



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

***BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY  
INFORMATION AND INDEPENDENT  
AUDITORS' REPORT  
(WITH ADDITIONAL REPORTS REQUIRED  
UNDER THE OMB CIRCULAR A-133)***

***AS OF AND FOR THE FISCAL YEAR ENDED  
JUNE 30, 2012***



***Hon. Pedro J. García-Figueroa  
Mayor***

***Mrs. Miriam Irizarry  
Finance Director***

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**Table of Contents**

	<b><u>PAGE</u></b>
<b><u>FINANCIAL SECTION</u></b>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-14
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	18
Statement of Revenues, Expenditures and Changes in Fund Balances (deficit) - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (deficit) - Governmental Funds to the Statement of Activities	20
Notes to Basic Financial Statements	21-50
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	51
Notes to Required Supplementary Information - Budgetary Comparison Schedule – General Fund	52-53
Supplementary Information:	
Financial Data Schedule	54-56
Notes to Supplementary Information – Financial Data Schedule	57
<b><u>SINGLE AUDIT SECTION</u></b>	
Supplementary Information:	
Schedule of Expenditures of Federal Awards	58
Notes to Schedule of Expenditures of Federal Awards	59-60
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	61-62
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	63-64
Schedule of Findings and Questioned Costs	65-67

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Hormigueros (the Municipality), as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2013, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Schedule – General Fund on pages 3 through 14 and 51 through 53 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 58, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Financial Data Schedule on pages 54 through 56 is required by the Uniform Reporting Standards of the Department of Housing and Urban Development. The Schedule of Expenditures of Federal Awards and the Financial Data Schedule have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

*Carla Garcia, Train & Hastings LLP*

San Juan, Puerto Rico  
March 25, 2013

Stamp 49281 was affixed  
To the original

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal year ended June 30, 2012**

The discussion and analysis of the Municipality of Hormigueros financial performance will provide an overall review of the Municipality's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the Municipality's financial performance as a whole; this section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements, which follow this analysis.

**FINANCIAL HIGHLIGHTS**

***Highlights for Government-wide Financial Statements***

Information reported in the government-wide statements is based on the economic resources measurement focus and the accrual basis of accounting:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2012 by \$35,152,963 (net assets). This represents a decrease of .14% with respect to fiscal year 2011.
- Revenues decreased by 2% and expenses increased by 10% in comparison with the previous year.
- Change in net assets decreased 103% compared to change in net assets of fiscal year 2011.

***Highlights for Fund Financial Statements***

Fund financial statements presents information of the most significant funds of the Municipality based on the current financial resources measurement focus and the modified accrual basis of accounting:

- A net decrease of \$1,237,110 in the fund balances of the Municipality's governmental funds resulted in a reported combined ending fund balances of \$3,773,924 in fiscal year 2012. Approximately 15% of the total combined fund balances is unrestricted (assigned or unassigned).
- For the fiscal year 2012, the General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of \$346,217. The unassigned fund balance amounts to \$476,763 or 4% of total General Fund Expenditures.

***General Financial Highlights***

- The investment in capital assets as of June 30, 2012 was \$46,586,952 (net of depreciation).
- Long-term debt decreased to \$17,686,784 or approximately 4% with respect to the prior year.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$270,453.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS

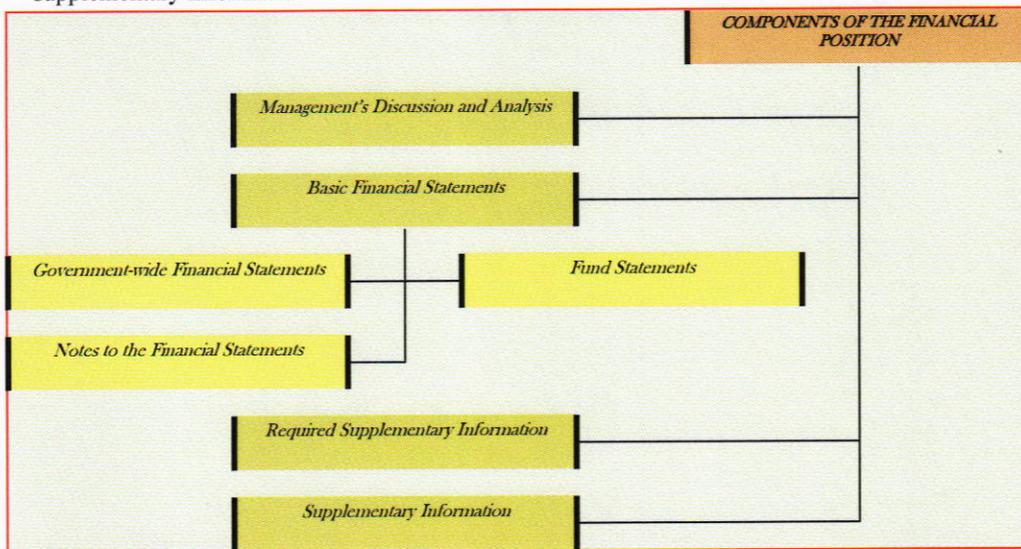
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components:

- Management's discussion and analysis (presented here)
- basic financial statements
- required supplementary information
- supplementary information



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

➤ **Government-Wide Statements**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal year ended June 30, 2012**

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

➤ ***Fund Financial Statements***

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

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

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that comply with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

➤ ***Notes to financial statements***

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

➤ ***Required supplementary information***

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

➤ ***Supplementary information***

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal year ended June 30, 2012**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

*Net Assets*

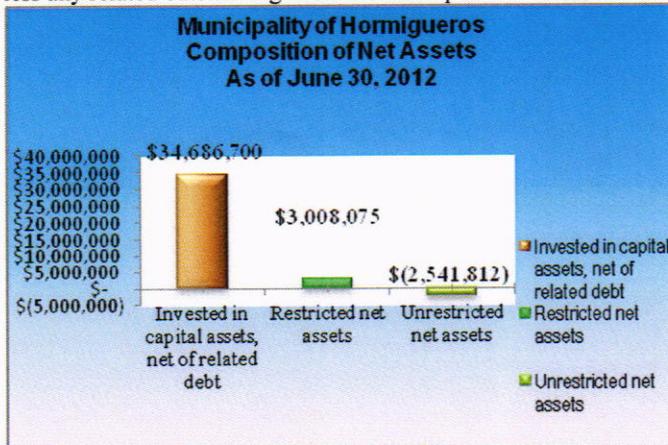
The following table presents a summary of the Statement of Net Assets as of June 30, 2012 and 2011:

**TABLE 1**

<i>Summary Statement of Net Assets As of June 30, 2012</i>		
	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current and other assets	\$ 9,485,457	\$ 9,956,882
Capital assets	46,586,952	46,512,631
<b>Total assets</b>	<b>\$ 56,072,409</b>	<b>\$ 56,469,513</b>
<b>Liabilities</b>		
Current and other liabilities	\$ 3,232,662	\$ 2,836,368
Long-term liabilities	17,686,784	18,430,399
<b>Total liabilities</b>	<b>20,919,446</b>	<b>21,266,766</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	34,686,700	34,310,119
Restricted	3,008,075	3,359,251
Unrestricted	(2,541,812)	(2,466,623)
<b>Total net assets</b>	<b>\$ 35,152,963</b>	<b>\$ 35,202,747</b>

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, the assets of the Municipality exceeded its liabilities by \$35,152,961, representing a decrease of .14% with respect to fiscal year 2011. The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets.

The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal year ended June 30, 2012**

As of June 30 2012, the Municipality presented an unrestricted net assets deficit. This deficit primarily arises from long-term obligations such as compensated absences and debts to CRIM for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a "pay as you go" basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as invested in capital assets, net of related debt. Therefore, they are reported as part of the unrestricted net assets section.

***Changes in net assets***

The following table summarizes the changes in net assets for the fiscal years ended 2012 and 2011:

**TABLE 2**

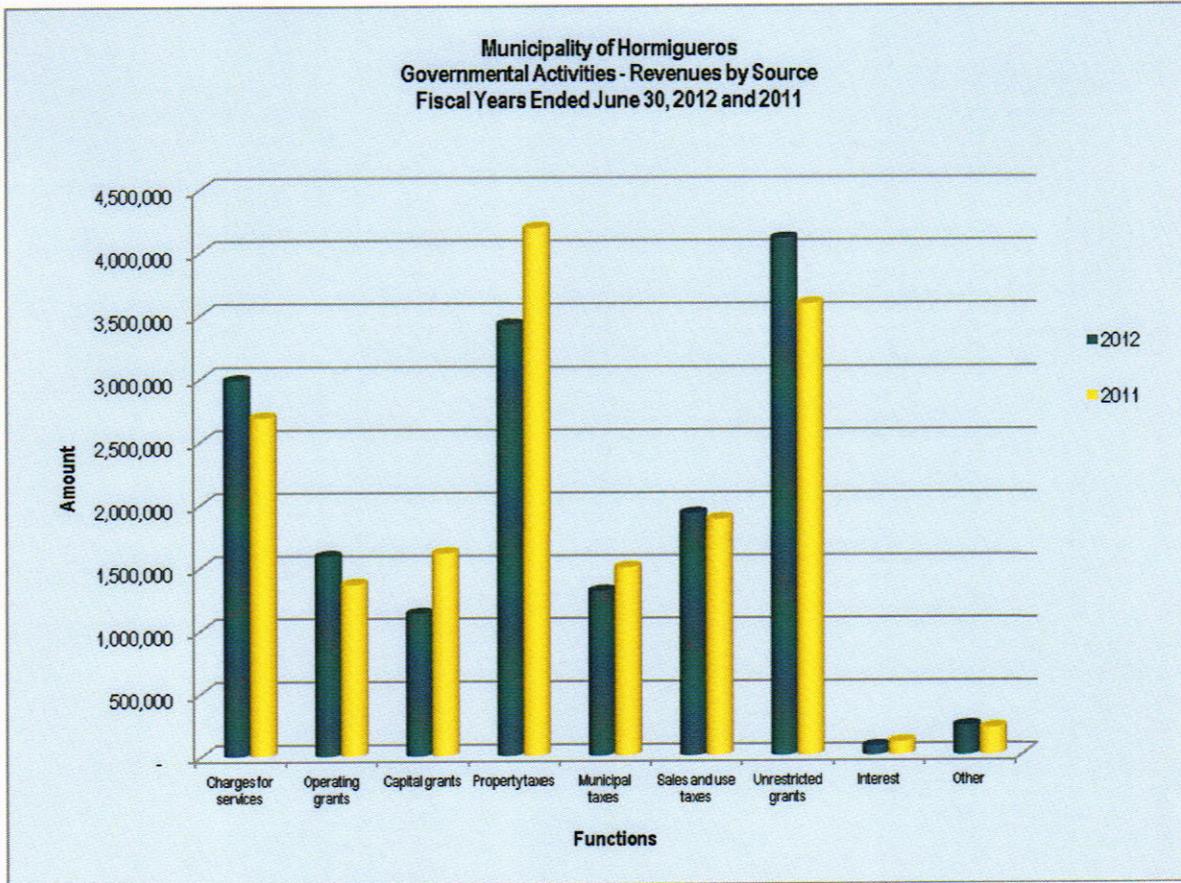
<i>Summary of Changes in Net Assets As of June 30, 2012</i>		
	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
<b>Program revenues:</b>		
Fees, fines and charges for services	\$ 2,985,711	\$ 2,686,880
Operating grants and contributions	1,587,095	1,360,438
Capital grants and contributions	1,129,697	1,607,230
<b>General revenues:</b>		
Property taxes	3,423,749	4,188,207
Municipal license taxes	1,307,454	1,491,837
Sales and uses taxes	1,923,655	1,875,803
Grants and contributions not restricted to specific programs	4,104,159	3,584,902
Interest	70,383	102,577
Other	232,702	212,956
<b>Total revenues</b>	<b>16,764,605</b>	<b>17,110,830</b>
<b>Expenses:</b>		
General government	7,765,612	6,553,540
Public works and sanitation	3,383,331	3,310,518
Public safety	915,056	856,420
Culture and recreation	1,338,326	1,271,279
Health	375,991	380,079
Housing, welfare and community development	2,360,190	2,211,971
Education	43,925	38,419
Interest on long term debt	631,959	668,982
<b>Total expenses</b>	<b>16,814,390</b>	<b>15,291,208</b>
<b>Change in net assets</b>	<b>(49,785)</b>	<b>1,819,622</b>
<b>Net assets-beginning of year</b>	<b>35,202,747</b>	<b>33,383,125</b>
<b>Net assets-end of year</b>	<b>\$ 35,152,963</b>	<b>\$ 35,202,747</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal year ended June 30, 2012**

