



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO**

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

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



## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the  
Municipal Assembly  
Municipality of Humacao, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Humacao, Puerto Rico**, as of and for the year ended June 30, 2012, which collectively comprise the Municipality of Humacao, Puerto Rico's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality of Humacao, Puerto Rico'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, 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.

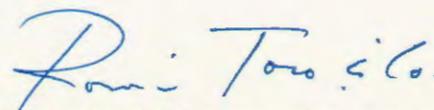
In our opinion, the financial statements referred to above present fairly, in all material respects, financial position of the governmental activities and each major fund and the aggregate remaining fund information of the Municipality of Humacao, Puerto Rico, as of June 30, 2012, and the changes in 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 also issued our report dated March 18, 2013, on our consideration of the Municipality of Humacao, Puerto Rico's internal control over financial reporting and 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 result 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.

**INDEPENDENT AUDITOR'S REPORT  
(CONTINUED)**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 51 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

  
ROMAN TORO & CO., CPA, C.S.P.  
LICENSE #35 - IN FORCE

Yauco, Puerto Rico  
March 18, 2013

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the original of this report



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis of the Municipality of Humacao's financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Financial Statements which follow this section.

## FINANCIAL HIGHLIGHTS

### Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the Municipality as a whole using the economic resources measurement focus and 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 \$125,415,713, and 2011 by \$125,027,032 (net assets).
- Revenues increased by \$1,724,625 (1.30%) and expenses increased \$3,323,928 (2.55%) in comparison with year 2011.
- Net change in net assets amounted to \$388,681, a decrease of 67.29% with respect to prior year (2011) net change.

### Highlights for Fund Financial Statements

The fund financial statements provide detailed information about the Municipality's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

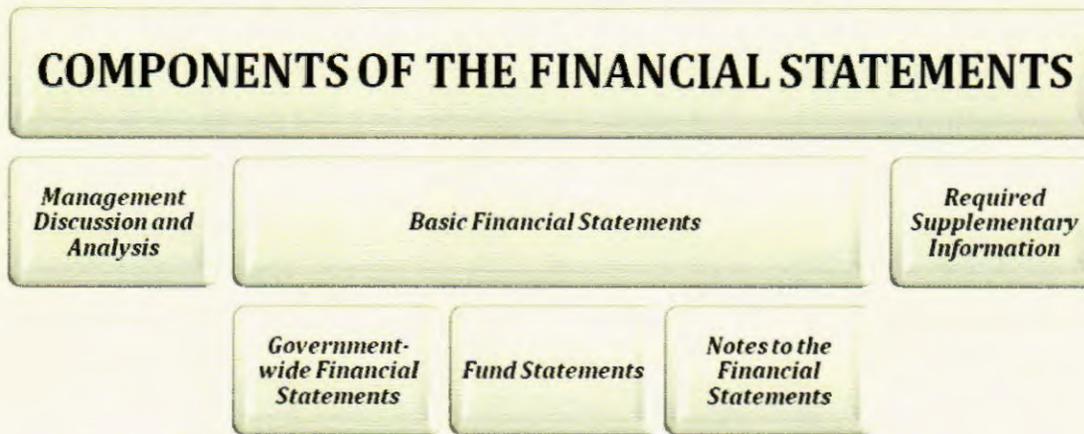
- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$40,557,543, a decrease of \$11,353,256 in comparison with the prior year.
- The General Fund reported an excess of revenues over expenditures of \$1,956,239 and Net Transfer In/Out to Other Funds for the year was \$5,043,000. Transfers to Debt Service Fund to cover the principal and interests of operating bonds were made for the amount of \$228,463. In addition, the General Fund made transfers for the construction of the Art Center and the Multiple Uses Coliseum, for the amount of \$1,020,656 and \$1,600,000, respectively.
- General Fund reported unassigned fund balance of \$9,795,552, a decrease of \$2,672,759 from prior year.

### General Financial Highlights

- The investment in net capital assets as of June 30, 2012 was \$88,895,168 (net of related debt).
- Long-Term General and Special Obligations increased to \$73,864,156 an increase of \$2,817,371 in comparison with prior year balance, due to the issuance of a general and a special obligation bond of \$2,255,331 and \$2,265,000, respectively, made during the year. In addition, a special obligation bond was issued in the amount of \$9,612,825 to refinance other obligation and bond issue costs.
- Other long-term debts increases and net reductions from payments amounted to \$788,151 and \$675,606, respectively.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$3,365,270.
- Revenues increased (\$938,820) were mainly due to \$1,016,572 of volume of business taxes. Expenditures were less than estimated by \$2,426,450.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's basic financial statements comprise three components: (1) management discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information.



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

### Basic Financial Statements

- **Government-Wide Financial Statements**

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the *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 roads and other infrastructure 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.

The government-wide statements reports as governmental activities the Municipality's basic services such as public safety, public works, health and sanitation, culture and recreation, solid waste disposal, human services and 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.

## OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

- **Fund Financial Statements**

Governmental funds 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 financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Municipality's near-term financing requirements.

The Municipality implemented **GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions** effective with the June 30, 2011 financial statements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$40,557,543. Approximately 24% of this amount is available for spending at the government's discretion (Unassigned Fund Balance). The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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 complies 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 the Financial Statements**

Provides integral information needed to explain the basis for the numbers used within the Basic Financial Statements and provide more detailed data.

### Required Supplementary Information

Provides additional information to better understand the financial position of the Municipality and contains the Budgetary Comparison Schedule for the General Fund.

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

**Net Assets**

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year increased 0.16% with respect to prior year.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$88,895,168; total capital assets (\$191,132,592) less accumulated depreciation (\$37,249,002) and less any related outstanding debt (\$64,988,422) 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.

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

	<b>2012</b>	<b>2011</b>
Current and Non-current Assets	\$ 73,515,748	\$ 83,939,793
Capital Assets	153,883,590	140,434,758
<b>Total Assets</b>	<b>227,399,338</b>	<b>224,374,551</b>
Current Liabilities	5,048,243	4,946,450
Deferred Revenues	16,135,818	16,531,421
Long-Term Liabilities	80,799,564	77,869,648
<b>Total Liabilities</b>	<b>101,983,625</b>	<b>99,347,519</b>
Net Assets:		
Investment in Capital Assets, Net of Related Debt	88,895,168	87,977,155
Restricted	31,806,205	28,382,288
Unrestricted	4,714,340	8,667,589
<b>Total Net Assets</b>	<b>\$ 125,415,713</b>	<b>\$ 125,027,032</b>

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.

As of June 30, 2012 the Municipality presented unrestricted net assets of \$4,714,340. This balance was affected by long-term obligations such as compensated absences \$5,770,258 and other debts for the amount of \$1,165,150 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.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

Changes in Net Assets

The following table summarizes the changes in net assets for the years ended June 30, 2012 and 2011:

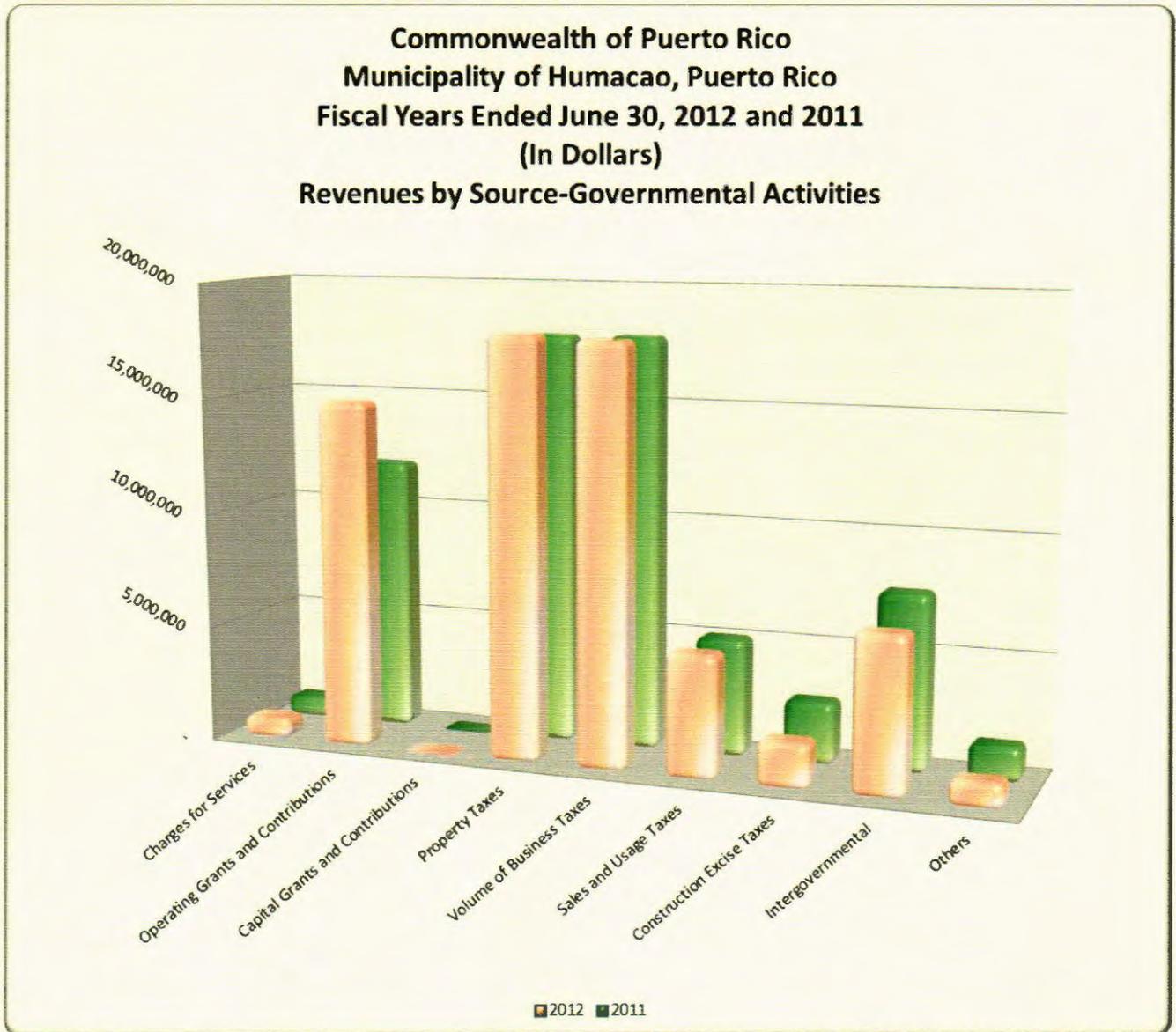
	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>		
Program Revenues:		
Changes for Services	\$ 904,441	\$ 936,384
Operating Grants and Contributions	15,035,065	11,920,257
Capital Grants and Contributions	-	-
General Revenues:		
Property Taxes	18,107,519	17,790,262
Volume of Business Taxes	17,978,630	17,833,289
Sales and Usage Taxes	5,301,160	5,109,376
Construction Excise Taxes	1,979,791	2,708,153
Intergovernmental	6,764,906	7,626,100
Other General Revenues	1,112,294	1,535,360
<b>Total Revenues</b>	<u>67,183,806</u>	<u>65,459,181</u>
<b>Expenses:</b>		
General Administration	21,155,946	20,378,309
Public Safety	4,293,161	3,678,918
Public Works	5,620,715	4,768,213
Culture and Recreation	3,376,793	2,861,781
Health and Sanitation	1,715,105	1,715,105
Public Instruction	9,520,833	10,098,324
Solid Waste Disposal	3,433,473	3,023,882
Human Services and Welfare	8,657,221	8,575,380
Urban Development	6,216,347	5,909,711
Loss on Disposition of Asset	340,758	-
Interest Costs	2,464,773	2,461,574
<b>Total Expenses</b>	<u>66,795,125</u>	<u>63,471,197</u>
<b>Changes in Net Assets</b>	<b>388,681</b>	<b>1,987,984</b>
Net Assets-Beginning	125,027,032	123,039,048
<b>Net Assets-Ending</b>	<u><b>\$ 125,415,713</b></u>	<u><b>\$ 125,027,032</b></u>

