$10,272,302</b></u>	<u><b>\$13,617,856</b></u>	<u><b>\$24,817,552</b></u>	<u><b>\$ 82,032,143</b></u>

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**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** \$(2,388,631)

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

Governmental funds report capital outlays and interest costs as expenditures. However, in the statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 8,083,855

Depreciation expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (2,366,358)

Governmental funds report principal payments on long-term debts as expenditures, whereas the principal payments reduce the long-term debt in the statement of net position:

Bond and notes	2,726,000
Amount due to MRCC	5,378
Amount due from Commonwealth of Puerto Rico	(166,932)
Deferred revenue	(2,058,962)

Changes in accrued expenses and other deferred changes which do not require the use of current financial resources:

Compensating absences	32,322
Accrued Christmas bonus	333,864
Due from MRCC	<u>(277,815)</u>

***Changes in Net Position of Governmental Activities*** **\$3,922,721**

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**1. FINANCIAL REPORTING ENTITY**

**Organization**

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

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

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

**Reporting entity**

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Government-wide and fund financial statements**

Basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (consists of the statement of net position and the statement of activities) these statements report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-wide and fund financial statements (Continued)**

and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Government-wide statements

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

Program-specific capital and operating grant and contributions consist of transactions that are either mandatory or voluntary nonexchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Capital grants and contributions consist of capital assets or resources that are restricted for capital purposes that is to purchase, construct or renovate capital assets associated with a specific program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Restricted capital, operating grants and contributions are program revenues because they are specifically attributable to a program reducing the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

Fund financial statements

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

The Municipality reports the following major governmental funds:

**General Fund**

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

**Debt Service Fund**

This fund accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-wide and fund financial statements (Continued)**

**Head Start Fund**

This is the fund used to account for all transactions of the Head Start Program. The objectives of this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children, infants and toddlers so that the children will attain school readiness.

**Sales and Use Tax Fund**

This fund is used to account for accumulation of resources and payment of special purpose obligations.

**Loan \$21,490,000 Fund**

This fund used to account capital improvements through bond issuance.

**Measurement focus, basis of accounting and financial statement presentation**

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

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

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement focus, basis of accounting and financial statement presentation (Continued)**

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

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

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

**Cash, cash equivalents, cash with fiscal agent and investment**

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

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

Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of Treasury but not in the Municipality's name. Deposits with GDB are uninsured and uncollateralized and thus represent a custodial credit risk, because in the event that this financial institution fails, the Municipality may not be able to recover these deposits. The GDB's liquidity was adversely affected by a significant increase in credit spreads for

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash, cash equivalents, cash with fiscal agent and investment (Continued)**

obligations of the Commonwealth and its public corporations, the Commonwealth's limited capital market access, and a significant reduction of liquidity in the local Puerto Rico capital markets. Then, the credit rating downgrades could further adversely affect the GDB's liquidity. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014.

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

	<b>Restricted</b>	<b>Unrestricted</b>	<b>Total</b>
Commercial banks	\$44,617,705		\$44,617,705
Governmental bank (GDB)		\$47,380,238	47,380,238
<b>Total</b>	<u>\$44,617,705</u>	<u>\$47,380,238</u>	<u>\$91,997,943</u>

**Accounts receivable**

Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are based upon past collection experience and current economic conditions. Intergovernmental receivables include taxes that the MRCC, is required to remit to the Municipality to be used by the Municipality's debt service fund for payment of debt service on general obligations of the Commonwealth. The amount to be remitted is based on the special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, which is levied by the MRCC.

According to NCGA-1, par. 62, as amended by GASB-38, property taxes should be recorded as revenue on a modified accrual basis and, therefore, recorded when they are both *measurable* and *available*.