**FIGURE 1**



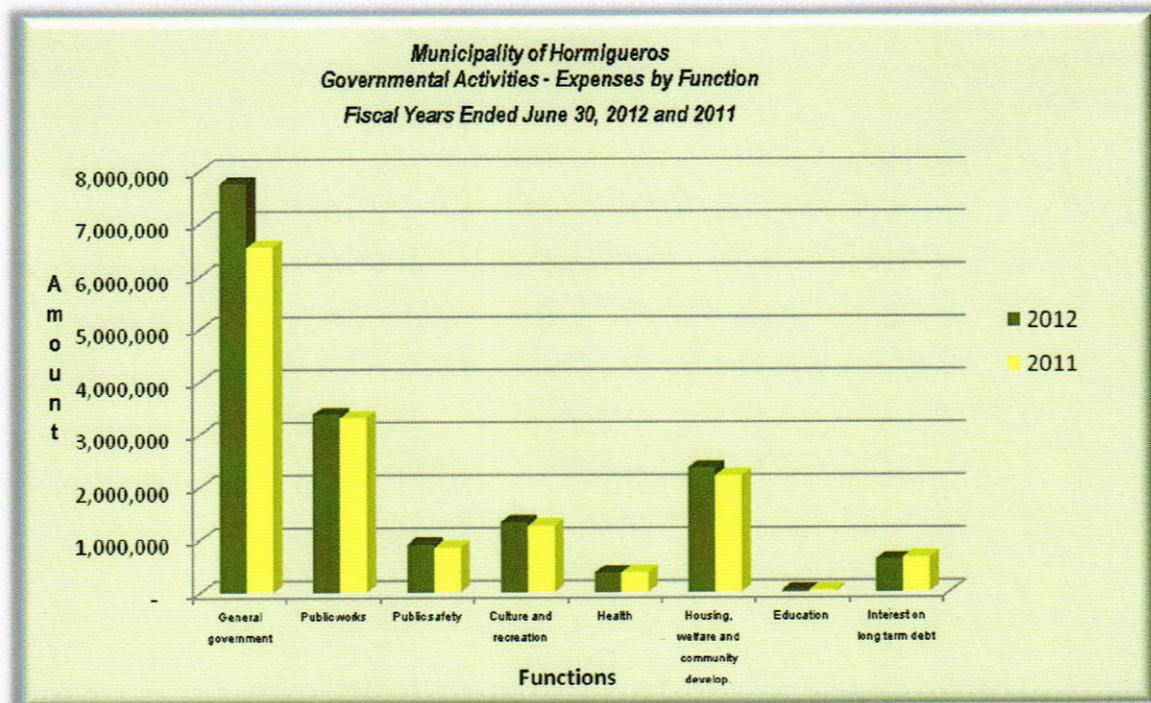
Approximately 24% of the Municipality's revenues came from grants and contributions not restricted to specific programs, 20% from property taxes, and 18% from fees, fines and charges for services. Revenues decreased 2% in comparison with fiscal year 2011. This net decrease is mostly affected by a combination of the following: (1) a decrease in capital grants of 30% caused mostly by the effect of extensive capital grants received in the previous year, (2) a 31% decrease in property taxes due to \$796,724 in revenues from tax amnesty recognized in 2011 versus \$19,709 in 2012; (3) and a 12% decrease in revenues from municipal license taxes caused mostly by the decreasing effect of the economy in the area. These decreases were partially offset by (1) increase of 17% in operating grants, (2) increase of 46% in unrestricted grants, and (3) an increase of 11% in charges for services mostly caused by an increase in the PREPA contribution.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2012

FIGURE 2



The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 46%, public works and sanitation with 20%, and housing, welfare and community development with 14% of total expenses. Program revenues of the Municipality covered 34% of total expenses.

Expenses increased 10% in comparison with previous fiscal year. This includes a combination of changes. There was an increase of 18% in general government, 14% in education, and increases of 7% in both public safety and housing, welfare and community development.

As noted previously the decrease in revenues, combined with an increase in expenses, resulted in a decrease of net assets of 103% when compared with the net change in net assets reported in fiscal year 2011. The following table focuses on the cost of each of the Municipality's largest programs as well as each program's net cost (total cost less fees generated by the programs and program-specific intergovernmental aid):

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal year ended June 30, 2012**

**TABLE 3**

<i>Net Cost of Municipality's Governmental Activities Fiscal years ended June 30, 2012</i>				
<b>Functions/Programs</b>	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
General government	\$ 7,765,611	\$ 6,553,540	\$ (4,568,017)	\$ (3,663,829)
Public works and sanitation	3,383,331	3,310,518	(2,152,494)	(1,926,394)
Public safety	915,056	856,420	(895,749)	(832,450)
Culture and recreation	1,338,326	1,271,279	(1,318,741)	(1,252,694)
Housing, welfare and community development	2,360,190	2,211,971	(1,125,010)	(873,813)
Other	1,051,875	1,087,480	(1,051,875)	(1,087,480)
	<u>\$ 16,814,390</u>	<u>\$ 15,291,208</u>	<u>\$ (11,111,886)</u>	<u>\$ (9,636,660)</u>

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$2,985,711) and other governments and organizations that subsidized certain programs with grants and contributions (\$2,716,792). The \$11,111,886 net cost of services was almost covered by other general revenues including property, municipal license, and sales and use taxes. The uncovered amount was only for \$49,785. It represents only .29% of all expenses

**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS**

***Governmental funds***

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

For the fiscal year ended June 30, 2012, the governmental funds reported ending fund balances of \$3,773,924, a net decrease of \$1,237,110 in comparison with the prior year. This net decrease was caused by the combination of various increases and decreases. Primarily by decreases of \$651,692, \$346,217, 275,608 and 194,699 in Other Governmental Funds, the General Fund, the Commonwealth Legislature Resolutions fund, and the Community Development Block Grant Program Fund, respectively. These decreases were partially offset by an increase of \$231,104 in the Debt Service Fund. Of total fund balances, \$574,232 (or 15%) constitutes unrestricted fund balance, which is comprised of funds assigned by the Mayor or the Finance Director as well as unassigned funds. The remainder of the fund balance is restricted to indicate that it is not available for new spending. The general fund is the operating fund of the Municipality. The fund balance of the general fund represents 34% of total ending fund balance. Assigned portions of the unrestricted fund balance are distributed as follows 1) \$63,477 assigned for general public works and sanitation; 2) \$926 assigned for public safety; 3) \$5,716 assigned for culture and recreation; 4) \$638,475 assigned for capital projects; 5) \$351 assigned for health; 6) \$2,157 assigned for housing, welfare and community development and 7) \$100,644 assigned for general government and other purposes.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal year ended June 30, 2012**

The remainder of the unrestricted fund balance or \$476,763 is unassigned fund balance, which represents 37% of the total fund balance of the general fund and 4% of total general fund expenditures. For the year ended June 30, 2012, the fund balance of the general fund decreased by \$346,217. Of this change \$339,998 pertains to other special funds (with self-imposed restrictions) included as part of the general fund (resources to finance these special funds were provided in current and previous years).

***General fund budgetary highlights***

The general fund original budget for the fiscal period 2012 presented a decrease of only .3% with respect to the prior year budget due to an increase in the estimated amount of property tax revenues, intergovernmental revenues and other revenues.

Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year 2012 amendments to budget expenditures for a net amount of \$677,671 were approved. Of this net amount \$417,501 represented a readjustment of current year budget with prior year's budgetary surpluses, \$21,530 were transferred from deposits and sureties payable, and \$186,523 were transferred from other funds. Actual revenues exceeded the revised budgeted revenues by \$199,111. The most significant variances were a positive \$185,436 from fees, fines and charges for services, a positive \$87,890 from intergovernmental revenues, a positive \$52,553 in other revenues, and a negative \$143,753 in municipal license taxes. The Municipality reported a positive variance of \$75,346 between revised budgeted appropriations and actual expenditures primarily due to positive variances of \$33,801, \$16,193 and \$15,744 in public works and sanitation, health, and welfare and community development expenditures respectively; ending with a total net positive variance of \$270,453.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital assets***

At the end of the fiscal year, the Municipality has invested \$46,586,952 in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of .15% over the prior year.

**TABLE 4**

<i>Capital Assets</i>		
<i>As of June 30, 2012</i>		
	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
<b>Non-depreciable assets:</b>		
Land	\$ 8,232,361	\$ 8,165,495
Construction in progress	8,050,541	10,310,004
<b>Depreciable assets:</b>		
Land improvements	1,183,143	977,415
Buildings and buildings improvements	21,318,458	18,735,621
Infrastructure	5,423,738	5,715,749
Vehicles, machinery and equipment	2,378,711	2,608,347
<b>Total</b>	<b>\$ 46,586,952</b>	<b>\$ 46,512,631</b>

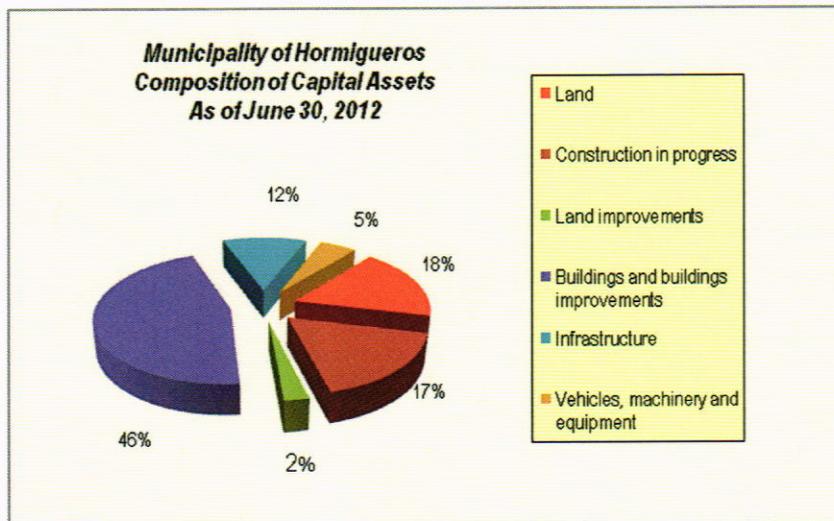
**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal year ended June 30, 2012**

Certain projects are still in construction in progress as of June 30, 2012. The most significant of these projects are the construction of "Lavadero Sanitary Sewer System", the Athletic Track and Field, the Hoya Grande Multipurpose Communal Center, remodeling of the sidewalks, curbs and gutters near the City Hall, and the construction of the project of "Viviendas Lavadero de Oro" with reported costs of \$4,830,887; \$2,056,617; \$505,365; \$246,726; and \$176,245, respectively.

**Figure 3**



The Municipality's fiscal year 2012-2013 capital budget calls for a significant amount of new and continuous projects including the continuance of the construction of Lavadero Sanitary Sewer system, which is being financed through grants from USDA Rural Development, P.R. Water and Sewer Authority and Commonwealth's stimulus plan funds. Other projects still in progress in this fiscal year 2013 will include the rehabilitation of the Eureka sugar mill, the access road to San Romualdo community through Santana trail, the improvements to the municipal landfill, and the improvements of various basketball courts in different communities, among others.

The Municipality will continue its public policy of land acquisition for the development of necessary projects and to promote the development of low cost housing, and commercial spaces. Also the improvement of municipal roads, sidewalks and gutters, and other infrastructure will be continued during 2012-2013. All these projects will be financed through Commonwealth and Federal grants, Commonwealth Legislature and Municipal funds. More detailed information about the Municipality's capital assets and future projects is presented in Note G to the financial statements.

The Municipality usually enters into agreements with agencies and instrumentalities of the Commonwealth to perform the construction of certain infrastructure projects to be ultimately used by those agencies and instrumentalities in their operations. These capital projects (including land acquired) are funded by the Municipality through grants and/or loans and included as part of the Municipality's capital assets until construction is completed and conditions for transfers to the ultimate beneficiaries are met. At that time, they are recorded as an expense in the statement of activities.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal year ended June 30, 2012**

During fiscal year 2003-2004 the Municipality started the construction of the "Lavadero Sanitary Sewer System", a project performed through an agreement with the Puerto Rico Aqueduct and Sewer Authority ("PRASA"). As of June 30, 2012 the project's construction is completed and a total amount of \$4,830,887 is still included as part of the capital assets of the Municipality. The process of transfer of the project to PRASA is still not been executed as of year-end since certain conditions precedent to the transfer are in the process of being completed by the Municipality.