With respect to prior year, revenues increased by approximately \$1.7 million or 1.30%, principally due to an increase in operating grants and contributions for approximately \$3.1 million, this increase was partially offset by a decrease of intergovernmental (\$861 thousand) and construction excise taxes (\$728 thousand).

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

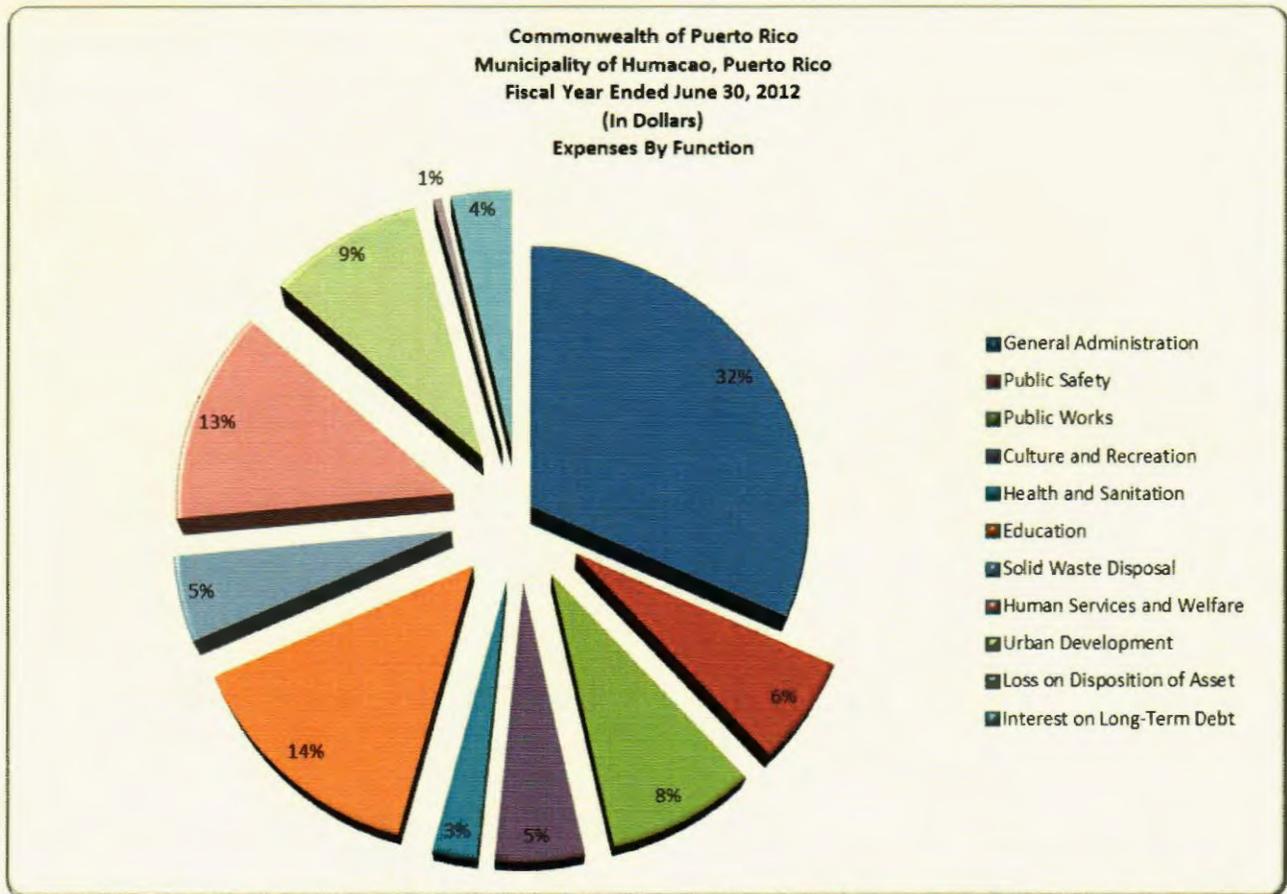
Figure 1 presents revenues comparison by sources of the governmental activities during the past two years:

FIGURE 1



Approximately 27% of the Municipality's revenues came from property taxes, 26.8% from volume of business taxes, 22.4% from operating grants and contributions, 10.1% from intergovernmental revenue, and 13.7% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 32%, education with 14%, human services and welfare with 13%, and urban development with 9%. Program revenues of the Municipality covered 14% of total expenses.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)



The following graph presents expenses by function of the governmental activities during the fiscal year 2011-2012:

Expenses increased 2.55% or \$3.3 million in comparison with 2012 year, principally in public works and general administration. The following table focuses on the cost of each of the municipality's largest functions/programs as well as each functions/program's net cost (total cost less fees generated by the programs and program-specific intergovernmental aid):

**Table 3  
Commonwealth of Puerto Rico  
Municipality of Humacao, Puerto Rico  
Net Cost of Municipality's Governmental Activities  
For the Fiscal Years Ended June 30,**

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
General Administration	\$ 21,155,946	\$ 20,378,309	\$ 18,927,700	\$ 19,780,740
Public Safety	4,293,161	3,678,918	4,293,161	3,678,918
Public Works	5,620,715	4,768,213	5,620,715	4,768,213
Culture and Recreation	3,376,793	2,861,781	3,376,793	2,861,781
Health and Sanitation	1,715,105	1,715,105	819,283	787,706
Public Instruction	9,520,833	10,098,324	(24,792)	2,499,191
Solid Waste Disposal	3,433,473	3,023,882	3,433,473	3,023,882
Human Services and Welfare	8,657,221	8,575,380	6,799,974	6,535,852
Urban Development	6,216,347	5,909,711	4,803,781	4,216,699
Loss on Disposition of Asset	340,758	-	340,758	-
Interest on Long-Term Debt	2,464,773	2,461,574	2,464,773	2,461,574
<b>Total</b>	<b>\$ 66,795,125</b>	<b>\$ 63,471,197</b>	<b>\$ 50,855,619</b>	<b>\$ 50,614,556</b>

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)**

Some of the cost of governmental activities in 2012 was paid by those who directly benefited from the programs (\$904,441) and other governments and organizations that subsidized certain programs with grants and contributions (\$15,035,065). The \$50,855,619 net cost of services was substantially covered by other general revenues including property, volume of business license taxes, sales and usage taxes and intergovernmental.

**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. Municipality implemented **GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions** effective with the June 30, 2011 financial statements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent.