In addition, the amount of property taxes receivable is based on the assessed value of the property and the current property tax rated used by the governmental unit. All property taxes assessed will not be collected, and the measurability criterion can be satisfied only if the governmental unit can make a reasonable estimate of the amount of uncollectible property taxes (NCGA-1, par. 64 AS interpreted by NCGAI-3, pars. 6-8)

Then, GASB-65 modifies this slightly by adding the following sentence from paragraph 30 of NCGA-1: When property tax assessment is made, it is to finance the budget of a particular period, and the revenue produced from any property assessment should be recognized in the fiscal period for which it was levied provided the "available" criteria is met. *Available* means when due, or past due and receivable within the current period, and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. If, because of unusual circumstances, the facts justify a period greater than 60, the governmental unit should disclose the period being used and the facts that justify it.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred inflows of resources**

Deferred inflows of resources reflects an increase in net position that applies to a future period. The Municipality will not recognize the related revenues until a future event occurs. In the governmental funds, the Municipality has one type of inflows that is deferred. Municipal license collected in advance. For the government-wide financial statements the Municipality only presents deferred municipal license as deferred inflows of resources for the current year.

**Interfund receivables and payables**

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

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

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

	<u>Years</u>
Infrastructure	10 to 70
Building, structures and building improvements	70
Vehicles	5
Furniture, fixtures, machinery and equipment	5 to 10

**Impairment of Capital Assets**

The Municipality periodically evaluates long-term assets for impairment in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and GASB No.42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Governments are required to evaluate prominent events or

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of Capital Assets (Continued)**

changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally should be measured using a service units approach, an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

**Risk management**

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are held with private companies. Cost of insurance deducted from the gross property tax collections by the MRCC for the year ended June 30, 2014 amounted to approximately \$688,371. The current insurance policies have not been cancelled or terminated. The MRCC also deducted approximately \$449,151 for workers compensation insurance covering all municipal employees.

**Compensated absences**

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed; unused sick leave is not paid unless the employee has worked for the Municipality ten years or more up to the maximum allowed.

Employees' maximum allowed vacations and vested sick benefits are accounted for in the statement of net position.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fund Balance**

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

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

- ❖ **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.
- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue sources and restrict its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision making authority (through resolutions) and can only be changed by similar resolutions, no later than the end of the fiscal year. The Municipality's highest governing authority rests on the Municipal Assembly.
- ❖ **Assigned** - Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions). Intent can be expressed by Municipal Assembly, or by and official or body to which the Municipal Assembly delegates authority in conformity with the bylaws of the Municipality. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- ❖ **Unassigned** – Represent the residual classification for the entity's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purpose for which amounts had been restricted, committed, or assigned.

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of estimates**

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

**Subsequent events**

Management has evaluated subsequent events through March 27, 2015, the date that the financial statements were available to be issued.

**Future Adoption of Accounting Pronouncements**

- ❖ GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – and Amendment of GASB Statement No. 27*. This statement is effective for periods beginning after June 15, 2014;
- ❖ GASB Statement No. 69, *Government Combination and Disposal of Government Operations*. This statement is effective for periods beginning after December 15, 2013.
- ❖ GASB Statement No. 71, *Pension transition for contribution made subsequent to the measurement date (an amendment of GASB Statement No. 68)*. This statement is effective for periods beginning after June 15, 2014.

The Municipality's management has not determined the effect in the Municipality's financial statements of the future adoption of these GASB Statements.

**3. PROPERTY TAX**

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

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated value 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
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**3. PROPERTY TAX (CONTINUED)**

The MRCC is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections.

The MRCC is required by law to prepare a settlement statement annually. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC has remitted property tax advances to the Municipality, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected by the MRCC, the liability to the MRCC is recorded at June 30.

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

The annual rate for fiscal year 2014 is 8.78% for real property and 6.78% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage points of the real property tax and the personal property tax are distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth contributes an annual tax rate of 0.2% of the property tax collected and the remaining rate is imposed to the taxpayer.

**4. VOLUME OF BUSINESS TAX**

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent discount if payment is made on or before the filing date. During the year ended June 30, 2014, the Municipality levied and collected, \$5,969,934 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying financial statements.