***Long term debt***

At year-end, the Municipality has \$ 14,191,000 in general and special bonds and notes outstanding, a decrease of 7% with respect to fiscal year 2011. This decrease was due to payment of year principal amounts of previously issued notes. No new debt was acquired for this year.

**TABLE 5**

<b><i>Outstanding Long-term Debt</i></b>		
<b><i>Fiscal years ended June 30, 2012</i></b>		
	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
General and special obligation bonds and notes	\$ 14,191,000	\$ 15,249,000
Compensated absences	1,343,806	1,290,609
Payable to CRIM – prior years doubtful accounts	3,987	4,186
Christmas bonus payable	207,504	166,521
Payable to CRIM - LIMS	-	16,998
Estimated landfill closing costs	1,286,909	1,249,607
Property Taxes – current year	89,858	89,858
Payable to PREPA	563,720	363,620
<b>Total</b>	<b>\$ 17,686,784</b>	<b>\$ 18,430,399</b>

The Municipality reported an increase in other long term debts of \$314,385. It was caused primarily due to the increase of \$200,100 in the amount payable to PREPA. More detailed information about the Municipality's long term liabilities is presented in Note I to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality's officials considered certain factors when setting the fiscal year 2012-2013 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 14% which compares with the Commonwealth rate of 13.9%.

For fiscal year 2012-2013 the Municipality applied a conservative approach in development budget estimates. Amount available for appropriations in the General Fund totals \$10,716,746, an increase of approximately 1% with respect to prior fiscal year estimates. Budgeted expenditures are expected to increase according to the increase of budgeted revenues. If these estimates are realized, the Municipality's budgetary general fund balance is expected to decrease modestly by the close of 2013 fiscal year. In addition to the general fund estimated budget the Municipality plans to submit Federal and Commonwealth funds proposals for welfare and community development as well as permanent capital improvements and public works.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal year ended June 30, 2012**

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Director of Finance at P.O. Box 97, Hormigueros, Puerto Rico 00660.

**BASIC FINANCIAL STATEMENTS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**STATEMENT OF NET ASSETS  
JUNE 30, 2012**

<b>ASSETS</b>	<b>Governmental Activities</b>
Cash and cash equivalents	\$ 1,917,508
Receivables, net:	
Municipal license taxes	135,264
Sales and use taxes	116,514
Lease (note C)	127,763
Other	15,069
Due from (note D):	
Commonwealth Government	1,484,282
Federal Government	688,227
Restricted assets:	
Cash and cash equivalents	998,231
Cash with fiscal agents	3,841,292
Investment held with fiscal agent (note B)	73,335
Deferred bond issuance costs, net of accumulated amortization of \$87,658	87,376
Other assets	597
Capital assets (note G):	
Land and construction in progress	16,282,902
Other capital assets, net	<u>30,304,050</u>
Total capital assets, net	<u>46,586,952</u>
<b>Total assets</b>	<b><u>\$ 56,072,409</u></b>

**LIABILITIES**

Accounts payable and accrued liabilities	\$ 1,861,542
Interest payable	311,510
Due to:	
Commonwealth Government	13,823
Deferred revenues:	
Municipal license taxes	1,024,323
Intergovernmental - Federal grants	21,464
Long term liabilities (note I):	
Due within one year	1,832,769
Due in more than one year	<u>15,854,015</u>
<b>Total liabilities</b>	<b>20,919,446</b>

**NET ASSETS**

Invested in capital assets, net of related debt	34,686,700
Restricted for:	
Capital projects	19,711
Debt service	2,867,859
Other purposes	120,506
Unrestricted (deficit)	<u>(2,541,812)</u>
<b>Total net assets</b>	<b><u>\$ 35,152,963</u></b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2012**

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Change in Net Assets
		Fees, Fines and Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
General government	\$ 7,765,611	\$ 2,932,846	\$ 264,748	\$ -	\$ (4,568,017)
Public works and sanitation	3,383,331	28,032	73,107	1,129,697	(2,152,494)
Public safety	915,056	-	19,307	-	(895,749)
Culture and recreation	1,338,326	17,010	2,575	-	(1,318,741)
Health	375,991	-	-	-	(375,991)
Housing, welfare and community development	2,360,190	7,823	1,227,358	-	(1,125,010)
Education	43,925	-	-	-	(43,925)
Interest on long term debt	631,959	-	-	-	(631,959)
<b>Total</b>	<b>\$ 16,814,390</b>	<b>\$ 2,985,711</b>	<b>\$ 1,587,095</b>	<b>\$ 1,129,697</b>	<b>\$ (11,111,886)</b>
<b>General revenues:</b>					
Taxes:					
					3,423,749
					1,307,454
					1,923,655
					4,104,159
					70,383
					232,702
					<u>11,062,102</u>
					(49,785)
					35,202,747
					<u>\$ 35,152,963</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS

BALANCE SHEET -  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	Major Funds							Total Governmental Funds
	General	Community Development Block Grant Program	Commonwealth Legislature Resolutions	Debt Service	Lavadero Sanitary Sewer System	\$ 3,000,000 Bond Issuance	Other Governmental Funds	
<b>Assets</b>								
Cash and cash equivalents	\$ 1,917,508	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,917,508
Receivables, net:								
Municipal license taxes	135,264	-	-	-	-	-	-	135,264
Sales and use taxes	116,514	-	-	-	-	-	-	116,514
Lease	127,763	-	-	-	-	-	-	127,763
Other	-	-	-	-	-	-	15,069	15,069
Due from:								
Commonwealth Government	953,778	-	17	203,062	-	-	327,425	1,484,282
Federal Government	-	608,725	-	-	-	-	79,501	688,227
Other funds (note E)	741,650	-	-	-	-	-	-	741,650
Restricted assets:								
Cash and cash equivalents	-	7,614	513,294	-	242,300	-	235,023	998,231
Cash with fiscal agents	-	-	-	2,982,259	25,756	-	833,276	3,841,292
Investment held with fiscal agent	-	-	-	-	-	73,335	-	73,335
Other Asset	-	-	-	-	-	-	597	597
<b>Total assets</b>	<b>\$ 3,992,476</b>	<b>\$ 616,339</b>	<b>\$ 513,311</b>	<b>\$ 3,185,321</b>	<b>\$ 268,056</b>	<b>\$ 73,335</b>	<b>\$ 1,490,892</b>	<b>\$ 10,139,731</b>
<b>Liabilities and fund balances (deficit)</b>								
<b>Liabilities:</b>								
Accounts payable and accrued liabilities	\$ 493,018	\$ 400,206	\$ 325,607	\$ -	\$ 392,265	\$ 73,335	\$ 177,111	\$ 1,861,542
Matured bonds and interest payable	-	-	-	983,102	-	-	-	983,102
Due to:								
Commonwealth Government	13,823	-	-	-	-	-	-	13,823
Other funds	-	216,133	-	5,949	-	-	519,567	741,650
Deferred revenues (notes C, H, and L):								
Municipal license taxes	1,155,535	-	-	-	-	-	-	1,155,535
Lease	127,763	-	-	-	-	-	-	127,763
Intergovernmental - Commonwealth Government	913,828	-	17	-	-	-	40,139	953,984
Intergovernmental - Federal grants	-	468,218	-	-	-	-	59,906	528,124
Other	-	-	-	-	-	-	286	286
<b>Total liabilities</b>	<b>2,703,967</b>	<b>1,084,557</b>	<b>325,623</b>	<b>989,051</b>	<b>392,265</b>	<b>73,335</b>	<b>797,008</b>	<b>6,365,808</b>
<b>Fund balances (deficits):</b>								
Restricted	-	-	187,688	2,196,270	25,443	-	790,291	3,199,692
Assigned	811,746	-	-	-	-	-	-	811,746
Unassigned	476,763	(468,218)	-	-	(149,652)	-	(96,407)	(237,514)
<b>Total fund balances (deficits)</b>	<b>1,288,509</b>	<b>(468,218)</b>	<b>187,688</b>	<b>2,196,270</b>	<b>(124,209)</b>	<b>-</b>	<b>693,884</b>	<b>3,773,924</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 3,992,476</b>	<b>\$ 616,339</b>	<b>\$ 513,311</b>	<b>\$ 3,185,321</b>	<b>\$ 268,056</b>	<b>\$ 73,335</b>	<b>\$ 1,490,892</b>	<b>\$ 10,139,731</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

<b>Total governmental fund balances:</b>		<b>\$ 3,773,924</b>
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		46,586,952
Other assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds:		
Deferred charges - bond issuance costs		87,376
Other assets are not available to pay current-period expenditures and, therefore, are deferred in the funds:		
Receivables:		
Lease agreement	127,763	
Municipal licenses and sales tax	131,816	
Due from Commonwealth Government:		
P.R. Infrastructure Financing Authority - PINI Funds	1,386	
P.R. Department of Treasury - Christmas bonus reimbursement	165,221	
P.R. Solid Waste Administration	28,080	
Commonwealth Legislature Resolutions	17	
P.R. Department of Education	10,673	
CRIM - Property tax final settlement	184,283	
P.R. Electric Power Authority (PREPA)	563,721	
Due from Federal Government:		
P.R. Department of Health - HOPWA	2,782	
P.R. Office of the Ombudsman for the Elderly - Tit. III-D & III-E	33,033	
P.R. Office of Housing (PRPHA)	2,537	
Emergency Shelter Grant	7,317	
OCAM - CDBG and CDBG - ARRA	461,277	1,719,906
Interest liabilities are not due and payable in the current period and, therefore, are not reported in funds		(87,411)
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
General obligation bonds and notes	(13,432,000)	
Note payable to CRIM-financing of delinquent accounts	(3,987)	
Compensated absences	(1,343,806)	
Christmas bonus payable	(207,504)	
Prior year property tax	(89,858)	
Estimated landfill closing costs	(1,286,909)	
P.R. Electric Power Authority (PREPA)	(563,720)	(16,927,784)
<b>Net assets of governmental activities:</b>		<b><u>\$ 35,152,963</u></b>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) -  
GOVERNMENTAL FUNDS  
FISCAL YEAR ENDED JUNE 30, 2012

	Major Funds							Total Governmental Funds
	General	Community Development Block Grant Program	Commonwealth Legislature Resolutions	Debt Service	Lavadero Sanitary Sewer System	\$ 3,000,000 Bond Issuance	Other Governmental Funds	
<b>Revenues:</b>								
Taxes:								
Property taxes (note K)	\$ 1,690,693	-	\$ -	\$ 1,548,773	\$ -	\$ -	\$ -	\$ 3,239,466
Municipal license taxes (note L)	1,303,331	-	-	-	-	-	-	1,303,331
Sales and use taxes (note M)	1,498,033	-	-	430,832	-	-	-	1,928,865
Intergovernmental:								
Commonwealth government (note N)	5,731,362	-	95,950	-	-	-	635,752	6,463,062
Federal government	995,257	842,047	-	-	-	-	1,258,231	2,100,277
Fees, fines and charges for services	7,885	-	-	-	-	-	32,247	1,027,504
Interest	216,517	-	-	12,601	-	-	49,897	70,383
Other	11,443,078	842,047	95,950	1,992,206	-	-	1,976,127	216,517
<b>Total Revenues</b>								
	\$ 11,443,078	842,047	95,950	1,992,206	-	-	1,976,127	16,349,406
<b>Expenditures</b>								
Current:								
General government	6,279,289	206,847	-	-	-	-	265,896	6,752,032
Public works and sanitation	2,229,571	75,932	4,990	-	-	-	263,199	2,573,692
Public safety	753,727	-	-	-	-	-	8,376	762,103
Culture and recreation	758,417	-	-	-	-	-	-	758,417
Health	363,991	-	-	-	-	-	-	363,991
Housing, welfare and community development	618,738	308,268	29,365	-	-	-	1,244,425	2,200,796
Education	17,291	-	-	-	-	-	-	17,291
Capital outlays	459,894	445,700	337,202	-	-	-	793,049	2,035,846
Debt service:								
Principal	-	-	-	1,081,000	-	-	-	1,081,000
Interest	-	-	-	636,525	-	-	-	636,525
<b>Total expenditures</b>	\$ 11,480,919	1,036,746	371,557	1,717,525	-	-	2,574,946	17,181,693
<b>Excess (deficiency) of revenues over expenditures</b>	(37,841)	(194,699)	(275,608)	274,682	-	-	(598,819)	(832,287)
<b>Other financing sources (uses):</b>								
Lease principal payments (note C)	76,152	-	-	-	-	-	-	76,152
Payment of long term debt to P. R. Electric Power Authority	(480,979)	-	-	-	-	-	-	(480,979)
Transfers in	688,958	-	-	457,682	-	-	10,234	1,156,874
Transfers out	(592,506)	-	-	(501,261)	-	-	(63,107)	(1,156,874)
<b>Total other financing sources (uses)</b>	(308,375)	-	-	(43,578)	-	-	(52,873)	(404,827)
<b>Net change in fund balances (deficit)</b>	(346,217)	(194,699)	(275,608)	231,103	-	-	(651,692)	(1,237,114)
<b>Fund balances (deficit) at beginning of year</b>	1,634,726	(273,519)	463,296	1,965,166	(124,209)	-	1,345,579	5,011,039
<b>Fund balances (deficit) at end of year</b>	\$ 1,288,509	\$ (468,218)	\$ 187,688	\$ 2,196,270	\$ (124,209)	\$ -	\$ 693,887	\$ 3,773,924