	2012	2011
<b>Fund Balances:</b>		
Nonexpendable	\$ -	\$ -
Restricted	27,620,802	34,633,878
Committed	209,104	822,043
Assigned	2,932,085	3,986,567
Unassigned	9,795,552	12,468,311
<b>Total</b>	<u>\$ 40,557,543</u>	<u>\$ 51,910,799</u>

In particular, unreserved 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 combined ending fund balances of \$40,557,543, a net decrease of \$11,353,256 in comparison with the prior year. This decrease was caused primarily because of the consumption of restricted fund balances for the construction of the Art Center and the Multiple Uses Coliseum. Of total combined fund balances, \$9,795,552 (24%) constitutes unreserved fund balance of general fund. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents approximately 86% of total ending general fund balance. For the year ended June 30, 2012, the fund balance of the general fund decreased by \$3.1 million when compared with the prior year, mainly due to transfer of funds for the construction of the Art Center and the Multiple Uses Coliseum, and other infrastructure projects.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS (continued)

**Table 5**

**Government of Puerto Rico**  
**Municipality of Humacao, Puerto Rico**  
**General Fund**  
**As of June 30,**

Description	2012	2011
<b>Revenues:</b>		
Property Taxes	\$ 13,202,864	\$ 12,805,232
Volume of Business Taxes	17,978,630	17,833,289
Sales and Usage Taxes	4,290,342	4,227,498
Construction Excise Taxes	1,979,791	2,708,153
Intergovernmental	6,130,407	5,251,690
Interests	290,468	773,439
Charges for Service	895,822	927,399
Miscellaneous	295,811	353,554
<b>Total Revenues</b>	<b>45,064,135</b>	<b>44,880,254</b>
<b>Expenditures:</b>		
General Government	20,036,571	20,348,275
Public Safety	3,898,330	3,272,994
Public Work	4,519,684	3,821,654
Culture and Recreation	2,525,517	1,952,752
Health and Sanitation	1,715,105	1,715,105
Solid Waste Disposal	3,433,473	3,023,882
Human Services and Welfare	5,509,967	5,264,545
Urban Development	1,262,569	989,031
Capital Outlay	206,680	295,439
<b>Total Expenditures</b>	<b>43,107,896</b>	<b>40,683,677</b>
Net Transfer In (Out)	(5,043,000)	(251,308)
Other Financing Sources	-	-
<b>Net Increase in Fund Balance</b>	<b>\$ (3,086,761)</b>	<b>\$ 3,945,269</b>

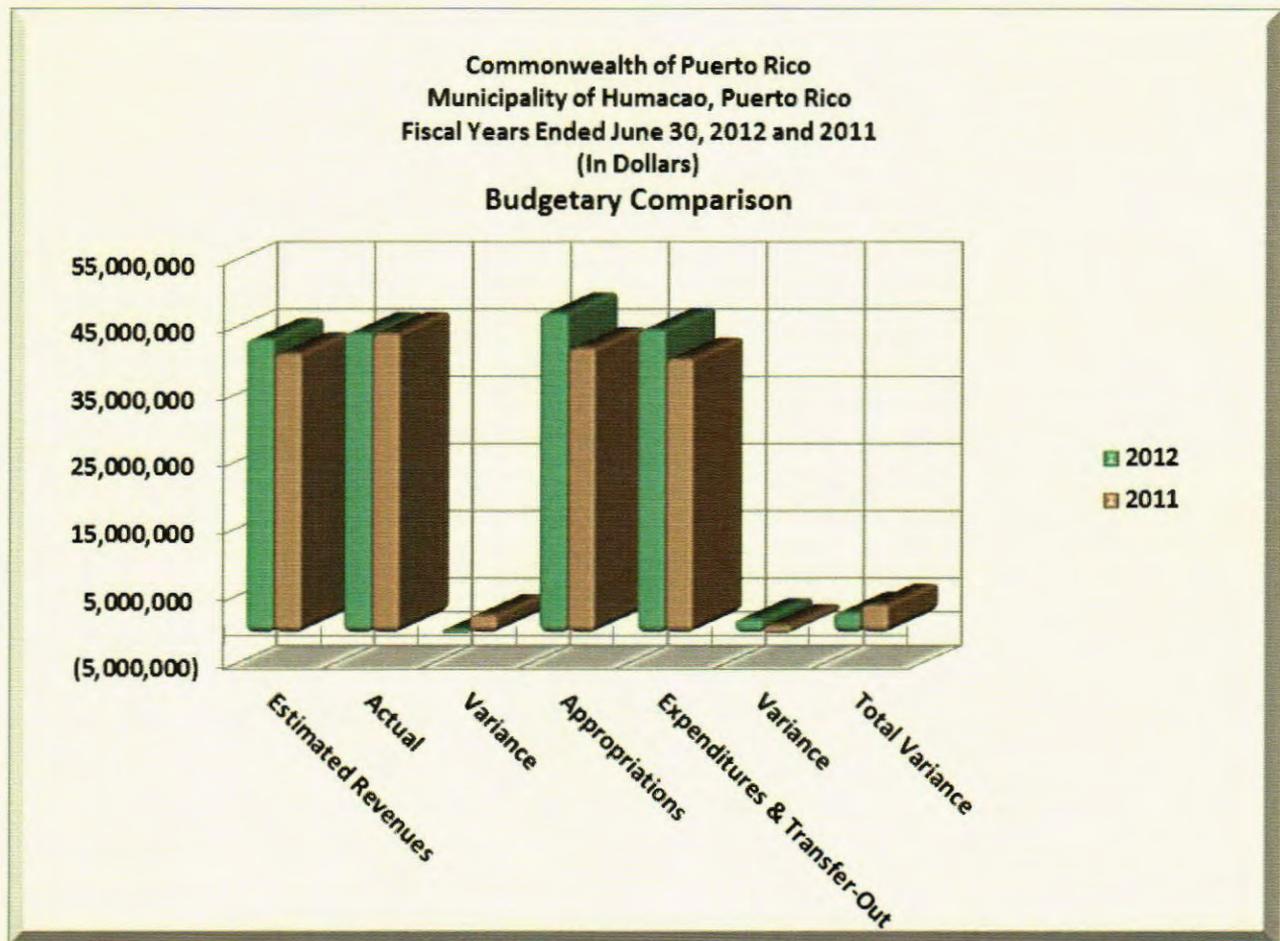
**GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund original budget for the fiscal period 2011-2012 presented an increase of 2.4% with respect to prior year budget. During the fiscal year budget expenditures were increased by \$3,856,851 due to a budget amendment from prior years' fund balance. Budget expenditures were amended during the year in accordance with functions estimates.

A positive variance of \$3,365,270 between final budget and actual expenditures was due mainly to economies in some functions.

GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

FIGURE 3



**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the fiscal year, the Municipality has invested \$153,883,590 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of \$13.4 million or over 9% from the prior year.

**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

The Municipality invested a total of \$16,216,154 in capital assets during the fiscal year 2011-2012. Principal additions were as follows:

- Construction in Progress – \$14,892,640 – The principal ongoing projects are the following:
  - Multiple Use Coliseum
  - Art Center
- Acquisition of Equipment – \$1,048,277

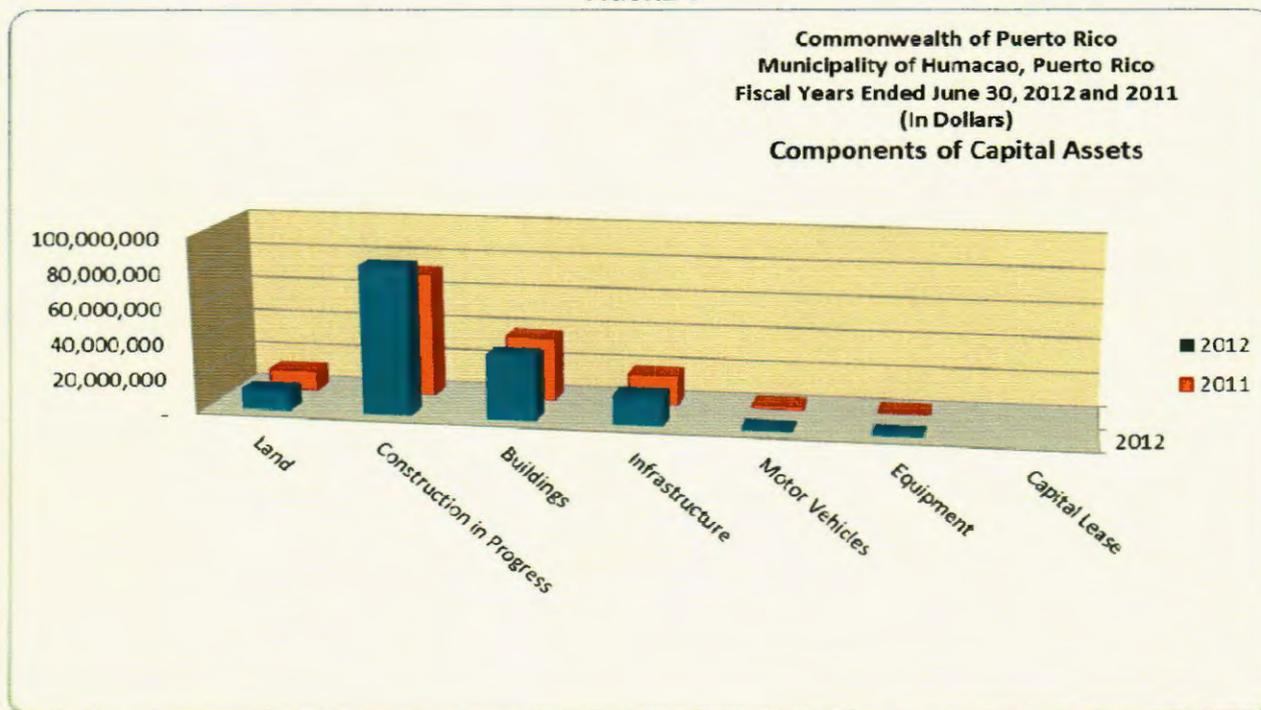
Other projects related to repair and maintenance of roads (not capitalized) and facilities were developed during the year 2012.