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**5. SALES AND USE TAX**

Pursuant to an amendment to Puerto Rico Internal Revenue Code, Act 117 of July 4, 2006, the Municipal Legislature approved a city tax contribution, effective October 3, 2006, equal to 1.5% involving sale of goods and certain service transactions made on Fajardo by the Municipality. The retailers are required to file monthly sales tax returns by 10<sup>th</sup> days following the month in which the tax are collected.

Pursuant to the provisions of the Law Number 80 of July, 29, 2007 and effective August 1, 2007, the contribution was uniformly established at 1.5%, for all the municipalities in Puerto Rico, of which 1 percentage point will be collected by the municipalities and the remaining half percentage point will be collected by the Treasury Department of the Commonwealth of Puerto Rico. A portion of those funds will be deposited in the Puerto Rico Governmental Development Bank, as a redemption fund, for financing capital projects to the municipalities.

**6. GRANTS AND ENTITLEMENTS REVENUE**

Grants and entitlements revenue consists of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer authority and the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General Fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in other governmental funds.

**7. CAPITAL ASSETS**

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

<u>Governmental Activities</u>	<u>Balance June 30, 2013, as restated</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Balance June 30, 2014</u>
Capital assets, not subject to depreciation and amortization:				
Land	\$ 42,876,305	\$ 101,011		\$ 42,977,316
Construction in progress	4,172,991	4,153,736	(1,943,029)	6,383,698
Non – Depreciable assets	<u>765,615</u>	<u>                    </u>	<u>                    </u>	<u>765,615</u>
Total capital assets, not subject to depreciation or amortization	<u>47,814,911</u>	<u>4,254,747</u>	<u>(1,943,029)</u>	<u>50,126,629</u>
Cost basis of capital assets, subject to depreciation and amortization:				
Buildings	46,299,949	1,500,266	1,943,029	49,743,244
Infrastructure	45,571,350	1,128,567		46,699,917
Vehicles	3,908,425	148,624		4,057,049
Equipment	<u>5,819,120</u>	<u>1,051,651</u>	<u>                    </u>	<u>6,870,771</u>
Total cost basis of capital assets subject to depreciation or amortization	<u>101,598,844</u>	<u>3,829,108</u>	<u>1,943,029</u>	<u>107,370,981</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
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**7. CAPITAL ASSETS (CONTINUED)**

<u>Governmental Activities</u>	<u>Balance June 30, 2013, as restated</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Balance June 30, 2014</u>
Total cost basis of capital assets subject to depreciation or amortization (carried forward)	<u>101,598,844</u>	<u>3,829,108</u>	<u>1,943,029</u>	<u>107,370,981</u>
Less accumulated depreciation and amortization for:				
Buildings	(16,812,527)	(1,042,206)		(17,854,733)
Infrastructure	(21,259,404)	(712,479)		(21,971,883)
Vehicles	(3,503,361)	(260,812)		(3,764,173)
Equipment	<u>(5,348,102)</u>	<u>(350,861)</u>		<u>(5,698,963)</u>
Total accumulated depreciation and amortization	<u>(46,923,394)</u>	<u>(2,366,358)</u>		<u>(49,289,752)</u>
Total capital assets being depreciated or amortized, net	<u>54,675,450</u>	<u>1,462,750</u>	<u>1,943,029</u>	<u>58,081,229</u>
Governmental activities capital assets, net	<u>\$102,490,361</u>	<u>\$5,717,497</u>	<u>\$ 0</u>	<u>\$108,207,858</u>

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

<u>Governmental activities</u>	<u>Amount</u>
General government	\$ 417,474
Public safety	38,437
Public work	713,163
Culture and recreation	38,473
Health and sanitation	216,089
Public education	409,253
Human services and welfare	82,500
Urban development	<u>450,969</u>
<b>Total depreciation expense</b>	<b><u>\$(2,366,358)</u></b>

**8. LONG-TERM DEBT**

The Municipality's Legislature is legally authorized to determine the contracting of debt by the Municipality.

Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and tax levying authority of the Municipality; and

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**8. LONG-TERM DEBT (CONTINUED)**

- Direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter), which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceeds 10 % of the total assessed value of the property located within the Municipality, plus the 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 or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement.

The long-term debt activity for the year ended June 30, 2014, was as follows:

<u>Description</u>	<u>Balance at June 30, 2013</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Balance at June 30, 2014</u>	<u>Due Within One Year</u>
General obligations bonds and notes	\$39,394,000		\$(2,536,000)	\$36,858,000	\$2,726,000
Compensated absences	2,477,000		(32,321)	2,444,679	2,444,679
Advances from MRCC	195,269		(5,378)	189,891	5,716
Christmas bonus	<u>333,864</u>		<u>(333,864)</u>		
<b>Total</b>	<u>\$42,400,133</u>	<u>\$ _____</u>	<u>\$ (2,907,563)</u>	<u>\$39,492,570</u>	<u>\$5,176,395</u>

**A. General Obligations Bonds and Notes**

The Municipality issues general and special (public improvements) obligations bonds and notes to provide for the acquisition and construction of mayor capital facilities and equipment, as well as, to cover certain operational needs. Long-term debt at June 30, 2014 is composed of the following debts:

	<u>Outstanding Amount</u>
\$11,435,000, municipal general obligation bonds series 1998-1999 payable in annual principal installments ranging from \$970,000 to \$1,130,000; plus interest due in semiannual installments at variable rate from 4.81% to 6.34% through July 1, 2017	\$ 3,145,000
\$2,045,000 municipal general obligation notes series 2011-2012 payable in annual principal installments ranging from \$270,000 to \$360,000; plus interest due in semiannual installments at variable rate from 3.44% to 7.50% through July 1, 2018	1,565,000

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**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
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**8. LONG-TERM DEBT (CONTINUED)**

**A. General Obligations Bonds and Notes (Continued)**

\$370,000 public improvement bonds series 1994-1995 payable in annual principal installments ranging from \$20,000 to \$35,000; plus interest due in semiannual installments at variable rate from 6.10% to 8.21% through July 1, 2019	165,000
\$21,490,000 municipal general obligation notes series 2011-2012 payable in annual principal installments ranging from \$1,065,000 to \$2,355,000; plus interest due in annual installments at variable rate from 6.10% to 8.21% through July 1, 2025	19,590,000
\$14,440,000, municipal general obligation bonds series 2006-2007 payable in annual principal installments ranging from \$401,000 to \$1,289,000; plus interest due in semiannual installments at variable rates from 7.00% to 9.47% through July 1, 2031	<u>12,393,000</u>
<b>Total General Obligations</b>	<u><b>\$36,858,000</b></u>

**B. Advances from MRCC and PR Treasury Department (Law 42)**

The Commonwealth's Public Act No. 42 of January 26, 2000 (Act No. 42) was enacted to authorize MRCC to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement authorized MRCC to finance debt that the municipalities of Puerto Rico had with such entity, which arose from the difference between the yearly final settlements of property tax advances made by MRCC to the municipalities and the actual property tax collections received by MRCC from taxpayers through fiscal year 2000. Under Act No. 42 the Municipalities will collect additional property taxes that will be used to repay such notes. The increase in this subsidy was the result of Public Act No. 238 of August 15, 1999.

The debt service requirement of these advances by the MRCC is as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregate Obligation</u>
2015	\$ 5,716	\$ 11,662	\$ 17,378
2016	6,075	11,303	17,378
2017	6,457	10,921	17,378
2018	6,862	10,516	17,378
2019	7,293	10,085	17,378
2020-2023	43,945	42,946	86,891
2024-2028	59,598	27,293	86,891
2029-2033	<u>53,945</u>	<u>6,879</u>	<u>60,824</u>
	<u><b>\$189,891</b></u>	<u><b>\$131,605</b></u>	<u><b>\$321,496</b></u>