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The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES (DEFICIT) - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2012**

**Net change in fund balances (deficit) - total governmental funds:** **\$ (1,237,114)**

Amounts reported for governmental activities in the Statement of activities are different because:

Governmental funds reports capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for capital assets	\$ 2,035,847	
Less: current year depreciation	<u>(1,917,013)</u>	118,834

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset:

(166,413)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Receivables:

Municipal licenses	4,884	
Sales tax	604	

Intergovernmental - Commonwealth Government:

P.R. Department of Treasury - Christmas bonus reimbursement (current)	165,221	
P.R. Department of Education	10,673	
CRIM - Property tax final settlement	184,283	
Commonwealth Legislature Resolutions	17	
P.R. Electric Power Authority (PREPA)	454,053	
P.R. Solid Waste Administration	28,080	

Intergovernmental - Federal Government:

OCAM - CDBG and CDBG - ARRA	321,972	
Emergency Shelter Grant	7,317	
P.R. Department of Health - HOPWA	2,468	
P.R. Department of Housing - PRPHA	2,537	
P.R. Office of the Ombudsman for the Elderly - Titles III-D & III-E	<u>33,033</u>	1,215,142

Revenues reported in funds which are not reported as revenues in the Statement of Activities

Sales tax	(5,815)	
Municipal licenses	(761)	
P.R. Department of Treasury - Christmas bonus reimbursement (prior year)	(132,590)	
P.R. Department of Education	(17,489)	
P.R. Office of the Ombudsman for the Elderly - Titles III-D and E	(2,425)	
P.R. Department of Health - HOPWA	(4,409)	
P.R. Electric Power Authority (PREPA)	(253,952)	
OCAM - CDBG and CDBG - ARRA	(156,459)	
Federal Transit Administration	(10,728)	
OCAM - Public Order Code	(23,476)	
Commonwealth Legislature Resolutions	(23,342)	
Other revenues - Rent and Others	(43,810)	
Capital lease principal payment	<u>(60,961)</u>	(736,217)

Expenditures reported in funds which are not reported as expenses in the Statement of Activities:

Matured bonds principal payments (net change)		23,000
---	--	--------

Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets:

General Obligation Bonds and Notes	1,058,000	
Other Long Term Liabilities	<u>877,221</u>	1,935,221

Governmental funds report the effect of bond issuance costs as expenditure when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:

Amortization of deferred charges - bond issuance costs		(8,986)
--	--	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Christmas Bonus	(207,504)	
P.R. Electric Power Authority (PREPA)	(681,079)	
Estimated landfill closing costs	(37,302)	
Compensated Absences	(265,721)	
Accrued interest (net change)	<u>(1,646)</u>	(1,193,252)

**Change in net assets of governmental activities:** **\$ (49,785)**

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of Hormigueros was founded in 1874. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of twelve (12) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

**1. *Financial reporting entity***

The financial reporting entity included in this report consists of the financial statements of the Municipality of Hormigueros (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and,
  - 1) The primary government can impose its will on the potential component unit and/or,
  - 2) A financial benefit/ burden exist between the primary government and the potential component unit.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

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

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

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

**2. *Basis of presentation, measurement focus and basis of accounting***

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

**Management's Discussion and Analysis**

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

**Basic financial statements**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Government-wide statements**

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long-lived) assets and receivables as well as long-term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

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. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Fund Statements**

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users (for Commonwealth Legislature Resolutions, Lavadero Sanitary Sewer System and \$3,000,000 Bond Issuance Funds).

The Municipality reports the following major governmental funds:

**General Fund:** This is the operating fund of the Municipality and is used to account for and report all financial resources not accounted for and reported in another fund.

**Community Development Block Grant Program Fund (CDBG):** CDBG fund (including CDBG - ARRA) is used to account for and report revenue sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

**Commonwealth Legislature Resolutions Fund:** This fund is used to account for and report revenue sources from grants provided by the Commonwealth's Legislature for specific purposes which include, among others, acquisition, development and improvements of capital assets.

**Debt Service Fund:** This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

**Lavadero Sanitary Sewer System Fund:** This fund is used to account for and report revenue sources from a grant provided by the USDA Rural Development for specific purposes, that is, the construction of a sanitary sewer system for the Lavadero's community.

**\$3,000,000 Bond Issuance Fund:** This fund is used to account for and report the proceeds from a special obligation bond issuance for the acquisition of land and construction of sports facilities.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

The governmental funds financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

The Municipality reports in the governmental funds statements deferred revenues which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) (2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long term portions of debt must be included).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

**Notes to Financial Statements**

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

**Required Supplementary Information:**

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

**3. *Deposits and investments***

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

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

**4. *Restricted assets***

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law. Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

6. *Interfund receivables and payables*

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

7. *Inventories*

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

8. *Capital assets*

Capital assets reported in the governmental activities in the Statements of Net Assets include property, plant, equipment and infrastructure, (e.g., roads, bridges, sidewalks, and similar items). The Municipality defines capital assets (except for infrastructure assets) as assets that have an individual cost of \$1,000 or more and have a useful life of one or more years. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Land improvements	20
Buildings and building improvements	20-50
Infrastructure	10-50
Vehicles, machinery and equipment	5-20

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

**9. *Long-term obligations***

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consist of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

**10. *Deferred bond issuance costs***

Bond issuance costs are reported as deferred charges and amortized as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

**11. *Compensated absences***

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**12. Fund balances and Net Assets**

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

- |               |  |
|---------------|--|
| Nonspendable: | Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.  |
| Restricted:   | Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation. |
| Committed:    | Amounts that can be used only for the specific purposes imposed through formal action (ordinance or resolution) by consent of both the Mayor and the Municipal Legislature, the highest level of decision-making authority for the Municipality. Those committed amounts cannot be used for any other purposes unless the highest level of decision-making authority for the Municipality removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commit fund balances to an specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.      |
| Assigned:     | Amounts intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent can be expressed by the Mayor or the Finance Director, the official to which the Mayor has also delegated the authority to assign amounts. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balances may be made after year-end.  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

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

The Municipality applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

In the government-wide statements net assets are segregated into three categories:

Invested in capital assets, net of related debt:	Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
Restricted net assets:	Represent net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation.
Unrestricted net assets:	Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

**13. *Interfund transactions***

The Municipality reports certain transactions as transfers, which are legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

**14. *Risk financing***

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of Hormigueros consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

Payment of the Municipality’s insurance premiums is monthly deducted from advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by the CRIM. Settled cases have not exceeded insurance coverage for any of the past three years.

**15. Use of estimates**

The preparation of the basic financial statements in accordance 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 basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**16. Future adoption of accounting pronouncements**

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

<u>Statement</u>	<u>To be adopted in fiscal year ended,</u>
60      Accounting and Financial Reporting for Service Concession Arrangements	June 30, 2013
61      The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34	June 30, 2013
62      Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	June 30, 2013
63      Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	June 30, 2013
65      Items Previously Reported as Assets and Liabilities	June 30, 2014
66      Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62	June 30, 2014
67      Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25	June 30, 2014
68      Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27	June 30, 2015

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE B – DEPOSITS AND INVESTMENT**

**1. Deposits**

*Custodial credit risk* is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name.

At year-end, the Municipality's bank balance of deposits in commercial banks amounting to \$2,855,635 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year-end the Municipality's bank balance in governmental banks amounts to \$3,857,094.

**2. Investment**

The investment held with fiscal agent consists of a non-participating investment contract (non-rated guaranteed investment contract, "GIC"). This represents the investment of the undisbursed proceeds of the \$3,000,000 special obligation bond under custody of GDB, the Municipality's fiscal agent, pursuant to the bond purchase agreement. The GIC, with an outstanding balance of \$73,335 as of June 30, 2012, earns interest at a variable rate (.25% rate as of June 30, 2012) and matures on July 10, 2012. The GIC outstanding balance is valued at cost.

**NOTE C – RECEIVABLES - LEASE**

The Municipality is a lessor of a property, which consists of a building facility, classified as direct financing lease. The lease term is for twenty years under a noncancelable lease agreement. The following lists the component of the net investment in direct financing lease as of June 30:

	<b>Amount</b>
Total minimum lease payments to be received	\$ 139,612
Less: Unearned income	(11,849)
Net investment in direct financing lease	<b>\$ 127,763</b>

At June 30, 2012, minimum lease collections for the succeeding fiscal years are as follows:

<b>Year</b>	<b>Amount</b>
2013	\$ 82,498
2014	57,114
	<b>\$ 139,612</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE D - DUE FROM (TO) GOVERNMENTAL ENTITIES**

Amounts due from governmental entities as of June 30, 2012 follows:

	<b>Commonwealth Government</b>	<b>Federal Government</b>
<b><u>Major fund - General fund:</u></b>		
P.R. Electric Power Authority (PREPA)	\$ 563,720	\$ -
Municipal Revenue Collection Center (CRIM) – property taxes	184,283	-
P.R. Department of Treasury – Christmas bonus reimbursement	165,221	-
P.R. Department of Education	13,200	-
P.R. Department of Treasury – sales and use taxes- Municipal Development fund	27,354	-
<b><u>Major fund – CDBG fund:</u></b>		
Office of Commissioner of Municipal Affairs – CDBG and CDBG-ARRA	-	608,725
<b><u>Major fund – Commonwealth Legislature Resolutions fund:</u></b>		
Commonwealth Legislative Resolutions	17	-
<b><u>Major fund – Debt service fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – property taxes	148,985	-
P.R. Department of Treasury – sales and use taxes- Municipal Redemption Fund	54,077	-
<b><u>Other governmental funds:</u></b>		
P.R. Infrastructure Financing Authority (PRIFA)	1,384	-
P.R. Public Order Code	11,729	-
P.R. Citizen Corporation Program	1,589	-
Solid Waste Authority-Environmental Compliance	280,800	-
Schools Maintenance	10,673	-
Emergency Shelter Grant Program	-	7,317
P.R. Office of the Ombudsman for the Elderly – Title III-D, E and NSIP	-	33,033
P.R. Public Housing Authority	-	2,605
P.R. Department of Labor – Law No. 52	21,250	-
P.R. Department of Health – HOPWA	-	5,497
Others	-	31,050
	<b>\$ 1,484,282</b>	<b>\$ 688,227</b>

See note H for detail of amounts due from Governmental Entities recorded as deferred revenue.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE E - INTERFUND TRANSACTIONS**

**1. Due from/to other funds**

Amounts due from/to other funds represent temporary advances to other funds by the general fund payroll and payroll taxes expenditures, as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	<b><u>Major fund:</u></b>	
	CDBG	\$ 216,133
	<b><u>Major fund:</u></b>	
	Debt Service	5,949
	<b><u>Other governmental funds:</u></b>	
	\$510,000 Bond Issuance	14,648
	Public Housing	4,932
	\$840,000 Bond Issuance	1,705
	\$1,027,000 Bond Issuance	44,066
	Solid Waste Authority-Environmental Compliance	252,720
	Emergency Shelter Grant Program	5,000
	HVP	31,359
	FTA	31,192
	HOPWA	5,802
	Home Caregivers	42,819
	Schools Maintenance	10,673
	Public Order Code	11,727
	Law 52	21,250
	Title III	33,032
	P.R. Infrastructure Financing Authority (PRIFA)	1,386
	Others	7,257
Total:		<u><u>\$ 741,650</u></u>

**2. Transfers in (out)**

Transfers among individual funds were made for operational purposes. Transfers includes interest earned on restricted cash with fiscal agent in the debt service fund and operating and capital improvement loans in other governmental funds which are transferred to the general fund; and principal and interest payments of general long-term debt transferred from the general fund to the debt service fund.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE F- FUND BALANCE