**Table 6**

**Commonwealth of Puerto Rico  
Municipality of Humacao, Puerto Rico  
Capital Assets, net  
As of June 30,**

	Governmental Activities	
	2012	2011
<b>Non-Depreciable Assets:</b>		
Land	\$ 11,591,294	\$ 11,702,552
Construction in Progress	85,032,375	71,503,374
<b>Depreciable Assets:</b>		
Buildings	36,941,642	36,620,259
Infrastructure	16,883,067	17,172,739
Motor Vehicles	1,686,073	2,089,660
Equipment	1,749,139	1,346,174
<b>Total</b>	<b>\$ 153,883,590</b>	<b>\$ 140,434,758</b>

**FIGURE 4**



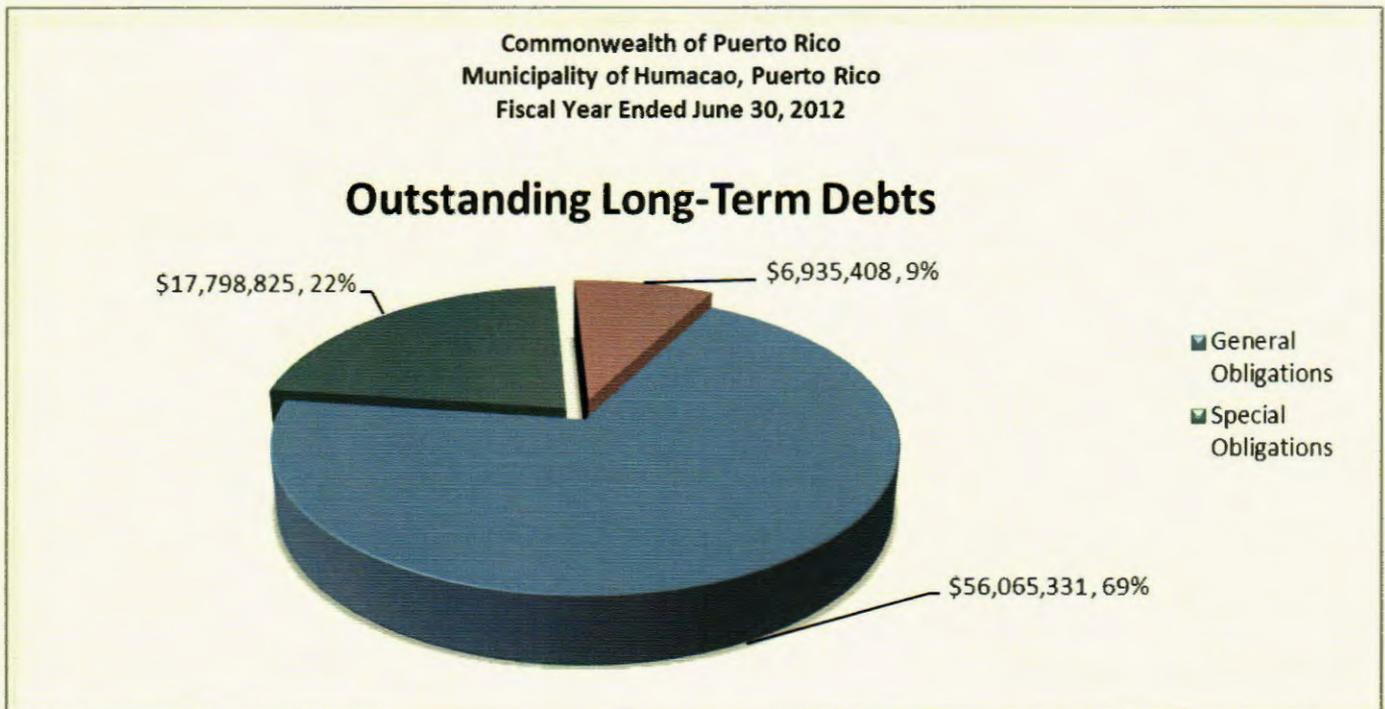
**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

**Long-Term Debts**

At year-end, the Municipality had \$80,799,564 in general and special bonds, an increase of \$2.9 million. The following is a summary of the Municipality's outstanding debt as of June 30, 2012 and 2011:

	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
General Obligation Bonds	\$ 56,065,331	\$ 55,980,000
Special Obligation Bonds	17,798,825	15,066,785
Others Debts	6,935,408	6,822,863
<b>Total</b>	<b><u>\$ 80,799,564</u></b>	<b><u>\$ 77,869,648</u></b>

**FIGURE 5**



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

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2011-2012 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 20.5%, which compares with the Commonwealth rate of 14.9%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2012-2013 are \$45 million, approximately \$1.3 million more than the fiscal year 2011-2012. The Municipality expects an increase in revenues for the next year due to estimated income from State Governmental Agencies and Public Corporations. Budgeted expenditures are expected to stabilize accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with economic injection projected when the construction project promoted by the Municipality and other private projects developed during the year.

**AMERICAN RECOVERY AND REINVESTMENT ACT**

The Municipality received the following federal awards from the American Recovery and Reinvestment Act during fiscal year 2011-2012:

Federal Program	CFDA Number	Total Award	Total Expended
Community Development Block Grant/Entitlement Grants - Cluster	14.253	\$ 420,401	\$ 359,498
Homelessness Prevention and Rapid Re-Housing Program	14.257	642,921	298,525
Child Care and Development Block Grant - Cluster	93.713	20,274	11,254
Head Start Program - Cluster	93.708	374,316	168,747
Early Head Start Program - Cluster	93.709	86,286	74,288
<b>Total</b>		<b>\$ 1,544,198</b>	<b>\$ 912,312</b>

**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 Finance Department at [(787) 852-2730] or P.O. Box 178, Humacao, Puerto Rico 00792.

**BASIC FINANCIAL STATEMENTS**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF HUMACAO, PUERTO RICO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS:</b>	
Cash and Investments	\$ 45,245,616
Cash with Fiscal Agent	19,067,738
Receivables (net):	
Due from Governmental Units	7,992
Federal Grants	8,479,468
Sales and Usage Taxes	<u>329,085</u>
Total Current Assets	<u>73,129,899</u>
Deferred Charges	<u>385,849</u>
Capital Assets:	
Land, Improvement and Construction in Progress	96,623,669
Other Capital Assets [Net of Depreciation]	<u>57,259,921</u>
Total Capital Assets	<u>153,883,590</u>
<b>TOTAL ASSETS</b>	<b><u>227,399,338</u></b>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenses	1,044,363
Accrued Interest	1,100,083
Due to Governmental Units	2,903,797
Deferred Revenues	16,135,818
Long-Term Liabilities:	
Due Within One Year	6,817,059
Due in More than One Year	<u>73,982,505</u>
<b>TOTAL LIABILITIES</b>	<b><u>101,983,625</u></b>
<b>NET ASSETS:</b>	
Investment in Capital Assets, Net of Related Debt	88,895,168
Restricted for:	
Head Start	4,854,299
Debt Service	16,021,648
Community Development Projects	1,330,743
Other Purposes	9,599,515
Unrestricted	<u>4,714,340</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 125,415,713</u></b>

See accompanying notes to Basic Financial Statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues (See Next Page)
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature	\$ 3,842,370	\$ -	\$ -	\$ -	\$ (3,842,370)
General Government	17,313,576	8,619	2,219,627	-	(15,085,330)
Public Safety	4,293,161	-	-	-	(4,293,161)
Public Works	5,620,715	-	-	-	(5,620,715)
Culture and Recreation	3,376,793	-	-	-	(3,376,793)
Health and Sanitation	1,715,105	895,822	-	-	(819,283)
Public Instruction	9,520,833	-	9,545,625	-	24,792
Solid Waste Disposal	3,433,473	-	-	-	(3,433,473)
Human Services and Welfare	8,657,221	-	1,857,247	-	(6,799,974)
Urban Development	6,216,347	-	1,412,566	-	(4,803,781)
Loss on Disposition of Asset	340,758	-	-	-	(340,758)
Interest on Long-Term Debt	2,464,773	-	-	-	(2,464,773)
<b>Total Governmental Activities</b>	<b>\$66,795,125</b>	<b>\$ 904,441</b>	<b>\$ 15,035,065</b>	<b>\$ -</b>	<b>(50,855,619)</b>
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes					13,202,864
Property Taxes, levied for Debt Service					4,904,655
Volume of Business Taxes					17,978,630
Sales and Usage Taxes					5,301,160
Construction Excise Taxes					1,979,791
Intergovernmental					6,764,906
Interest					825,102
Miscellaneous					287,192
Total General Revenues					51,244,300
<b>CHANGES IN NET ASSETS</b>					
					<b>388,681</b>
Net Assets – As Restated, Beginning of Year					125,027,032
<b>NET ASSETS – ENDING OF YEAR</b>					
					<b>\$125,415,713</b>

See accompanying notes to Basic Financial Statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2012