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**9. RETIREMENT SYSTEM**

**Employee's Retirement Plan**

The Employee's Retirement System of the Government of the Commonwealth Puerto Rico (ERS) is the administrator of a cost-sharing multiple-employer pension plan administered by the Puerto Rico Government Employee and Judiciary Retirement System Administration. The ERS was created by the Act 447, approved on May 15, 1951, and became effective on January 1, 1952, and significantly modified by Act No 1 of 1990 and by Act 305 of 1999, the later known as System 2000. The ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Cabinet Members, Head of Agencies and Public Instrumentalities, Governor's aids, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

As of June 30, 2014, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately \$22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken.

Future employer contributions have been pledged for the payment of debt service, consequently further depletion of ERS's assets could result in the inability to pay benefits.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in \$120.0 million annually, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. In addition, appropriation for such additional contribution of approximately \$120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints, at the present time, management believes that approximately \$90 million of this amount will not be collected as expected during fiscal year 2014. Furthermore, this additional contribution was reduced to \$28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

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**9. RETIREMENT SYSTEM (CONTINUED)**

**Employee's Retirement Plan (Continued)**

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

To address these issues, the ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that, in addition to other measures, annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate the ERS investment portfolio. Accordingly, on July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for

fiscal year 2011-2012, an additional percentage point annually for each of the next four years, and 1.25 percentage point annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

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

- A. 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, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- B. Increased the minimum pension for current retirees from \$400 to \$500 per month.
- C. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- D. The retirement age for active System 2000 participants will be gradually increased from age 60 to age 65.
- E. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
- F. Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
- G. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

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**9. RETIREMENT SYSTEM (CONTINUED)**

**Employee's Retirement Plan (Continued)**

- H. The employee contribution rate was increased from 8.275% to 10%.
- I. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- J. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the ERS.
- K. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- L. Survivor benefits were modified.

The employees' and employer contributions to the above mentioned plans during the year ended June 30, 2014 amounted to \$341,983 and \$323,249, respectively. This amounts represented the required contribution for the corresponding year.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2014. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

**10. ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS**

State and Federal laws and regulations require the Municipality to place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability needs to be recognized based on futures closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste.

The Municipality owns a landfill, which is administered by Landfill Technologies of Fajardo Corp. (the Corporation) under an agreement. The Municipality is entitled, under a thirty year agreement expiring on February 15, 2034, to certain revenues resulting from the use of the landfill. In addition, the Corporation provides the services of collection, transportation and disposition of solid waste of the Municipality and no charge is made for these services. As part of the agreement, the closure of the landfill will be realized by the Corporation within the term of the agreement. The Corporation will assume the post-closure cost during the term of the agreement. Annually, management assess the

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**JUNE 30, 2014**

**10. ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS (CONTINUED)**

ability of the Corporation to fulfill its obligation, as required by state and federal laws to retain a contingent liability for closure and post-closure costs. As of June 30, 2014, management believes that a contingent liability could not be determined to be probable as required by GASB No. 18 – *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs*. The land is not subject not depreciation, because in the opinion of management, the premises may be used for other purposes, like recreational, as currently being done by the Municipality of San Juan.

**11. CONTINGENCIES**

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

The Municipality is defendant and/or codefendant in several litigations arising out of the normal Municipality’s operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations will not have a material adverse effect on the Municipality’s financial position.

**12. CORRECTION OF ERROR**

Capital assets are adjusted by \$1,226,210, this includes an understatement of capital assets of \$1,473,953, from errors in depreciation, and an increase of \$2,700,163, from an understatement in the Construction in Progress account.