1. Fund balance classifications

The governmental fund balance classifications and amounts at June 30, 2012 are shown in the following table:

	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	Lavadero Sanitary Sewer System	Other Governmental Funds	Total
<b>Restricted:</b>							
General public works and sanitation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,947	\$ 12,947.02
Housing, welfare and community development	-	-	-	-	-	61,912	61,912
Debt service	-	-	2,196,270	-	-	-	2,196,270
Capital outlays	-	187,688	-	-	25,443	711,617	924,748
General government and other purposes	-	-	-	-	-	682	682
	-	187,688	2,196,270	-	25,443	790,291	3,199,692
<b>Assigned:</b>							
General public works and sanitation	63,477	-	-	-	-	-	63,477
Public safety	926	-	-	-	-	-	926
Sports, culture and recreation	5,716	-	-	-	-	-	5,716
Health	351	-	-	-	-	-	351
Housing, welfare and community development	2,157	-	-	-	-	-	2,157
Capital outlays	638,475	-	-	-	-	-	638,475
General government and other purposes	100,644	-	-	-	-	-	100,644
	811,746	-	-	-	-	-	811,746
	476,763	-	-	(468,218)	(149,652)	(96,407)	(237,514)
<b>Unassigned</b>	<b>\$ 1,288,509</b>	<b>\$ 187,688</b>	<b>\$ 2,196,270</b>	<b>\$ (468,218)</b>	<b>\$ (124,209)</b>	<b>\$ 693,884</b>	<b>\$ 3,773,924</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE F- FUND BALANCE - Continued**

**2. Fund balance deficits**

Certain special funds included in the fund statements disclosed fund balance deficits as follows:

Funds	Fund balance - unassigned amount
<b>Major Funds:</b>	
CDBG	\$ 468,218
Lavadero Sanitary Sewer System	\$ 149,652
<b>Other Governmental Funds:</b>	
Solid Waste Authority-Environmental Compliance	\$ 40,104
School Maintenance	8,866
Emergency Shelter Grant Program	7,317
Title III - E	29,434
Improvements to Del Rio Basketball Court	5,669
HOPWA	2,782
Others	2,235
	\$ 96,407

The deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

**NOTE G - CAPITAL ASSETS**

Capital assets and depreciation activity as of and for the year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
<i>Governmental activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 8,165,495	\$ 163,939	\$ 97,073	\$ 8,232,361
Construction in progress	10,310,004	1,264,727	3,524,190	8,050,541
Total capital assets not being depreciated:	18,475,499	1,428,666	3,621,263	16,282,902
Capital assets, being depreciated:				
Land improvements	1,406,706	280,800	-	1,687,506
Buildings and building improvements	27,232,348	3,325,087	-	30,557,435
Infrastructure	11,787,002	302,814	-	12,089,816
Vehicles, machinery and equipment	8,380,709	300,584	236,546	8,444,747
Total capital assets being depreciated	48,806,765	4,209,285	236,546	52,779,504
Less accumulated depreciation for:				
Land improvements	429,290	75,072	-	504,362
Buildings and building improvements	8,496,727	742,251	-	9,238,978
Infrastructure	6,071,254	594,824	-	6,666,078
Vehicles, machinery and equipment	5,772,363	504,866	211,193	6,066,036
Total accumulated depreciation	20,769,634	1,917,013	211,193	22,475,454
Total capital assets being depreciated, net	28,037,132	2,292,272	25,353	30,304,050
Governmental activities capital assets, net	\$ 46,512,631	\$ 3,720,938	\$ 3,646,616	\$ 46,586,952

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE G - CAPITAL ASSETS - Continued**

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

Governmental activities:

General government	\$	220,466
Public works and sanitation		765,580
Public safety		152,954
Culture and recreation		579,909
Health		12,000
Welfare and community development		159,469
Education		26,635
Total depreciation expense, governmental activities	<b>\$</b>	<b><u>1,917,013</u></b>

The Municipality entered into agreements with agencies and instrumentalities of the Commonwealth to perform the construction of certain infrastructure projects to be ultimately used by those agencies and instrumentalities in their operations. These capital projects (including land acquired) are funded by the Municipality through grants and/or loan agreements and included as part of the Municipality's capital assets until construction is completed and conditions for transfers to the ultimate beneficiaries are met. At that time, they are recorded as an expense in the statement of activities.

During fiscal year 2003-2004 the Municipality started the construction of the "Lavadero Sanitary Sewer System," a project performed through an agreement with the Puerto Rico Aqueduct and Sewer Authority ("PRASA"). As of June 30, 2012 the project's construction is completed and a total amount of \$4,830,887 is still included as part of the capital assets of the Municipality. The process of transfer of the project to PRASA is still not been executed as of year-end since certain conditions precedent to the transfer are in the process of being completed by the Municipality.

**NOTE H - DEFERRED REVENUES – GOVERNMENTAL FUNDS**

Deferred revenues - Intergovernmental Commonwealth Government represent revenues not available as required by current standards and for Federal Grants represent resources received before allowable expenditures are incurred or resources not available as required by current standards. A detail of these balances follows:

	<b>Commonwealth Government</b>	<b>Federal Grants</b>
<b><u>Major fund - General fund:</u></b>		
P.R. Electric Power Authority (PREPA)	\$ 563,720	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	165,221	-
Sales and use taxes	604	-
Municipal Revenue Collection Center (CRIM) – property taxes	184,283	
<b><u>Major fund – CDBG fund:</u></b>		
Office of Commissioner of Municipal Affairs – CDBG and CDBG-ARRA	-	468,218
<b><u>Major fund – Commonwealth Legislature</u></b>		
<b><u>Resolutions fund:</u></b>		
Commonwealth Legislative Resolutions	17	-

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE H - DEFERRED REVENUES – GOVERNMENTAL FUNDS - Continued**

	<u>Commonwealth Government</u>	<u>Federal Grants</u>
<b>Other governmental funds:</b>		
P.R. Infrastructure Financing Authority (PRIFA)	1,386	-
P.R. Department of Education - CRE	10,673	-
Solid Waste Authority-Environmental Compliance	28,080	-
Emergency Shelter Grant Program	-	7,317
P.R. Department of Housing (PRPHA) – PIH	-	5,835
P.R. Department of Health – HOPWA	-	5,391
P.R. Child Care SENDEC	-	1,684
P.R. Department of Family – Title III-D and E	-	33,033
P.R. Department of Education – Food Program	-	6,641
Others	-	5
	<u>\$ 953,984</u>	<u>\$ 528,124</u>

**NOTE I – LONG-TERM DEBT**

**1. Summary of long-term debt activity**

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2012:

	<u>Balance at July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2012</u>	<u>Due within one year</u>
General, Special Obligations Bonds and Notes	\$ 15,249,000	\$ -	\$ 1,058,000	\$ 14,191,000	\$ 993,000
Note payable to CRIM-LIMS	16,998	-	16,998	-	-
Note payable to CRIM-financing of delinquent accounts	4,186	-	199	3,987	199
Compensated absences	1,290,609	265,721	212,524	1,343,806	205,514
Christmas Bonus	166,521	207,504	166,521	207,504	207,504
Estimated Landfill Closing Costs	1,249,607	37,302	-	1,286,909	-
Payable to CRIM-property tax advances	89,858	-	-	89,858	89,858
Payable to PREPA	363,620	681,079	480,979	563,720	336,694
	<u>\$ 18,430,399</u>	<u>\$ 1,191,606</u>	<u>\$ 1,935,221</u>	<u>\$ 17,686,784</u>	<u>\$ 1,832,769</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE I – LONG-TERM DEBT – Continued**

**2. General and special obligation bonds and notes**

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2012 amount to \$14,191,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by law. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of \$690,000 Revenue bonds are made through an "Interest Bearing Account" (IBA) maintained by GDB, which is financed with proceeds from lessee's rental payments.

Principal and interest payments of certain long term debt issued for operational purposes (special obligation note of \$748,000 and special obligation bonds of \$3,000,000 and \$203,000) are made through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Principal and interest payments of special obligation notes of \$305,000; \$139,000; \$1,027,000 and \$385,000 are made through the "Municipal Redemption Fund (IVU)". A detail of the general and special obligation bonds and notes as of June 30, 2012 follows:

	<b>Outstanding Amount</b>
1994 public improvement bonds of \$125,000 due in annual installments of \$3,000 to \$10,000 through January 1, 2019; bearing interest at 5%	\$ 55,000
1992 public improvement bonds of \$168,000 due in annual installments of \$2,000 to \$17,000 through January 1, 2017; bearing interest at 5%	68,000
1997 general obligation bonds of \$175,000 due in annual installments of \$5,000 to 15,000 through July 1, 2021; bearing interest at rates ranging from 4.865% to 6.56% (6.04% at June 30, 2012)	100,000
1996 general obligation bonds of \$390,000 due in annual installments of \$5,000 to \$40,000 through July 1, 2020; bearing interest at rates ranging from 4.70% to 6.63% (6.28 % at June 30, 2012)	235,000
1999 general obligation bonds of \$410,000 due in annual installments of \$5,000 to \$35,000 through July 1, 2024; bearing interest at rates ranging from 2.70% to 7.81% (4.50% at June 30, 2012)	295,000
2001 general obligation bonds of \$425,000 due in annual installments of \$5,000 to \$40,000 through July 1, 2025; bearing interest at rates ranging from 2.70% to 6.13% (4.50% at June 30, 2012)	330,000
1999 general obligation bonds of \$736,000 due in annual installments of \$19,000 to \$52,000 through January 1, 2024; bearing interest at 4.75%	490,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE I – LONG-TERM DEBT – Continued**

	<b>Outstanding Amount</b>
1998 general obligation bonds of \$983,000 due in annual installments of \$23,000 to \$65,000 through January 1, 2024; bearing interest at 4.5%	619,000
2002 general obligation bonds of \$1,000,000 due in annual installments of \$21,000 to \$65,000 through January 1, 2030; bearing interest at 4.50%	821,000
2000 general obligation bonds of \$1,040,000 due in annual installments of \$27,000 to \$76,000 through January 1, 2025; bearing interest at 5.12%	744,000
1997 general obligation bonds of \$1,538,000 due in annual installments of \$41,000 to \$109,000 through January 1, 2022; bearing interest at 4.75%	893,000
2004 general obligation bonds of \$530,000 due in annual installments of \$15,000 to \$40,000 through July 1, 2024; bearing interest at rates ranging from 3.28% to 5.00% (4.73% at June 30, 2012)	400,000
2004 general obligation bonds of \$1,355,000 due in annual installments of \$35,000 to \$85,000 through July 1, 2029; bearing interest at rates ranging from 3.50% to 5.00% (4.73% at June 30, 2012)	1,085,000
2005 special obligation notes of \$748,000 due in annual installments of \$92,000 to \$124,000 through July 1, 2012; bearing interest at rates ranging from 1.53% to 6.60% (1.72% at June 30, 2012)	124,000
2006 general obligation bonds of \$920,000 due in annual installments of \$20,000 to \$70,000 through July 1, 2030; bearing interest at rates ranging from 4.17% to 5.31% (4.73% at June 30, 2012)	795,000
2007 general obligation bonds of \$840,000 due in annual installments of \$10,000 to \$75,000 through July 1, 2031; bearing interest at rates ranging from 1.53% to 7.50% (1.72% at June 30, 2012)	770,000
2007 general obligation notes of \$525,000 due in annual installments of \$60,000 to \$90,000 through July 1, 2014; bearing interest at rates ranging from 1.53% to 7.50% (1.72% at June 30, 2012)	255,000
2008 general obligation notes of \$400,000 due in annual installments of \$45,000 to \$70,000 through July 1, 2014; bearing interest at rates ranging from 1.53% to 7.25% (1.72% at June 30, 2012)	195,000
2008 general obligation bonds of \$569,000 due in annual installments of \$40,000 to \$77,000 through July 1, 2017; bearing interest at rates ranging from 1.53% to 7.50% (1.72% at June 30, 2012)	390,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE I – LONG-TERM DEBT – Continued**