	GENERAL FUND	HEAD START FUND	ART CENTER FUND	MULTIPLE USES COLISEUM FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>							
Cash and Cash Equivalents	\$25,913,629	\$ 323,489	\$5,778,715	\$3,966,650	\$ -	\$ 9,263,133	\$ 45,245,616
Cash with Fiscal Agent	5,500	-	36,250	735,103	17,121,731	1,169,154	19,067,738
Receivables:							
Property Taxes	-	-	-	-	-	-	-
Sales and Usage Taxes	329,085	-	-	-	-	-	329,085
Federal Grants	-	5,145,494	-	-	-	3,333,974	8,479,468
Due from Other Funds	2,117,984	282	-	-	-	12,237	2,130,503
Due from Governmental Units	401	-	-	-	-	7,591	7,992
<b>Total Assets</b>	<b><u>\$28,366,599</u></b>	<b><u>\$5,469,265</u></b>	<b><u>\$5,814,965</u></b>	<b><u>\$4,701,753</u></b>	<b><u>\$17,121,731</u></b>	<b><u>\$ 13,786,089</u></b>	<b><u>\$ 75,260,402</u></b>
<b>LIABILITIES AND FUND BALANCES:</b>							
Liabilities:							
Account Payable	\$ 732,423	\$ 71,411	\$ -	\$ 31,591	\$ -	\$ 208,938	\$ 1,044,363
Bonds Payable	-	-	-	-	3,023,000	-	3,023,000
Account Interest	-	-	-	-	1,100,083	-	1,100,083
Due to Governmental Units	136,954	-	2,766,843	-	-	-	2,903,797
Due to Other Funds	1,188	254,023	-	10,799	-	1,864,493	2,130,503
Deferred Revenues:							
Volume of Business Tax	16,135,818	-	-	-	-	-	16,135,818
Federal Grants	-	5,041,022	-	-	-	3,324,273	8,365,295
<b>Total Liabilities</b>	<b><u>17,006,383</u></b>	<b><u>5,366,456</u></b>	<b><u>2,766,843</u></b>	<b><u>42,390</u></b>	<b><u>4,123,083</u></b>	<b><u>5,397,704</u></b>	<b><u>34,702,859</u></b>
Fund Balances:							
Restricted	221,464	102,809	3,048,122	4,659,363	12,998,648	6,590,396	27,620,802
Committed	198,370	-	-	-	-	10,734	209,104
Assigned	1,144,830	-	-	-	-	1,787,255	2,932,085
Unassigned	9,795,552	-	-	-	-	-	9,795,552
<b>Total Fund Balances</b>	<b><u>11,360,216</u></b>	<b><u>102,809</u></b>	<b><u>3,048,122</u></b>	<b><u>4,659,363</u></b>	<b><u>12,998,648</u></b>	<b><u>8,388,385</u></b>	<b><u>40,557,543</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$28,366,599</u></b>	<b><u>\$5,469,265</u></b>	<b><u>\$5,814,965</u></b>	<b><u>\$4,701,753</u></b>	<b><u>\$17,121,731</u></b>	<b><u>\$ 13,786,089</u></b>	<b><u>\$ 75,260,402</u></b>

See accompanying notes to Basic Financial Statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

<b>Total Fund Balances – Government Funds (Page 18)</b>		<b>\$40,557,543</b>
Amount reported for Governmental Activities in the Statement of Net Assets (Page 16) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	\$ 96,623,669	
Depreciable Capital Assets	71,397,623	
Infrastructure Assets	23,111,300	
Accumulated Depreciation	<u>(37,249,002)</u>	
Total Capital Assets		153,883,590
Other Assets used in governmental activities are not financial resources and therefore are not reported in the funds as deferred charges:		
		385,849
Some of the <b>Municipality's</b> revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds:		
CDBG Program	1,313,077	
Head Start Program	5,041,022	
Early Head Start Program	1,315,048	
Other Major Fund	<u>696,148</u>	
Total Deferred Revenues		8,365,295
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General and Special Obligation Bonds	(70,841,156)	
Law Number 146 - MRCC	(584,359)	
Law Number 42 - MRCC	(418,791)	
Claims and Judgments	(162,000)	
Compensated Absences	<u>(5,770,258)</u>	
Total Long-Term Liabilities		<u>(77,776,564)</u>
<b>Total Net Assets of Governmental Activities (Page 16)</b>		<b><u>\$125,415,713</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	GENERAL FUND	HEAD START FUND	ART CENTER FUND	MULTIPLE USES COLISEUM FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>							
Property Taxes	\$13,202,864	\$ -	\$ -	\$ -	\$4,904,655	\$ -	\$ 18,107,519
Volume of Business Taxes	17,978,630	-	-	-	-	-	17,978,630
Sales and Usage Taxes	4,290,342	-	-	-	1,010,818	-	5,301,160
Federal Grants	-	7,098,533	-	-	-	7,037,765	14,136,298
Intergovernmental	6,130,407	-	-	-	-	634,499	6,764,906
Construction Excise Taxes	1,979,791	-	-	-	-	-	1,979,791
Charges for Services	895,822	-	-	-	-	-	895,822
Interest	290,468	-	425,716	108,918	-	-	825,102
Miscellaneous	295,811	-	-	-	-	-	295,811
Total Revenues	<u>45,064,135</u>	<u>7,098,533</u>	<u>425,716</u>	<u>108,918</u>	<u>5,915,473</u>	<u>7,672,264</u>	<u>66,285,039</u>
<b>EXPENDITURES:</b>							
Current:							
Mayor and Municipal Legislature	3,502,651	-	-	-	-	-	3,502,651
General Government	16,533,920	-	-	-	-	243,920	16,777,840
Public Safety	3,898,330	-	-	-	-	200,706	4,099,036
Public Works	4,519,684	-	-	-	-	348,796	4,868,480
Culture and Recreation	2,525,517	-	-	-	-	147,572	2,673,089
Health and Sanitation	1,715,105	-	-	-	-	-	1,715,105
Public Instruction	-	7,151,643	-	-	-	2,369,190	9,520,833
Solid Waste Disposal	3,433,473	-	-	-	-	-	3,433,473
Human Services and Welfare	5,509,967	-	-	-	-	3,025,926	8,535,893
Urban Development	1,262,569	-	-	-	-	4,856,715	6,119,284
Capital Outlay	206,680	-	4,598,386	10,213,412	-	1,197,676	16,216,154
Debt Service:							
Bond Issue Costs	-	-	-	-	92,511	-	92,511
Principal	-	-	-	-	3,249,544	-	3,249,544
Interest and Other Charges	-	-	-	-	2,464,773	-	2,464,773
Total Expenditures	<u>43,107,896</u>	<u>7,151,643</u>	<u>4,598,386</u>	<u>10,213,412</u>	<u>5,806,828</u>	<u>12,390,501</u>	<u>83,268,666</u>

Continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	GENERAL FUND	HEAD START FUND	ART CENTER FUND	MULTIPLE USES COLISEUM FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Excess of Revenues Over (Under)							
Expenditures	<u>1,956,239</u>	<u>(53,110)</u>	<u>(4,172,670)</u>	<u>(10,104,494)</u>	<u>108,645</u>	<u>(4,718,237)</u>	<u>(16,983,627)</u>
<b>OTHER FINANCING SOURCES (USES):</b>							
Proceed of Bonds	-	-	-	4,520,331	9,612,825	1,062,215	15,195,371
Refinancing Debt	-	-	-	-	(9,565,000)	-	(9,565,000)
Transfers – In	115,411	-	1,020,656	1,600,000	273,149	2,309,292	5,318,508
Transfers – Out	<u>(5,158,411)</u>	<u>-</u>	<u>-</u>	<u>(44,686)</u>	<u>-</u>	<u>(115,411)</u>	<u>(5,318,508)</u>
Total Other Financing Sources and Uses	<u>(5,043,000)</u>	<u>-</u>	<u>1,020,656</u>	<u>6,075,645</u>	<u>320,974</u>	<u>3,256,096</u>	<u>5,630,371</u>
Net Change in Fund Balances	<u>(3,086,761)</u>	<u>(53,110)</u>	<u>(3,152,014)</u>	<u>(4,028,849)</u>	<u>429,619</u>	<u>(1,462,141)</u>	<u>(11,353,256)</u>
Fund Balances, As Restated – Beginning	<u>14,446,977</u>	<u>155,919</u>	<u>6,200,136</u>	<u>8,688,212</u>	<u>12,569,029</u>	<u>9,850,526</u>	<u>51,910,799</u>
<b>FUND BALANCES – ENDING</b>	<b><u>\$11,360,216</u></b>	<b><u>\$ 102,809</u></b>	<b><u>\$ 3,048,122</u></b>	<b><u>\$4,659,363</u></b>	<b><u>\$12,998,648</u></b>	<b><u>\$ 8,388,385</u></b>	<b><u>\$ 40,557,543</u></b>

*OK  
11/04/2013*

See accompanying notes to Basic Financial Statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**Net Change in Fund Balances – Government Funds (Page 21) \$ (11,353,256)**

Amount reported for Governmental Activities in the Statement of Activities (Page 17) are different because:

Governmental funds report capital 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. In the current period, these amounts are:

Urban Development and Capital Outlay	\$16,216,154	
Depreciation Expense	<u>(2,426,564)</u>	
Excess of Capital Assets over Depreciation Expense		13,789,590

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. (340,758)

Refinancing of long-term principal expenditure in the governmental funds, but the refinancing reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the refinancing were 9,565,000

Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were 3,249,544

Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds received was (15,195,371)

Governmental Fund Report the effect of Bond Issuance Costs as Expenditure when Debt is first issued, and amortized in the Statement of Activities. This amounts is the effect of these differences: 46,254

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

Community Development Block Grant	(126,708)	
Head Start Program	325,054	
Other Funds	<u>700,421</u>	
Total Revenues		898,767

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 governmental funds, such as increase in Compensated Absences (271,089)

**Change in Net Assets of Governmental Activities (Page 17) \$ 388,681**

## 1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Municipality of Humacao, Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

### A. Organization

The Municipality was founded in the year 1793, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 16 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the Municipality is exempt from both federal and state taxes.

### B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable (blended component units), and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government (discrete component units). The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the Municipality's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balance; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the Municipality as the reporting entity.

These financial statements present 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, where applicable, thereof for the fiscal year then ended.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Financial Statement Presentation

The basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to local governmental units (USGAAP). The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental type.

The financial information of the Municipality is presented in this report as follows:

#### ***Required Supplementary Information – Management’s Discussion and Analysis***

Management’s discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Municipality’s financial activities.