The net position as presented on prior year has been restated for correction of errors as follows:

	<u>Statement of Net Position</u>
Balance, as previously reported	\$148,968,562
Construction in progress from prior year	<u>1,226,210</u>
Balance, as restated	<u>\$150,194,772</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
SCHEDULE OF BUDGETARY COMPARISON  
FOR THE YEAR ENDED JUNE 30, 2014**

<b>GENERAL FUND</b>				
	<b>ORIGINAL BUDGET</b>	<b>AMMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</b>
<b>Revenues:</b>				
Taxes:				
Property taxes	\$ 8,736,160	\$ 8,736,160	\$ 9,292,355	\$ 556,195
Municipal tax	7,200,000	7,200,000	6,697,514	(502,486)
Construction excise tax	1,125,000	1,125,000	550,608	(574,392)
Rent	220,900	220,900	230,215	9,315
Grants and entitlements	4,041,652	4,041,652	4,692,564	650,912
Other	1,075,600	1,075,600	974,652	(100,948)
Readjustment of prior year fund balance	<u>                    </u>	<u>5,034,407</u>	<u>5,034,407</u>	<u>                    </u>
<b>Total revenues</b>	<u>22,399,312</u>	<u>27,433,719</u>	<u>27,472,315</u>	<u>38,596</u>
<b>Expenditures:</b>				
Mayor and municipal legislature	2,531,229	3,659,834	2,483,810	1,176,024
General administration	4,537,479	6,044,012	4,645,975	1,398,037
Public safety	1,154,486	1,171,986	666,992	504,994
Culture and recreational	991,766	1,120,366	682,543	437,823
Public works	4,882,183	6,782,512	6,123,875	658,637
Public education	1,014,716	1,341,876	1,050,484	291,392
Urban development	498,828	510,718	247,818	262,900
Health and sanitation	5,513,338	5,491,818	3,749,412	1,742,406
Human services and welfare	<u>1,275,287</u>	<u>1,310,597</u>	<u>798,278</u>	<u>512,319</u>
<b>Total expenditures</b>	<u>22,399,312</u>	<u>27,433,719</u>	<u>20,449,187</u>	<u>6,984,532</u>
<b>Excess of expenditures over revenues</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,023,128</u>	<u>\$7,023,128</u>

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**NOTES TO SCHEDULE OF BUDGETARY COMPARISON**  
**JUNE 30, 2014**

**1. BUDGETS AND BUDGETARY ACCOUNTING**

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

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

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

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

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
NOTES TO SCHEDULE OF BUDGETARY COMPARISON (CONTINUED)  
JUNE 30, 2014**

**2. RECONCILIATION OF GAAP TO BUDGETARY BASIS**

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

	<u>Revenues</u>	<u>Expenditures</u>
Amount on budgetary basis	\$27,472,315	\$20,449,187
Transfer-out to other funds recorded as expense for budgetary basis but not for financial reporting purpose	0	(1,024,613)
Net change in encumbrance recorded in budgetary basis but are not expenditure for financial reporting purpose	0	88,581
Adjustment to revenue/expenses related to intergovernmental transactions	1,103,676	1,103,676
Fund balance at beginning of year budgeted in current year but is not a current year revenue for financial reporting purpose	(5,034,407)	0
Other adjustments to convert from budgetary basis to GAAP	<u>317,994</u>	<u>55,919</u>
Total revenues and expenditures in the statement of revenues, expenditures and change in fund balance-governmental funds	<u>\$23,859,578</u>	<u>\$20,672,750</u>

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<b>U.S. Department of Agriculture:</b>			
Pass-through program from:			
Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	<u>\$ 415,760</u>
<b>U.S. Department of Housing and Urban Development:</b>			
Direct Programs:			
Community Development Block Grants/ Entitlement Grants (CDBG)	14.218		964,165
Section 8 Housing Choice Vouchers Program	14.871		<u>472,888</u>
Total Direct Programs			<u>1,437,053</u>
Pass-through programs from:			
Autonomous Municipality of San Juan of the Commonwealth of Puerto Rico:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	6628-13-30131600- 2058	27,553
Puerto Rico Department of Family: Emergency Solutions Grant Program	14.231		<u>23,994</u>
Total pass-through programs			<u>51,547</u>
Total U.S. Department of Housing and Urban Development			<u>1,488,600</u>
<b>U.S. Department of Transportation:</b>			
Direct Programs:			
Federal Transit Formula Grants	20.507		<u>97,682</u>