	<u><b>Outstanding Amount</b></u>
2008 special obligation notes of \$305,000 due in annual installments of \$45,000 to \$60,000 through July 1, 2014; bearing interest at rates ranging from 1.53% to 7.50% (1.72% at June 30, 2012)	165,000
2008 special obligation notes of \$139,000 due in annual installments of \$2,000 to 11,000 through July 1, 2032; bearing interest at rates ranging from 1.53% to 7.50% (1.72% at June 30, 2012)	133,000
2008 special obligation notes of \$1,027,000 due in annual installments of \$16,000 to \$87,000 through July 1, 2032; bearing interest at rates ranging from 1.54% to 7.25% (1.72% at June 30, 2012)	976,000
2007 special obligation bond of \$3,000,000 due in annual installments of \$60,000 to \$205,000 through July 1, 2032; bearing interest at 5.83%	2,730,000
2007 special obligation bond of \$203,000 due in annual installments of \$14,000 to \$27,000 through July 1, 2017; bearing interest at rates ranging from 1.53% to 7.50% (1.72% at June 30, 2012)	138,000
2008 special obligation notes of \$385,000 due in annual installments of \$5,000 to 30,000 through July 1, 2033; bearing interest at rates ranging from 1.53% to 7.50% (1.72% at June 30, 2012)	370,000
2010 general obligation bonds of \$510,000 due in annual installments of \$35,000 to 65,000 through July 1, 2019; bearing interest at 6.50%	435,000
2010 general obligation bonds of \$285,000 due in annual installments of \$5,000 to 25,000 through July 1, 2034; bearing interest at 6.50%	275,000
2010 general obligation notes of \$160,000 due in annual installments of \$15,000 to 30,000 through July 1, 2016; bearing interest at rates ranging from 6.0% to 7.50% (6.00% at June 30, 2012)	125,000
2010 municipal obligation notes of \$235,000 due in annual installments of \$25,000 to 40,000 through July 1, 2016; bearing interest at rates ranging from 6.0% to 6.50% (6.00% at June 30, 2012)	180,000
	<u><b>\$ 14,191,000</b></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE I – LONG-TERM DEBT – Continued**

Annual requirements to amortize general and special obligation bonds and notes as of June 30, 2012 are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 993,000	\$ 708,089
2014	923,000	714,112
2015	970,000	656,402
2016	807,000	610,606
2017	855,000	561,627
2018-2022	3,843,000	2,855,296
2023-2027	2,921,000	1,214,250
2028-2032	2,451,000	435,098
2033-2037	428,000	6,800
Totals	<u>\$ 14,191,000</u>	<u>\$ 7,762,280</u>

**3. Other long-term liabilities**

**Note payable to CRIM (Financing of delinquent accounts)** - On March 19, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of \$158,431 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non-revolving line of credit bearing interest of 6.5% for the first five years and variable for the next twenty-five years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years any collection from those delinquent accounts was credited to the loan principal. After the five-year period the loan outstanding balance was restructured for a twenty-five years period. The amount will be repaid with unrestricted funds through withholdings from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center. Debt service requirements in future years are as follows:

\$ 3,987

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	199	245
2014	199	232
2015	199	220
2016	199	208
2017	199	195
2018-2022	997	790
2023-2027	997	481
2028-2032	998	171
Totals	<u>\$ 3,987</u>	<u>\$ 2,542</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE I – LONG-TERM DEBT – Continued**

<p><b>Compensated absences</b> - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. The amount is paid with unrestricted funds</p>	<p><b>\$ 1,343,806</b></p>
<p><b>Christmas Bonus</b> - represents the accrued portion corresponding to fiscal year 2012 of the Christmas bonus to be paid in December 2012 with unrestricted funds.</p>	<p><b>\$ 207,504</b></p>
<p><b>Estimated closure and post-closure care costs of Municipal Landfill</b> - The Municipality owns and operates a MSW landfill in Barrio Jaguitas, Hormigueros since about 1977. The Municipality has recognized an estimated liability for future closure and post-closure care costs. (See Note J)</p>	<p><b>\$ 1,286,909</b></p>
<p><b>Payable to CRIM, property tax advances</b> – represents the amount reported by CRIM as a result of the settlement of excess of advances over actual collections of property taxes applicable to fiscal year 2012. The amount will be repaid with unrestricted funds through withholdings from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center. (See related note K)</p>	<p><b>\$ 89,858</b></p>
<p><b>Payable to PREPA</b> - As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority ("PREPA") should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax ("CELI") based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2010-2011 the Municipality's annual energy charges amounts to \$1,276,196 but the CELI obligation amounted to \$595,118. The excess amount of \$681,079 was recorded as a payable and a receivable for the same amount and will be amortized over a three-year period. As of June 30, 2012 the outstanding amount of \$563,720 includes a balance of \$109,667 from fiscal year 2010 and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:</p>	<p><b>\$ 563,720</b></p>

<b>June 30</b>	<b>Principal</b>
2013	\$ 336,694
2014	227,026
Totals	<b>\$ 563,720</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE J - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS**

The Municipality operates a landfill since 1977. Commonwealth and Federal laws and regulations require the Municipality to place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability should be recognized based on the future closure and post closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations. As a result of this study, the Municipality has recognized an estimated liability for future closure and post-closure care costs. The recognition of this liability is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs has a balance of \$1,286,909 as of June 30, 2012, which is based on 58% usage of the landfill. It is estimated that an additional \$906,590 will be recognized as closure and post-closure care expenditures between the date of the balance sheet and the date the landfill is expected to be filled to capacity (December 2035). The estimated total current costs of the landfill closure and post-closure care (\$2,163,499) is based on the amount that would be paid if all the equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of June 30, 2012. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

**NOTE K - PROPERTY TAXES**

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1<sup>st</sup> and January 1<sup>st</sup>. Total tax rates in force as of June 30, 2012 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund	2.00%	2.00%
Total tax rate	7.03%	9.03%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department	(.20%)	(.20%)
Total percent to be paid by taxpayers	<u>6.83%</u>	<u>8.83%</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE K - PROPERTY TAXES – Continued**

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A net payable of \$89,858 resulting from the settlement for fiscal year 2011 remains as current portion of other long-term debt in the government wide financial statements since it will be paid with current available financial resources.

On June 16, 2011 the Commonwealth's Legislature approved Act No. 94 which established an incentive plan (amnesty) for the payment of property tax debts. The Act, applicable to fiscal periods 2010-2011 and before, provided participants a 100% waiver on interest and penalties and a 50% waiver over principal debt in excess of 10 years. Funds will be collected by the CRIM and remitted to the Municipalities. During the year 2011-2012 amnesty collections of \$19,709 were recorded in the debt service fund.

**NOTE L - MUNICIPAL LICENSE TAXES**

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or about April 15. During the Fiscal year ended June 30, 2012 the tax rates were as follows:

- Financial business - 1.50% of gross revenues
- Other organizations - .50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$1,025,084 is recorded as deferred revenues. Additional deferred revenue of \$130,451 represents receivable from prior years not available to be recorded as general fund revenues. Total deferred revenue amounts to \$1,155,535.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE M - SALES AND USE TAXES**

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

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The municipal sales and use tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The municipal sales and use tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within Municipal limits. The Municipal Legislature approved the imposition of the municipal sales and use tax on November 1, 2006 with Ordinance No. 22 Series 2006-2007, effective on November 15, 2006.

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007, 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

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

- .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by the Act and,
- .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

The Municipal Legislature approved an amendment to Municipal Ordinance No. 22 Series 2006-2007 to conform to dispositions of Act 80.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE M - SALES AND USE TAXES - Continued**

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10<sup>th</sup> day of each month based on the tax collected in the preceding month. A total \$116,514 sales and use tax receivable represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts; \$27,354 and \$54,077 represents amounts of "Municipal Development Fund" and "Municipal Redemption Fund", respectively, collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30.

**NOTE N - INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues in the General Fund are comprised of the following:

	<u>Amount</u>
Amount of municipal equalization fund sent by CRIM	\$ 3,496,776
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,991,964
Reimbursement from P.R. Department of Treasury - Christmas Bonus reimbursement	154,901
Other intergovernmental revenues	87,721
	<u>\$ 5,731,362</u>

**NOTE O - RETIREMENT PLAN**

**1. Plan description**

Regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and no occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447 approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE O - RETIREMENT PLAN - Continued**

Law No. 305 of September 24, 1999 amended Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings account balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions have not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

**2. Funding policy**

Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 10.275% of gross salary.

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

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>
2012	<u>\$ 155,744</u>	<u>\$ 191,786</u>
2011	<u>\$ 169,857</u>	<u>\$ 189,991</u>
2010	<u>\$ 162,034</u>	<u>\$ 181,676</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE P – POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note O, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year 2012, costs related to these post employment benefits amounted to \$108,124. These benefits are recorded as expenditures in the general fund.

**NOTE Q - COMMITMENTS**

**1. Operating leases**

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to \$152,184. Management believes that the summary of the future minimum rental commitments under non-cancelable operating leases with terms exceeding one year is not significant.

**2. Construction**

The Municipality has commitments at June 30, 2012 of \$1,409,460 for construction, improvements or renovation of certain municipal facilities.

**3. Encumbrances**

As of June 30, 2012 the Municipality has encumbrances outstanding totaling \$112,355 which represent the estimated amount of expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. As required by current standards, outstanding encumbrances as of June 30, 2012 are reported as assigned amounts in the general fund. Purpose classification follows:

Purpose	General Fund- assigned fund balance
General public works and sanitation	\$ 52,099
Public safety	292
Culture and recreation	1,698
Housing, welfare and community development	2,157
Health	351
General government and other purposes	55,758
	<b>\$ 112,355</b>

Fund balance of major and other governmental funds (special revenue, capital project and debt service funds) is classified as restricted, some or all of which may be encumbered. Encumbrances of restricted fund balance are not reported separately from this classification because the encumbrance does not further restrict the purpose for which the resources may be used.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE R - CONTINGENCIES**

**1. *Federal and Commonwealth grants***

Projects financed by Federal and Commonwealth Grants are subject to audits by grantors and other governmental agencies in order to determine that the expenditures comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

**2. *Litigations***

The Municipality is, at present, a defendant in a number of legal cases that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. However, it is the opinion of the Municipality and the legal counsels that, based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**June 30, 2012**

**NOTE A - BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING**

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders and contracts) are considered expenditures when a commitment is made. On a GAAP basis encumbrances outstanding at year-end are reported in the governmental funds statements as assigned fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

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.

**NOTE B - BUDGET READJUSTMENT**

The budgetary comparison schedule - general fund present a fund balance readjustment of \$417,501. This represents a readjustment of current year budget with prior year's budgetary surpluses, approved by the Municipal Legislature.

**NOTE C - BUDGET TO GAAP RECONCILIATION**

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

June 30, 2012

**NOTE C - BUDGET TO GAAP RECONCILIATION - Continued**

<b>Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis)</b>	<b>\$</b>	<b>270,453</b>
Budget to GAAP differences:		
<b>Entity differences:</b>		
Non-budgeted funds recorded as revenues for financial reporting purposes		230,431
Non-budgeted funds recorded as expenditures for financial reporting		(897,116)
Non-budgeted transfers in		500,000
Non-budgeted transfers out		(173,313)
<b>Basis of accounting differences:</b>		
Revenues recorded for financial reporting purposes but not in budgetary basis		641,495
Revenues recorded in budgetary basis but not for financial reporting purposes		(156,846)
Readjustment from prior year fund balance recorded for budgetary basis purposes but not in financial reporting		(417,501)
Expenditures recorded in budgetary basis but not for financial reporting purposes		283,851
Expenditures recorded for financial reporting purposes but not in budgetary basis		(560,920)
<b>Timing differences:</b>		
Current year encumbrances recorded as expenditures for budgetary reporting purposes		36,506
Prior year encumbrances recorded as expenditures for financial reporting purposes		(103,257)
<b>Net change in fund balance (GAAP basis)</b>	<b>\$</b>	<b><u>(346,217)</u></b>

**SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE  
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION  
JUNE 30, 2012**