#### ***Government-wide Financial Statements (GWFS)***

The GWFS (the *Statement of Net Assets* and the *Statement of Activities*) report information of all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The focus of the *Statement of Net Assets* is designed to be similar to bottom line results for the Municipality’s governmental activities and business type activities. This statement combines and consolidates governmental fund’s current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Assets* presents the reporting entities’ assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints are placed on them that are imposed by external parties or by laws or regulations. Designations solely imposed by the Municipality’s management are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, the Municipality’s policy is to use the restricted resources first.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

#### ***Governmental Funds Financial Statements (GFFS)***

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*] provide information about the Municipality’s funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Non-major funds are summarized into a single column.

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on major funds, rather than the previous financial model’s fund types. This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how the Municipality’s actual experience conforms to the budgeted fiscal plan.

The Municipality reports the following major governmental funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for all financial resources, except those required to be accounted for in another fund

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

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

Art Center Fund – This is used to account for the construction of the Art Center in Humacao, Puerto Rico.

Multiple Uses Coliseum Fund – This is used to account for the construction of the Multiple Uses Coliseum in Humacao, Puerto Rico.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interests.

The non-major funds are combined in a single column in the GGFS. As a general rule the effect of interfund activity has been eliminated from the GWFS.

The Municipality reports its financial position (Balance Sheet) and results of operations (Statement of Revenues, Expenditures and Changes in Fund Balance) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

**Notes to the Basic Financial Statements**

The notes to the financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements

**Required Supplementary Information – Budgetary Comparison Schedule – General Fund**

The basic financial statements are followed by a section of required supplementary information. This section includes a *Budgetary Comparison Schedule – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

**B. Measurement Focus and Basis of Accounting**

**Government-wide Financial Statements**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### *Governmental Funds Financial Statements*

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2012, all revenues sources met this availability criterion.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

The accompanying balance sheet – governmental funds generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds.

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

### C. Stewardship, Compliance, and Accountability

#### *Budgetary Information*

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

D. Assets, Liabilities, and Net Assets

1) *Cash and Investment, and Cash with Fiscal Agent*

The Municipality's cash and investment are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Government of Puerto Rico*, issued by the GDB as promulgated by Law No. 113 of August 3, 1995. The Finance Director of the Municipality, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and interest bearing commercial bank accounts are recognized as revenue in the General Fund, Art Center Fund and in Multiuses Coliseum Fund in accordance with amount invested. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

Cash with fiscal agent in the Debt Service Fund represents special additional property tax collections retained by the Government, deposit in the GDB and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in other governmental funds consists of undisbursed proceeds of certain bonds and notes issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

2) *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as "interfund balances".

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

Receivables consist of all revenues earned but not collected at June 30, 2012. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables in the general fund represent mostly sales and usage taxes, federal grant and contributions, property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Government. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

3) *Inventories*

The Municipality used the purchase method to account for the purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

4) *Deferred Charges*

Deferred charges in the accompanying *Statement of Net Assets* consist of bond issuance costs, net of accumulated amortization. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

5) Capital Assets

Capital assets, which include land, buildings and improvement, machinery and equipment, motor vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the GWFS. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The Municipality reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount.

The Municipality was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the Municipality capitalization threshold is met. Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. No depreciation is recorded for land and construction in progress. The estimated useful lives of major capital asset categories are:

CAPITAL ASSETS	YEARS
Buildings	50
Improvement Other Than Buildings	50
Infrastructure	10-50
Equipment	10
Furniture	10
Vehicles	5
Machinery	5-10

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various function/programs but reported as direct expense of the public works and urban development functions.

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

The Municipality classifies as capital leases all lease agreements that involve the transfer of substantially all benefits and risks inherent in the ownership of the leased property and meet one or more of the following four criteria: (1) by the end of the lease term, the ownership of the leased property is transferred to the Municipality, (2) the lease agreement contains a bargain purchase option, (3) the lease term is substantially equal (75 percent or more) to the estimated useful life of the leased property, and (4) at the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the estimated fair value of the leased property.

Although the Municipality is prevented legally from entering into obligations extending beyond one fiscal year, most capital lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

Leases that meet at least one of the aforementioned four criteria and have a fiscal funding or a cancellation clause have been recorded as capital leases in the accompanying *Statement of Net Assets*, since the likelihood of invoking the provision is considered remote. The Municipality's lease agreements do not include contingent rental payments no escalation clauses.

In the GWFS, the obligation under capital leases is recorded at the lesser of the estimated fair value of the leased property or the present value of the minimum lease payments, excluding any portion representing executory costs and profit thereon to be paid by the lessor. A portion of each minimum lease payment is allocated to interest expense.

In the accompanying GFFS, the net present value of the minimum lease payments at the inception of the capital lease is recorded simultaneously as: (1) expenditures and (2) other financing sources. Minimum lease payments are recorded as expenditures in the governmental fund.

**6) Deferred and Unearned Revenues**

In the GWFS, deferred revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, arises when one of the following situations occur: (1) potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period (unavailable revenue), and (2) the Municipality receives resources before it has a legal claim to them (unearned revenue).

**7) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount**

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other long-term liabilities (e.g., vacation, sick leave, claims and judgments, long-term liabilities to other governmental entities and third parties. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the GFFS, governmental fund types recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

**8) Compensated Absences**

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2012. All vacation pay is accrued when incurred in the GWFS and PFFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

9) *Claims and Judgments*

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Long-Term Liabilities includes, when appropriate, an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

10) *Accounting for Pension Costs*

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

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

For the purpose of applying the requirements of GASB Accounting Standards Codification Section Pe5, *Pension Plans – Defined Benefit*, the State Government is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multiemployer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government.

11) *Net Assets/Fund Balance*

A) *Net Assets*

The GWFS and Proprietary Funds Financial Statements utilize a net assets presentation, which are categorized as follow:

- *Invested in Capital Assets, Net of Related Debt* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets. Net assets invested in capital assets, net of related debt is comprised of the following:

	<b>Governmental Activities</b>
Capital Assets, Net of Accumulated Depreciation.....	\$153,883,590
Outstanding Balance on Related Debt.....	(73,864,156)
Unspent Capital Debt Proceeds.....	<u>8,875,734</u>
Total Invested in Capital Assets, Net of Related Debt .....	<u>\$ 88,895,168</u>

- *Restricted Net Assets* – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Unrestricted Net Assets* – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

**B) Fund Balance**

The Municipality implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* effective with the June 30, 2012 financial statements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent.

The nonspendable classification contains amounts not in spendable form or legally or contractually required to be maintained intact. Restricted amounts contain restraints on their use externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or imposed by law through constitutional provisions or enabling legislation. Committed amounts can only be used for specific purposes imposed by formal action of the government's highest level of decision-making authority. The highest level of decision-making authority is the Municipal Legislature and it takes a resolution to establish a fund balance commitment. Amounts intended to be used for specific purposes are assigned. Assignments should not cause deficits in the Unassigned Fund Balance. Unassigned Fund Balance is the residual classification for the General Fund.

**Comprehensive Fund Balance Policy**

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between property tax collection and other main revenues. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

In February 2009, the Governmental Accounting Standards Board ("GASB") issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54)*. This new standard has substantially altered the categories and terminology used to describe the fund balance in governmental funds. The purpose of GASB 54 is to provide the clarity to understand the extent of restrictions on the use of balance of the funds presented in the financial statements. One objective of this standard was to improve, including the understandability, the usefulness of fund balance information by providing clear fund balance classifications. GASB 54 abandons the reserved, unreserved, and designated classifications of fund balance and replaced them with five classifications: nonspendable, restricted, committed, assigned, and unassigned. The requirements of this statement are effective for the Municipality's financial statements for the fiscal year ending June 30, 2012.

GASB 54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. The fund balance classifications indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints. The following five classifications serve to inform readers of the financial statements of the extent to which the Municipality is bound to honor constraints on the specific purposes for which resources in a fund can be spent.

- *Nonspendable Fund Balance* – Fund balance reported as "nonspendable" represents fund balance that is (a) not in a spendable form such as prepaid items or (b) legally or contractually required to be maintained intact such as an endowment.
- *Restricted Fund Balance* – Fund balance reported as "restricted" consists of amounts that can be spent only on the specific purposes stipulated by law or by the external providers of those resources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Committed Fund Balance* – Fund balance reported as “committed” are self-imposed limitations set in place prior to the end of the fiscal period. These amounts can be used only for the specific purposes determined by a formal action of the Municipal Legislature, which is the highest level of decision-making authority, and that require the same level of formal action to remove the constraint.
- *Assigned Fund Balance* – Fund balance reported as “assigned” consists of amounts that are subject to a purpose constraint that represents an intended use established by the Municipal Legislature or by their designated official. The purpose of the assignment must be narrower than the purpose of the General Fund. Formal action is *not* necessary to impose, remove, or modify a constraint in Assigned Fund Balance. Additionally, this category is used to reflect the appropriation of a portion of existing fund balance to eliminate a projected deficit in the subsequent year’s budget.
- *Unassigned Fund Balance* – Fund balance reported as “unassigned” represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications.

***Policy on Committing Funds***

In accordance with GASB 54, it is the policy of the Municipality that fund balance amounts will be reported as “Committed Fund Balance” only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process of formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a resolution prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this resolution before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance contained within GASB 54. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, in accordance with GASB 54, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after motion and approval by the Municipal Legislature.

***Policy on Assigning Funds***

In accordance with GASB 54, funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature.

Having reviewed the requirements for assigning fund balance, therefore, it is the policy of the Municipality that Major shall have the authority to assign fund balance of the Municipality based on intentions of use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

**Policy on Unassigned General Fund Balance**

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The Municipality considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for purchase of machinery and equipment, for capital projects, and/or to reduce the tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance.

Appropriation from Unassigned General Fund Balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital assets purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted.