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
YEAR ENDED JUNE 30, 2014**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<b>U.S. Department of Health and Human Services:</b>			
Pass-through programs from:			
Administration for the Development and Care of Children:			
Child Care and Development Block Grant	93.575	241-2013-000169	95,416
Head Start Program	93.600	241-2013-000197	<u>5,541,767</u>
Total U.S. Department of Health and Human Services:			<u>5,637,183</u>
<b>U.S. Department of Homeland Security:</b>			
Pass-through program from:			
Puerto Rico Office of Disaster and Emergencies Administration:			
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036		<u>14,196</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$7,653,421</u>

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF FAJARDO**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2014**

**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Autonomous Municipality of Fajardo, Puerto Rico (the "Municipality") under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Nonprofit Organizations.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local & Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARDS REPORTING**

The information included in the Schedule may not fully agree with other federal awards reports submitted directly to federal granting agencies or pass-through entities because, among other reasons, the award reports; (a) may be prepared for a different fiscal period, and (b) may include cumulative (from prior years) data rather than data from the current year only.

**4. RELATION TO FEDERAL FINANCIAL REPORTS**

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying schedule, which is prepared on the basis of accounting explained in Note 2. OMB Circular A-133 that requires federal financial reports claims for reimbursement contain information that is supported by the books and records from which the basic financial statements have been prepared. The Municipality prepares the federal financial reports and claims reimbursement primarily based on information from the internal accounting records of the Municipality.

**5. CONTINGENCIES**

The Municipality receives funds under federal grant programs and such awards are to be expended in accordance with the provisions of each grant. Compliance with the grants is subject to audit by various government agencies, which may impose sanctions in the event of non-compliance.

**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  
Member of the Municipal Legislature  
Autonomous Municipality of Fajardo  
Fajardo, 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 as well as to auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Fajardo of the Commonwealth of Puerto Rico** (the 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, and have issued our report thereon dated March 27, 2015.

**Internal Control over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

March 27, 2015



Harrold Vilez, P.S.C.

**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  
Member of the Municipal Legislature  
Autonomous Municipality of Fajardo  
Fajardo, Puerto Rico

**Report on Compliance for Each Major Federal Program**

We have audited **Autonomous Municipality of Fajardo of the Commonwealth of Puerto Rico** (the Municipality)'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 Municipality's major federal programs for the year ended June 30, 2014. The Municipality'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 the Municipality'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 as well as to generally accepted auditing standards; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality'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 Municipality's compliance.

***Opinion on Each Major Federal Program***

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

## Report on Internal Control over Compliance

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

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

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

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

March 27, 2015



Harroath Vilez JCo. PSC

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014**

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued	Unmodified
Internal Control Over Financial Reporting:	
1. Material weakness (es) identified?	No
2. Significant deficiency (ies) identified that are not considered to be material weakness?	No
Non-compliance material to financial statements noted?	No

**Federal Awards**

Internal Control Over Major Programs:	
1. Material weakness (es) identified?	No
2. Significant deficiency (ies) identified that are not considered to be material weaknesses?	No
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 Section 510(a) of OMB Circular A-133?	No

Identification of Major Programs:

Name of Federal Program or Cluster	CFDA Number
Child and Adult Care Food Program	10.558
Community Development Block Grant/Entitlements Grants	14.218
Section 8 Housing Choice Vouchers Program	14.871
Head Start Program	93.600

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as a low-risk auditee?	No
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**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2014**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION 3 – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

No matters were reported.