Line Item No.	Description	14,871 Housing Choice Vouchers
<b>Balance Sheet</b>		
111	Cash - unrestricted	\$ 66,266
113	Cash - other restricted	\$ 26,410
100	<b>Total cash</b>	<b>\$ 92,676</b>
121	Accounts receivable - PHA projects	\$ 12,376
122	Accounts receivable - HUD other projects	\$ 58
125	Accounts receivable - miscellaneous	\$ -
126.2	Allowance for doubtful accounts - other	\$ -
128	Fraud recovery	\$ 351
128.1	Allowance for doubtful accounts - fraud	\$ -
120	<b>Total receivables, net of allowance for doubtful accounts</b>	<b>\$ 12,785</b>
142	Prepaid Expenses and Other Assets	\$ -
144	Inter program - due from	\$ -
150	<b>Total Current Assets</b>	<b>\$ 105,461</b>
164	Furniture, equipment and machinery - administration	\$ 19,872
166	Accumulated depreciation	\$ (19,808)
160	<b>Total capital assets, net of accumulated depreciation</b>	<b>\$ 64</b>
180	<b>Total Non-current Assets</b>	<b>\$ 64</b>
190	<b>Total Assets</b>	<b>\$ 105,525</b>
312	Accounts payable <= 90 days	\$ 7,824
322	Accrued compensated absences - current portion	\$ 7,466
331 - 030	Accounts payable - HUD PHA programs - Other	\$ -
332	Accounts Payable - PHA Projects	\$ 10,184
333	Accounts payable - other government	\$ 9,987
341	Tenant security deposits	\$ -
342	Deferred revenue	\$ -
345	Other current liabilities	\$ 1,479
347	Inter-program - due to	\$ 31,359
348	Loan Liability - current	\$ -
310	<b>Total Current Liabilities</b>	<b>\$ 68,299</b>
353	Non-current liabilities - other	\$ 1,399
354	Accrued compensated absences - non current	\$ 8,625
350	<b>Total Non-current Liabilities</b>	<b>\$ 10,024</b>
300	<b>Total Liabilities</b>	<b>\$ 78,323</b>
508.1	Invested in Capital Assets, Net of Related Debt	\$ 64
511.1	Restricted Net Assets	\$ 12,178
512.1	Unrestricted Net Assets	\$ 14,960
513	<b>Total Equity/Net Assets</b>	<b>\$ 27,202</b>
600	<b>Total Liabilities and Equity/Net Assets</b>	<b>\$ 105,525</b>
<b>Income Statement</b>		
70600-010	Housing assistance payments	\$ 501,138
70600-020	Ongoing administrative fees earned	\$ 69,179
70600-070	Admin fee calculation description	
70600	<b>HUD PHA operating grants</b>	<b>\$ 570,317</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE  
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION  
JUNE 30, 2012**

Line Item No.	Description	14.871 Housing Choice Vouchers
<b>Income Statement</b>		
71100-010	Housing Assistance Payment	\$ -
71100-020	Administrative Fee	\$ -
71100	<b>Investment income - unrestricted</b>	\$ -
71400-010	Housing Assistance Payment	\$ -
71400-020	Administrative Fee	\$ -
71400	<b>Fraud recovery</b>	\$ -
71500	Other revenue	\$ 68,988
71600	Gain or loss on the sale of capital assets	\$ -
72000-010	Housing Assistance Payment	\$ -
72000-020	Administrative Fee	\$ -
72000	<b>Investment income - restricted</b>	\$ -
700	<b>Total Revenue</b>	\$ 639,305
91100	Administrative salaries	\$ 72,310
91200	Auditing fees	\$ 5,000
91500	Employee benefit contributions- administrative	\$ 21,390
91600	Office expenses	\$ 9,837
91800	Travel	\$ 477
91000	<b>Total Operating - Administrative</b>	\$ 109,014
96210	Compensated absences	\$ 4,269
96600	Bad debt - other	\$ 897
96000	<b>Total Other General Expenses</b>	\$ 5,166
96900	<b>Total Operating Expenses</b>	\$ 114,180
97000	<b>Excess Revenue Over Operating Expenses</b>	\$ 525,125
97300-020	Home-Ownership	\$ 2,481
97300-050	All Other	\$ 526,070
97300	<b>Housing assistance payments</b>	\$ 528,551
97350	<b>HAP Portability-in</b>	\$ 42,628
97400	Depreciation expense	\$ 164
97500	Fraud losses	\$ -
900	<b>Total Expenses</b>	\$ 685,523
10000	<b>Excess (Deficiency) of Revenue Over (Under) Expenses</b>	\$ (46,218)
11030	Beginning equity	\$ 73,420
11040-010	Prior period adjustments and correction of errors - Editable	\$ -
11040	<b>Prior period adjustments, equity transfers, and correction of errors</b>	\$ -
11770-001	Administrative Fee Equity - Beginning Balance	\$ 33,829
11170-010	Administrative Fee Revenue	\$ 69,179
11170-020	Hard to House Fee Revenue	\$ -
11170-021	FSS Coordinator Grant	\$ -
11170-030	Audit Costs	\$ -
11170-040	Investment Income	\$ -
11170-045	Fraud Recovery Revenue	\$ -
11170-050	Other Revenue	\$ 68,988

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE  
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION  
JUNE 30, 2012**

Line Item No.	Description	14.871 Housing Choice Vouchers
		This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$4,717) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 11-12 (\$42,628); FSS salaries reimbursement received from another Municipality (\$15,080); and FSS forfeitures (\$6,563)
11170-051	Comment For Other Revenue	
11170-060	Total Admin Fee Revenues	\$ 138,167
11170-080	Total Operating Expenses	\$ 114,180
11170-090	Depreciation	\$ 164
11170-095	Housing Assistance Portability In	\$ 42,628
11170-100	Other Expenses	\$ -
11170-101	Comment For Other Expense	
11170-110	Total Expenses	\$ 156,972
11170-002	Net Administrative Fee	\$ (18,805)
11170-003	Administrative Fee Equity - Ending Balance	\$ 15,024
11170	<b>Administrative Fee Equity</b>	<b>\$ 15,024</b>
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ 39,591
11180-010	Housing Assistance Payments Revenues	\$ 501,138
11180-015	Fraud Recovery Revenue	\$ -
11180-020	Other Revenue	\$ -
11180-021	Comment For Other Revenue	
11180-025	Investment Income	\$ -
11180-030	Total HAP Revenues	\$ 501,138
11180-080	Housing Assistance Payments	\$ 528,551
11180-100	Total Housing Assistance Payments Expenses	\$ 528,551
11180-002	Net Housing Assistance Payments	\$ (27,413)
11180-003	Housing Assistance Payments Equity - Ending Balance	\$ 12,178
11180	<b>Housing Assistance Payments Equity</b>	<b>\$ 12,178</b>
11190-210	Total ACC HCV Units	1,231
11190	<b>Unit Months Available</b>	<b>1,231</b>
11210	<b>Unit Months Leased</b>	<b>1,216</b>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE**

**June 30, 2012**

**NOTE A – BASIS OF PRESENTATION**

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

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

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Entity Identifying Number (note B)	Federal Expenditures (notes A and B)
<b><u>U.S. Department of Agriculture</u></b>			
Passed-through program from:			
<u>P.R. Department of Education</u> Child and Adult Care Food Program	10.558	CCC-029	\$ 17,827
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Direct programs:			
Shelter Plus Care	14.238	N/A	26,212
Section 8 Housing Choice Vouchers Program	14.871	N/A	570,317
Passed-through programs from:			
<u>Office of Commissioner of Municipal Affairs:</u>			
<b>CDBG - State-Administered Small Cities Program Cluster:</b>			
Community Development Block Grant / State's Program (State-Administered Small Cities Program)	14.228	FC-30, AB-30 ADM-30	1,010,981
ARRA - Community Development Block Grant / State's Program (State-Administered Small Cities Program)	14.255	AR - 30	25,765
<b>Total CDBG - State-Administered Small Cities Program Cluster:</b>			<u>1,036,746</u>
<u>P.R. Department of Health:</u>			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	2010-V00038	48,465
<u>P.R. Department of Family:</u>			
Emergency Solutions Grant Program	14.231	272-122000-04F-2012S11DC72001	7,317
ARRA - Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262	122-2010-000229	72,855
<u>P.R. Department of Housing - (Puerto Rico Public Housing Administration "PRPHA"):</u>			
Public and Indian Housing	14.850	RQ-00500106D	158,907
<b>Subtotal U.S. Department of Housing and Urban Development</b>			<u>1,920,819</u>
<b><u>U.S. Department of Transportation</u></b>			
Direct program:			
Federal Transit Formula Grants	20.507	N/A	133,934
<b><u>U.S. Department of Energy</u></b>			
Passed-through program from:			
<u>P.R. Energy Affairs Administration:</u> ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	FOA-00013-11	14,000
<b><u>U.S. Department of Health and Human Services</u></b>			
Passed-through programs from:			
<u>P. R. Office of the Ombudsman for the Elderly:</u>			
Special Programs for the Aging Title III Part D Disease Prevention and Health Promotion Services	93.043	110029R2, 110310R2, 110198R2, 110165R2	4,493
National Family Caregiver Support, Title III, Part E	93.052	110005R2	32,161
Nutrition Services Incentive Program	93.053	110310R2, 110198R2	25,830
<u>P.R. Department of Family - Families and Children Administration:</u>			
Child Care and Development Block Grant	93.575	2010-2011-241-2011-000275	124,333
<b>Subtotal U.S. Department of Health and Human Services:</b>			<u>186,817</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 2,273,397</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**June 30, 2012**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV) and Public and Indian Housing (PIH). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV and PIH Programs are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

**NOTE C – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS**

<u>Description</u>	<u>Community Development Block Grant Program Fund</u>	<u>Other Governmental Funds</u>
10.558	\$ -	\$ 17,827
14.238	-	26,212
14.231	-	7,317
14.228	1,010,981	-
14.871	-	570,317
ARRA – 14.255	25,765	-
14.241	-	48,465
ARRA – 14.262	-	72,855
14.850	-	158,907
20.507	-	133,934
81.128	-	14,000
93.043	-	4,493

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**June 30, 2012**

**NOTE C – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS – Cont.**

<u>Description</u>	<u>Community Development Block Grant Program Fund</u>	<u>Other Governmental Funds</u>
93.052	-	32,161
93.053	-	25,830
93.575	-	124,333
Total federal awards expenditures:	1,036,746	1,236,651
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program:	-	110,773
Total non-federal awards expenditures:	-	1,227,522
Total expenditures, fund statements:	<u>\$ 1,036,746</u>	<u>\$ 2,574,946</u>

# VALDES, GARCIA , MARIN & MARTINEZ, LLP

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## 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 Members of the Municipal Legislature  
Municipality of Hormigueros  
Hormigueros, Puerto Rico**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Hormigueros (the Municipality), as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 25, 2013. 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.

### **Internal Control Over Financial Reporting**

Management of the Municipality is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Municipality's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of 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*.

This report is intended solely for the information and use of the Municipality's management, the Honorable Mayor, Members of the Municipal Legislature, the Commonwealth of Puerto Rico, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*One, Garcia, Mari + Martinez CP*

San Juan, Puerto Rico  
March 25, 2013

Stamp 49282 was affixed  
to the original

# VALDES, GARCIA , MARIN & MARTINEZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

P.O. Box 364831  
SAN JUAN, P.R. 00936-4831

TELEPHONE: (787) 725-1600  
TELEFAX: (787) 721-2795

## REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**To the Honorable Mayor  
And Members of the Municipal Legislature  
Municipality of Hormigueros  
Hormigueros, Puerto Rico**

### **Compliance**

We have audited the Municipality of Hormigueros' (the Municipality) 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, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality'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. Our audit does not provide a legal determination of the Municipality's compliance with those requirements.

In our opinion, the Municipality complied, in all material respects, with the 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, 2012.