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

<b>Finding Reference No.</b>	<b>2013-001</b>
<b>Type of Finding</b>	Material Weakness in Prepared Financial Statements
<b>Statement of Condition</b>	The Municipality's internal control system, failed to obtain assurance transactions that affect the financial statements. In addition, the Municipality accounting system does not provide for some mechanized transactions that could lead to errors if proper trace is not maintained.
<b>Recommendation</b>	Prior year auditors' recommended the Municipality to prepare their financial statements using the information from their manual accounting records and Budget Liquidation, and to support the information presented as assets, liabilities, and net position/fund balance for all major and nonmajor funds.
<b>Current Status</b>	The finding was fully corrected
<b>Finding Reference No.</b>	<b>2013-002</b>
<b>Type of Finding</b>	Material Weakness in Prepared Financial Statements
<b>Statement of Condition</b>	During prior year audit, the Municipality did not provided a subsidiary of capital assets that agreed with the amounts reported in governmental activities of the Governmental-wide Financial Statements. Capital assets are the most significant assets of the Municipality and therefore, have a significant impact on the Governmental-wide Financial Statements.
<b>Recommendation</b>	Prior year auditors recommended the Municipality to review the subsidiary of capital assets in order to assure that they reconcile with the amounts presented in the Government-wide Financial Statements. In addition, to review that all those construction projects comply with the capitalization policy of the Municipality, and are in progress, and adjust the subsidiaries and Government-wide Financial Statements accordingly.
<b>Current Status</b>	The finding was fully corrected
<b>Finding Reference No.</b>	<b>2013-003 and 2013-006</b>
<b>Type of Finding</b>	Material Noncompliance and Material Weakness in prepared Schedule of Expenditures of Federal Awards
<b>Statement of Condition</b>	During prior year audit, the SEFA prepared by the Municipality include material misstatements related to the expenditures presented for all Federal programs. Adjustments were proposed in order to reconcile the information with the financial statements.

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)  
YEAR ENDED JUNE 30, 2014**

<b>Finding Reference No.</b>	<b>2013-003 and 2013-006 (Continued)</b>
<b>Recommendation</b>	Prior year auditors recommended the Municipality to maintain records in order to assure that all expenditures incurred from federal awards are properly incorporated in the SEFA. If the basis of accounting used to prepare the SEFA is different from the one used to prepare the financial statements, the Municipality should reconcile the differences.
<b>Current Status</b>	The finding was fully corrected
<b>Finding Reference No.</b>	<b>2013-004 and 2013-007</b>
<b>Federal Programs</b>	<p>Child and Adult Care Food Program (CFDA No. 10.558) US Department of Agriculture Pass-through entity the Puerto Rico Department of Education Award No. 0000243865</p> <p>Community Development Block Grants/Entitlements Grants (CFDA No. 14.218) US Department of Housing and Urban Development Award No. B-12-MC-72-0012</p> <p>Section 8 Housing Choice Voucher Program (CFDA No. 14.871) US Department of Housing and Urban Development Award No. RQ036</p> <p>Head Start Program (CFDA No. 93.600) US Department of Health and Human Resources Pass-through entity the Puerto Rico Department of Family – Administration for the Childhood Care and Integral Development Award No. 241-2012-000176-A; 241-2012-000202</p>
<b>Type of Finding</b>	Material Weakness and Material Noncompliance – Reporting Package of Single Audit
<b>Statement of Condition</b>	The Municipality did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse for the fiscal year ended June 30, 2013 at its due date.
<b>Recommendation</b>	Prior year auditors recommended management to implement adequate internal control procedures in order to assure that accounting records and supporting documentation is available on a timely manner.
<b>Current Status</b>	The finding was fully corrected

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF FAJARDO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)  
YEAR ENDED JUNE 30, 2014**

<b>Finding Reference No.</b>	<b>2013-005 and 2013-008</b>
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Statement of Condition</b>	The Municipality did not submit the required Financial Reports to the US Housing and Urban Development for the fiscal year ended June 30, 2013 at its due date. The unaudited version was submitted on September 3, 2013. The audited Financial Reports were not submitted on March 31, 2014.
<b>Recommendation</b>	Prior year auditors recommended management to implement adequate internal control procedures in order to assure that accounting records and supporting documentation is available on a timely manner.
<b>Current Status</b>	The finding was fully corrected