### **Internal Control Over Compliance**

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Municipality's management, the Honorable Mayor, Members of the Municipal Legislatures, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Rae, Garcia, Davis & Harting LLP*

San Juan, Puerto Rico  
March 25, 2013

Stamp 49283 was affixed  
to the original

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Section I - Summary of Audit Results**

**FISCAL YEAR ENDED JUNE 30, 2012**

A. Summary of audit results:

**Part I - Financial Statements**

1. Type of audit report: issued  Unqualified opinion  Qualified opinion  
 Adverse opinion  Disclaimer of opinion

**Internal control over Financial Reporting**

2. Significant deficiencies identified?  Yes  No
3. Significant deficiencies reported as material weaknesses?  Yes  None reported
4. Material noncompliance disclosed?  Yes  No

**Part II - Federal Awards**

**Internal control over Major Programs**

1. Significant deficiencies identified?  Yes  No
2. Significant deficiencies reported as material weaknesses?  Yes  None reported
3. Type of auditors' report on compliance major programs  Unqualified opinion  Qualified opinion  
 Adverse opinion  Disclaimer of opinion
4. Audit findings required to be reported under Section 510(a) of Circular A-133  Yes  No

5. Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program
14.255	ARRA-Community Development Block Grants/State's Program
14.850	Public and Indian Housing
14.871	Section 8 Housing Choice Vouchers

6. Dollar threshold used to distinguish Type A and Type B programs:  \$300,000

7. Auditee qualified as low-risk auditee?  Yes  No

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUEROS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FISCAL YEAR ENDED JUNE 30, 2012**

**Section II - Financial Statements Findings**

Finding	No matters reported.
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HORMIGUERSOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FISCAL YEAR ENDED JUNE 30, 2012**

**Section III - Federal Awards Findings and Questioned Costs**

Finding	No matters reported.
---------	----------------------

FORM **SF-SAC**  
(5-18-2010)

U.S. DEPT. OF COMM. - Econ. and Stat. Admin. - U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2010, 2011, or 2012**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**PART I GENERAL INFORMATION (To be completed by auditee, except for Items 6, 7, and 8)**

<b>1.</b> Fiscal period ending date for this submission Month Day Year <b>06 / 30 / 2012</b>	<b>2.</b> Type of Circular A-133 audit 1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit	<b>3.</b> Audit period covered 1 <input checked="" type="checkbox"/> Annual 3 <input type="checkbox"/> Other - <input type="text"/> Months 2 <input type="checkbox"/> Biennial
--	---	--

**4. Auditee Identification Numbers**

**a.** Primary Employer Identification Number (EIN)  
6 6 - 0 4 3 3 4 9 8

**d.** Data Universal Numbering System (DUNS) Number  
- - -

**b.** Are multiple EINs covered in this report? 1  Yes 2  No

**e.** Are multiple DUNS covered in this report? 1  Yes 2  No

**c.** If Part I, Item 4b = "Yes," complete Part I, Item 4c on the continuation sheet on Page 4.

**f.** If Part I, Item 4e = "Yes," complete Part I, Item 4f on the continuation sheet on Page 4.

**5. AUDITEE INFORMATION**

**a.** Auditee name  
MUNICIPALITY OF HORMIGUEROS

**b.** Auditee address (Number and Street)  
P.O. BOX 97  
City  
HORMIGUEROS  
State ZIP + 4 Code  
PR 0 0 6 6 0 -

**c.** Auditee contact  
Name  
MIRIAM IRIZARRY  
Title  
FINANCE DIRECTOR

**d.** Auditee contact telephone  
(787) 819 - 2515

**e.** Auditee contact FAX  
(787) 849 - 4205

**f.** Auditee contact E-mail  
FINANZAS@HORMIGUEROSPR.NET

**6. PRIMARY AUDITOR INFORMATION (To be completed by auditor)**

**a.** Primary auditor name  
VALDES, GARCIA, MARIN & MARTINEZ, LLP

**b.** Primary auditor address (Number and street)  
P.O. BOX 364831  
City  
SAN JUAN  
State ZIP + 4 Code  
PR 0 0 9 3 6 - 4 8 3 1

**c.** Primary auditor contact  
Name  
ERNESTO VALDEZ  
Title  
PARTNER

**d.** Primary auditor contact telephone  
(787) 725 - 1600

**e.** Primary auditor contact FAX  
(787) 721 - 2795

**f.** Primary auditor contact E-mail  
EVALDES@VGMCPA.COM

**g. AUDITEE CERTIFICATION STATEMENT** - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

**g. AUDITOR STATEMENT** - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9g, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3 and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Auditee certification Date  
**ELECTRONICALLY CERTIFIED** 3/28/2013

Name of certifying official  
**MIRIAM IRIZARRY**

Title of certifying official  
**FINANCE DIRECTOR**

**7a. Add Secondary auditor information? (Optional)**  
1  Yes 2  No

**b.** If "Yes," complete **Part I, Item 8** on the continuation sheet on page 5.

Auditor certification Date  
**ELECTRONICALLY CERTIFIED** 3/28/2013

**PART II FINANCIAL STATEMENTS (To be completed by auditor)**

**1. Type of audit report**

Mark either: 1  Unqualified opinion **OR**  
any combination of: 2  Qualified opinion 3  Adverse opinion 4  Disclaimer of opinion

**2.** Is a "going concern" explanatory paragraph included in the audit report? 1  Yes 2  No

**3.** Is a significant deficiency disclosed? 1  Yes 2  No

**4.** Is a material weakness disclosed? 1  Yes 2  No

**5.** Is a material noncompliance disclosed? 1  Yes 2  No

**PART III FEDERAL PROGRAMS (To be completed by auditor)**

**1.** Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 13) 1  Yes 2  No

**2.** What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 300,000

**3.** Did the auditee qualify as a low-risk auditee? (§ .530) 1  Yes 2  No

**4.** Is a significant deficiency disclosed for any major program? (§ .510(a)(1)) 1  Yes 2  No

**5.** Is a material weakness disclosed for any major program? (§ .510(a)(1)) 1  Yes 2  No

**6.** Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1  Yes 2  No

**7.** Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1  Yes 2  No

**8.** Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)

- |  |   |  |  |
|--|---|--|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development      | 39 <input type="checkbox"/> General Services Administration               | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> U.S. Department of State |
| 10 <input type="checkbox"/> Agriculture                                    | 93 <input type="checkbox"/> Health and Human Services                     | 05 <input type="checkbox"/> National Endowment for the Arts              | 20 <input type="checkbox"/> Transportation           |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 97 <input type="checkbox"/> Homeland Security                             | 06 <input type="checkbox"/> National Endowment for the Humanities        | 21 <input type="checkbox"/> Treasury                 |
| 11 <input type="checkbox"/> Commerce                                       | 14 <input type="checkbox"/> Housing and Urban Development                 | 47 <input type="checkbox"/> National Science Foundation                  | 64 <input type="checkbox"/> Veterans Affairs         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute of Museum and Library Services      | 07 <input type="checkbox"/> Office of National Drug Control Policy       | 00 <input checked="" type="checkbox"/> None          |
| 12 <input type="checkbox"/> Defense  | 15 <input type="checkbox"/> Interior                                      | 59 <input type="checkbox"/> Small Business Administration                | <input type="checkbox"/> Other - Specify:            |
| 84 <input type="checkbox"/> Education                                      | 16 <input type="checkbox"/> Justice                                       | 96 <input type="checkbox"/> Social Security Administration               |  |
| 81 <input type="checkbox"/> Energy   | 17 <input type="checkbox"/> Labor   |  |  |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 09 <input type="checkbox"/> Legal Services Corporation                    |  |  |
|  | 43 <input type="checkbox"/> National Aeronautics and Space Administration |  |  |

**PART III FEDERAL PROGRAMS - Continued**

**9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR**

Federal Agency Prefix <sup>1</sup>	CFDA Number	Extension <sup>2</sup>	Research and development (c)		A R A3 (d)		Name of Federal program (e)	Amount expended (f)	Direct award (g)		Major program (h)		If yes, type of audit report <sup>4</sup> (i)	10. AUDIT FINDINGS		
			1	2	1	2			1	2	1	2		Type(s) of compliance requirement(s) <sup>5</sup> (a)	Audit finding reference number(s) <sup>6</sup> (b)	
1 0	.558		1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		CHILD AND ADULT CARE FOOD PROGRAM	\$ 17,827 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N					N/A	
1 4	.238		1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		SHELTER PLUS CARE	\$ 26,212 .00	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N						N/A
1 4	.871		1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		SECTION 8 HOUSING CHOICE VOUCHERS	\$ 570,317 .00	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		U				N/A
1 4	.228		1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		COMMUNITY DEVELOPMENT BLOCK GRANT/STATES PROGRAM	\$ 1,010,981 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		U				N/A
1 4	.255		1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		ARRA-COMMUNITY DEVELOPMENT BLOCK GRANT/STATES PROGRAM	\$ 25,765 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		U				N/A
1 4	.241		1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS (HOPWA)	\$ 48,485 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		U				N/A
1 4	.231		1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		EMERGENCY SOLUTIONS GRANT PROGRAM	\$ 7,317 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N						N/A
1 4	.262		1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		ARRA-HOMELESS PREVENTION AND RAPID RE-HOUSING PROGRAM TECHNICAL ASSISTANCE	\$ 72,855 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N						N/A
1 4	.850		1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		PUBLIC AND INDIAN HOUSING	\$ 158,907 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N		U				N/A
2 0	.507		1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		FEDERAL TRANSIT FORMULA GRANT	\$ 133,934 .00	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N						N/A
<b>TOTAL FEDERAL AWARDS EXPENDED</b>								\$ 2,273,397 .00								

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.  
<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)  
<sup>3</sup> American Recovery and Reinvestment Act of 2009 (ARRA).  
<sup>4</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.  
<sup>5</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.  
<sup>6</sup> N/A for NONE

A. Activities allowed or unallowed  
 B. Allowable costs/cost principles  
 C. Cash management  
 D. Davis - Bacon Act  
 E. Eligibility  
 F. Equipment and real property management  
 G. Matching, level of effort, earmarking  
 H. Period of availability of Federal funds  
 I. Procurement and suspension and debarment  
 J. Program income  
 K. Real property acquisition and relocation assistance  
 L. Reporting  
 M. Subrecipient monitoring  
 N. Special tests and provisions  
 O. None  
 P. Other



**PART I Item 5 Continuation Sheet**

c. List the multiple Employer Identification Numbers (EINs) covered in this report.		f. List the multiple DUNS covered in the report.	
1	N L A	1	N L A
21	-	21	-
22	-	22	-
23	-	23	-
24	-	24	-
25	-	25	-
26	-	26	-
27	-	27	-
28	-	28	-
29	-	29	-
30	-	30	-
31	-	31	-
32	-	32	-
33	-	33	-
34	-	34	-
35	-	35	-
36	-	36	-
37	-	37	-
38	-	38	-
39	-	39	-
40	-	40	-
41	-	41	-
42	-	42	-
43	-	43	-
44	-	44	-
45	-	45	-
46	-	46	-
47	-	47	-
48	-	48	-
49	-	49	-
50	-	50	-
51	-	51	-
52	-	52	-
53	-	53	-
54	-	54	-
55	-	55	-
56	-	56	-
57	-	57	-
58	-	58	-
59	-	59	-
60	-	60	-

**PART I GENERAL INFORMATION - Continued**

8. Part I, Item 8, Secondary Auditor's Contact Information. (List the Secondary Auditor's Contact information)

<p><b>1. a.</b> Secondary Auditor name N / A</p> <p><b>b.</b> Secondary Auditor address (Number and street)</p> <p>City</p> <p>State ZIP + 4 Code</p> <p><b>c.</b> Secondary Auditor contact Name Title</p> <p><b>d.</b> Secondary Auditor contact telephone</p> <p><b>e.</b> Secondary Auditor contact FAX</p> <p><b>f.</b> Secondary Auditor contact E-mail</p>	<p><b>2. a.</b> Secondary Auditor name</p> <p><b>b.</b> Secondary Auditor address (Number and street)</p> <p>City</p> <p>State ZIP + 4 Code</p> <p><b>c.</b> Secondary Auditor contact Name Title</p> <p><b>d.</b> Secondary Auditor contact telephone</p> <p><b>e.</b> Secondary Auditor contact FAX</p> <p><b>f.</b> Secondary Auditor contact E-mail</p>	<p><b>3. a.</b> Secondary Auditor name</p> <p><b>b.</b> Secondary Auditor address (Number and street)</p> <p>City</p> <p>State ZIP + 4 Code</p> <p><b>c.</b> Secondary Auditor contact Name Title</p> <p><b>d.</b> Secondary Auditor contact telephone</p> <p><b>e.</b> Secondary Auditor contact FAX</p> <p><b>f.</b> Secondary Auditor contact E-mail</p>	<p><b>4. a.</b> Secondary Auditor name</p> <p><b>b.</b> Secondary Auditor address (Number and street)</p> <p>City</p> <p>State ZIP + 4 Code</p> <p><b>c.</b> Secondary Auditor contact Name Title</p> <p><b>d.</b> Secondary Auditor contact telephone</p> <p><b>e.</b> Secondary Auditor contact FAX</p> <p><b>f.</b> Secondary Auditor contact E-mail</p>
<p><b>5. a.</b> Secondary Auditor name</p> <p><b>b.</b> Secondary Auditor address (Number and street)</p> <p>City</p> <p>State ZIP + 4 Code</p> <p><b>c.</b> Secondary Auditor contact Name Title</p> <p><b>d.</b> Secondary Auditor contact telephone</p> <p><b>e.</b> Secondary Auditor contact FAX</p> <p><b>f.</b> Secondary Auditor contact E-mail</p>	<p><b>6. a.</b> Secondary Auditor name</p> <p><b>b.</b> Secondary Auditor address (Number and street)</p> <p>City</p> <p>State ZIP + 4 Code</p> <p><b>c.</b> Secondary Auditor contact Name Title</p> <p><b>d.</b> Secondary Auditor contact telephone</p> <p><b>e.</b> Secondary Auditor contact FAX</p> <p><b>f.</b> Secondary Auditor contact E-mail</p>		