**Prioritization of Fund Balance Use**

In circumstances where expenditure is for a purpose that quantities are available in multiple fund balance classifications, the order in which the resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

**C) Components of Fund Balance**

	GENERAL FUND	HEAD START FUND	MULTIPLE USES COLISEUM FUND	ART CENTER FUND	DEBT SERVICE FUND	Other GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Restricted For:</b>							
Improvement of Streets and Sidewalks	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 134,844	\$ 134,844
Improvement and Construction of Facilities	-	-	4,659,363	3,048,122	-	3,324,899	11,032,384
Capital Outlay	-	-	-	-	-	300,539	300,539
Welfare	220,850	-	-	-	-	1,980,249	2,201,099
Public Safety	614	-	-	-	-	125,454	126,068
Renewable Energy Projects	-	-	-	-	-	220,925	220,925
Improvement to Water and Sewer System	-	-	-	-	-	340,122	340,122
Debt Repayment	-	-	-	-	12,998,648	-	12,998,648
Public Instruction	-	102,809	-	-	-	8,497	111,306
Sanitation	-	-	-	-	-	154,867	154,867
<b>Total Restricted</b>	<b>221,464</b>	<b>102,809</b>	<b>4,659,363</b>	<b>3,048,122</b>	<b>12,998,648</b>	<b>6,590,396</b>	<b>27,620,802</b>
<b>Committed To:</b>							
Professional Services	198,370	-	-	-	-	-	198,370
Welfare	-	-	-	-	-	10,734	10,734
<b>Total Committed</b>	<b>198,370</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,734</b>	<b>209,104</b>
<b>Assigned To:</b>							
General Government	306,084	-	-	-	-	21,746	327,830
Public Instruction	-	-	-	-	-	276	276
Welfare	366,687	-	-	-	-	16,092	382,779
Improvement and Construction of facilities	89,103	-	-	-	-	1,721,138	1,810,241
Culture and Recreation	6,307	-	-	-	-	28,003	34,310
Improvement of Streets and Sidewalks	44,987	-	-	-	-	-	44,987
Capital Outlay	269,495	-	-	-	-	-	269,495
Public Safety	62,167	-	-	-	-	-	62,167
<b>Total Assigned</b>	<b>1,144,830</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,787,255</b>	<b>2,932,085</b>
<b>Unassigned:</b>	<b>9,795,552</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,795,552</b>
<b>Total Fund Balances</b>	<b>\$ 11,360,216</b>	<b>\$ 102,809</b>	<b>\$ 4,659,363</b>	<b>\$ 3,048,122</b>	<b>\$ 12,998,648</b>	<b>\$ 8,388,385</b>	<b>\$ 40,557,543</b>

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

**D. INTERFUND TRANSACTIONS**

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The Municipality has the following types of transactions among funds:

*Interfund Transfers* – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds.

*Intra-Entity Transactions* – Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

**E. Risk Financing**

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2012 amounted to approximately \$374,643. The current insurance policies have not been cancelled or terminated. In addition, MRCC deducted approximately \$867,867 for workers compensation insurance covering all municipal employees for the same period.

**F. Use of Estimates**

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

**G. Reclassifications**

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

**H. Future Adoption of Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2012:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 (FY 2012-2013). The provisions of this Statement generally are required to be applied retroactively for all periods presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

The Municipality's financial statements were not affected by the implementation of these statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. *The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:*

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 (FY 2012-2013). Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. *This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011 (FY 2012-2013). Earlier application is encouraged.

The Municipality has not yet determined the effect these statements will have on the Municipality's financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (FY 2013-2014). Earlier application is encouraged.

GASB Statement No. 66, *Technical Corrections—2012*—an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (FY 2013-2014). Earlier application is encouraged.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

GASB Statement No. 67, Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement No. 50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. *The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY 2014-2015). Earlier application is encouraged.*

GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. *The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY 2014-2015). Earlier application is encouraged.*

The Municipality has not yet determined the effect this statement will have on the Municipality's financial statements.

**3. CASH AND INVESTMENTS**

***Cash in Banks***

The Municipality's cash and investments at June 30, 2012 are composed of: (1) demand deposits in commercial banks, (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent), and (3) cash equivalents in commercial banks. Cash equivalents of \$84.3 million are deposits in interest bearing commercial bank accounts and GDB, and are recorded at cost, which approximates fair value.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Government. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Government laws.

The Municipality follows the practice of pooling cash. At June 30, 2012, the pool cash account in interest bearing commercial banks accounts had a balance of \$45.2 million of which \$25.9 million in the General Fund, \$323,489 of Head Start Program, \$5.8 million in the Art Center Fund, \$4.0 million in the Multiuses Coliseum Fund, and \$9.3 in Other Governmental Funds; of which \$223,345, \$13.2 million, and \$25.3 million was invested in an interest bearing account in Oriental Bank & Trust, Humacao Branch; Doral Bank, Humacao Branch, and First Bank, Humacao Branch that generates an annual interest rate of 0.50%, 0.05%, and 0.6%, respectively. Also, \$1,804,564 was invested in three separate accounts in Popular Bank of Puerto Rico, Trust Division, which generates an annual interest of 0.125% (\$1,435,497) and 0.20% for the other two (\$573 and \$368,494). Other funds are deposit in regular bank accounts. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in interest bearing accounts with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

Under the laws and regulations of the Government, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Government's Secretary of the Treasury, but not in the Municipality's name.

**3. CASH AND INVESTMENTS – continuation**

Cash with fiscal agent in the debt service fund consists principally of property tax collections amounting to \$17.1 million that are restricted for the payment of the Municipality's debt service, as required by law. Cash with Fiscal Agent consist principally of \$735,103 of unspent proceeds of bonds for the Multiuses Coliseum, \$36,250 for the Art Center, \$5,500 in the General Fund, and \$1.2 million in other governmental funds that are restricted for the acquisition, construction or improvement of major capital assets. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2012:

***Credit Risk***

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2012, the Municipality has invested only in cash equivalents of \$45.8 million consisting of deposit in interest bearing commercial bank accounts, which are insured by the FDIC, generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2012. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2012.

***Custodial Credit Risk***

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Government adopted by GDB, the Municipality may invest in obligations of the Government, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2012, the Municipality has balances deposited in commercial banks amounting to \$45.8 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to \$19.1 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2012. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2012, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

***Interest Rate Risk***

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2012, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits in certificates of deposit and in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2012, the interest risk associated with the Municipality's cash and cash equivalent is considered low.

***Foreign Exchange Risk***

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2012.

**4. RECEIVABLES**

As of June 30, 2012, the account receivable in the amount of \$329,085 corresponded to the Sales and Usage Taxes.

**5. DEFERRED AND UNEARNED REVENUES**

Government-wide *Statement of Net Assets* report *deferred* revenues for resources receive before it has a legal claim to them. Governmental funds balance sheet report *deferred revenues* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenues* and *unearned revenues* reported in the basic financial statements were as follows:

	UNAVAILABLE	UNEARNED
Volume of Business Taxes	\$ -	\$ 16,135,818
Other Major Funds	3,324,273	-
Head Start Program	5,041,022	-
Total Deferred/Unearned Revenue	<u>\$ 8,365,295</u>	<u>\$ 16,135,818</u>

**6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS**

**A. Interfund Receivable and Payable Balances**

Due to/from Other Funds at June 30, 2012 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Head Start Fund	\$ 253,773
General Fund	Other Non-Major Funds	1,864,211
Other Non-Major Funds	General Fund	1,188
Head Start Fund	Other Non-Major Funds	282
Other Non-Major Funds	Head Start Fund	250
Other Non-Major Funds	Multiuses Coliseum Fund	10,799
Total		<u>\$ 2,130,503</u>

**B. Interfund Transfers**

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Services Fund	\$ 228,463	Bond Principal and Interest Payments
Other Non-Major Fund	General Fund	115,411	Equity Transfer
Multiuses Coliseum Fund	Debt Services Fund	44,686	Bond Issue Costs Payment
General Fund	Art Center Fund	1,020,656	Equity Transfer
General Fund	Multiuses Coliseum Fund	1,600,000	Equity Transfer
General Fund	Other Non-Major Fund	2,309,292	Equity Transfer
Total		<u>\$ 5,318,508</u>	

**7. DUE FROM/TO GOVERNMENTAL UNITS**

As of June 30, 2012, balance due from governmental units of the Other Major Fund corresponded to reimbursement of Law 82 (\$7,591) and in the General Fund from Simonet Home (\$401).

The balance due to governmental units of the General Fund for services rendered to the Municipality consists of Water and Sewer Authority (\$58,384), AEELA (\$57,076), US Department of Housing and Urban Development (\$21,219) for reimbursement of Section 8 Rental Moderate Rehabilitation Programs, and General Service Administration (\$275). Amount due by Art Center Fund is to Infrastructure Financial Agency (\$2,766,843).

8. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2012 was as follows:

DESCRIPTION	BALANCE				BALANCE JUNE 30, 2012
	JULY 1, 2011	RECLASSIFICATION	INCREASE	DECREASE	
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 11,702,552	\$ 108,700	\$ -	\$ (219,958)	\$ 11,591,294
Construction in Progress	71,503,374	(1,363,639)	14,892,640	-	85,032,375
Total Non-Depreciable Capital Assets	<u>83,205,926</u>	<u>(1,254,939)</u>	<u>14,892,640</u>	<u>(219,958)</u>	<u>96,623,669</u>
<b>Depreciable Capital Assets:</b>					
Buildings	55,160,191	1,254,939	275,237	(58,500)	56,631,867
Infrastructure	23,111,300	-	-	-	23,111,300
Motor Vehicles	9,044,797	-	-	(1,132,988)	7,911,809
Equipment	6,513,380	-	1,048,277	(707,710)	6,853,947
Capital Lease	-	-	-	-	-
Total Depreciable Capital Assets	<u>93,829,668</u>	<u>1,254,939</u>	<u>1,323,514</u>	<u>(1,899,198)</u>	<u>94,508,923</u>
<b>Less Accumulated Depreciation:</b>					
Buildings	(18,539,932)	-	(1,174,279)	23,986	(19,690,225)
Infrastructure	(5,938,561)	-	(289,672)	-	(6,228,233)
Motor Vehicles	(6,955,137)	-	(374,801)	1,104,202	(6,225,736)
Equipment	(5,167,206)	-	(587,812)	650,210	(5,104,808)
Capital Lease	-	-	-	-	-
Total Accumulated Depreciation	<u>(36,600,836)</u>	<u>-</u>	<u>(2,426,564)</u>	<u>1,778,398</u>	<u>(37,249,002)</u>
Total Depreciable Capital Assets (Net)	<u>57,228,832</u>	<u>1,254,939</u>	<u>(1,103,050)</u>	<u>(120,800)</u>	<u>57,259,921</u>
CAPITAL ASSETS, NET	<u>\$ 140,434,758</u>	<u>\$ -</u>	<u>\$ 13,789,590</u>	<u>\$ (340,758)</u>	<u>\$ 153,883,590</u>

Depreciation expenses were charged to governmental functions/programs as follows:

	AMOUNT
Mayor and Municipal Legislature	\$ 339,719
General Government	218,390
Public Safety	194,125
Public Works	752,235
Culture and Recreation	703,704
Human Service and Welfare	121,328
Urban Development	97,063
Total Depreciation Expenses	<u>\$ 2,426,564</u>

9. GENERAL LONG-TERM DEBTS

A. General and Special Obligations Bonds

The principal long-term obligations of the Municipality are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities and purchase of machinery and equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 10).

9. GENERAL LONG-TERM DEBTS – continuation

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2012:

During November 2011, the Municipality issued general obligation bonds, Series of 2011 in the amount of \$2,255,331 for general construction and bond issue cost. The principal and variable interest at 3.00% for the first year and at 7.50% for the remaining installments are payable annually ranging from \$44,000 to \$168,331 on the 1<sup>st</sup> day of July of each year through July 2036.

During November 2011, the Municipality issued special obligation bonds, Series of 2011 in the amount of \$9,612,825 refinance other obligation and bond issue cost. The principal and variable interest at 3.00% for the first year and at 7.50% for the remaining installments are payable annually ranging from \$185,000 to \$887,825 on the 1<sup>st</sup> day of July of each year through July 2033.

During November 2011, the Municipality issued special obligation bonds, Series of 2011 in the amount of \$2,265,000 for general construction and bond issue cost. The principal and variable interest at 3.00% for the first year and at 7.50% for the remaining installments are payable annually ranging from \$44,000 to \$178,000 on the 1<sup>st</sup> day of July of each year through July 2036.

Type of Obligation and Purpose	Maturity Date	Interest Rate	Amount
<b>General Obligation Bonds - Property Taxes</b>			
\$5,200,000, Series 2003-04 - General Construction	2028	4.17% ~ 5.31%	\$ 4,310,000
\$4,020,000, Series 2002-03 - General Construction	2027	1.28% ~ 6.50%	3,215,000
\$1,099,000, Series 1995 - Purchase of Equipment	2013	4.70% ~ 6.63%	210,000
\$1,485,000, Series 1995 - General Construction	2014	4.87% ~ 6.19%	435,000
\$8,395,000, Series 1998 - General Construction	2018	4.87% ~ 6.71%	4,365,000
\$1,720,000, Series 2005 - General Construction	2030	4.17% ~ 5.31%	1,490,000
\$370,000, Series 2006 - Land Acquisition	2030	4.17% ~ 5.31%	315,000
\$10,620,000, Series 2006 - General Construction	2031	1.37% ~ 5.68%*	9,470,000
\$10,620,000, Series 2006 - General Construction	2031	0.47% ~ 6.58%*	9,460,000
\$2,055,000, Series 2007 - Purchase of Equipment	2014	1.53% ~ 6.50%	1,010,000
\$19,915,000, Series 2009 - General Construction	2035	4.80% ~ 7.50%**	19,530,000
\$2,255,331, Series 2011 - General Construction	2036	3.00% ~ 7.50%	<u>2,255,331</u>
<b>Total General Obligations Bonds</b>			<b><u>56,065,331</u></b>
<b>Special Obligations Bonds - Property Taxes</b>			
\$4,786,000, Series 1995 - Refinancing Purpose	2013	1.38% ~ 8.00%	915,000
\$1,412,000, Rural Development - General Construction	2030	4.25%	1,279,000
\$848,000, Rural Development - General Construction	2035	4.125%	827,000
\$2,900,000, Rural Development - General Construction	2035	4.00%	<u>2,900,000</u>
<b>Total Special Obligations Bonds - Property Taxes</b>			<b><u>5,921,000</u></b>
<b>Special Obligation Bonds - Sales and Usage Taxes</b>			
\$9,612,825, Series 2011 - General Construction	2033	3.00% ~ 7.50%	9,612,825
\$2,265,000, Series 2011 - General Construction	2036	3.00% ~ 7.50%	<u>2,265,000</u>
<b>Total Special Obligations Bonds</b>			<b><u>17,798,825</u></b>
<b>Total General and Special Obligations Bonds</b>			<b><u>\$ 73,864,156</u></b>

\* Interest is set at the payment date using the London Interbank Offered Rate (LIBOR) – 90 days, plus 0.19%.  
\*\* Interest is set at the payment date using the prevailing Prime Rate, plus 1.55%.

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2012, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

B. Legal Debt Limit and Legal Debt Margin

On March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The Municipality debt limits are 10% of valuation of property subject to taxation, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the Municipality.

9. GENERAL LONG-TERM DEBTS - continuation

C. Other Long-Term Debts

*Borrowing from MRCC*

On July 1, 2007, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 146. The original debt was \$730,449 to be paid during 25 years plus annual interest of 6.22%.

On November 28, 2001, the Municipality entered into a repayment agreement with the GDB and MRCC to pay for the proportional debt to cover the Land Information Management System (LIMS), system established by MRCC with the capacity to maintaining cadastre and photos of all real property of Puerto Rico. The original debt was \$1,833,035 to be paid during 10 years plus annual interest of 5.95%.

On July 1, 2002, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 42. The original debt was \$492,779 to be paid during 30 years plus annual interest of 6.1875%.

*Claims and Judgment*

This amount represents the amount accrued for possible claims arising from litigations.

*Compensated Absences*

This amount represents the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations.

Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE JULY 1, 2011	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2012	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
Law Number 146-MRCC	\$ 613,577	\$ -	\$ (29,218)	\$ 584,359	\$ 29,218	\$ 555,141
LIMS Debt-MRCC	119,374	-	(119,374)	-	-	-
Law Number 42-MRCC	428,743	-	(9,952)	418,791	10,578	408,213
Claims and Judgments	162,000	-	-	162,000	-	162,000
Compensated Absences	5,499,169	788,151	(517,062)	5,770,258	3,604,263	2,165,995
TOTAL	\$ 6,822,863	\$ 788,151	\$ (675,606)	\$ 6,935,408	\$ 3,644,059	\$ 3,291,349

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2012:

DESCRIPTION	BALANCE JULY 1, 2011	NEW ISSUE	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2012	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General Obligations	\$ 55,980,000	\$ 2,255,331	\$ (2,170,000)	\$ 56,065,331	\$ 2,354,000	\$ 53,711,331
Special Obligations	15,066,785	12,940,040	(10,208,000)	17,798,825	819,000	16,979,825
Other Debts	6,822,863	788,151	(675,606)	6,935,408	3,644,059	3,291,349
TOTAL	\$ 77,869,648	\$ 15,983,522	\$ (13,053,606)	\$ 80,799,564	\$ 6,817,059	\$ 73,982,505

9. GENERAL LONG-TERM DEBTS – continuation

E. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The Municipality believes it is in compliance with all significant limitations and restrictions.

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2012 are as follows:

YEAR ENDING JUNE 30,	General Obligation Bonds		Special Obligation Bonds & Note		Other Long-Term Obligation:		TOTAL	
	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL	INTEREST
2013	\$ 2,354,000	\$ 2,532,190	\$ 819,000	\$ 797,901	\$ 3,644,059	\$ 62,099	\$ 6,817,059	\$ 3,392,190
2014	2,511,000	2,701,289	872,000	1,083,221	2,368,456	59,617	5,751,456	3,844,127
2015	2,553,000	3,194,547	421,000	1,039,452	41,166	57,092	3,015,166	4,291,091
2016	2,166,000	3,055,457	450,000	1,013,082	41,918	54,526	2,657,918	4,123,065
2017	2,309,000	2,923,830	476,000	985,152	42,716	51,910	2,827,716	3,960,892
2017-2022	11,259,000	12,159,848	2,844,000	4,435,530	227,416	218,447	14,330,416	16,813,825
2022-2027	12,898,000	9,068,953	3,831,000	3,391,089	256,386	144,047	16,985,386	12,604,089
2027-2032	14,068,000	4,735,089	4,981,000	1,946,491	295,671	59,326	19,344,671	6,740,906
2032-2036	5,947,331	1,069,463	3,104,825	344,019	17,620	545	9,069,776	1,414,027
<b>TOTAL</b>	<b>\$ 56,065,331</b>	<b>\$ 41,440,666</b>	<b>\$ 17,798,825</b>	<b>\$ 15,035,937</b>	<b>\$ 6,935,408</b>	<b>\$ 707,609</b>	<b>\$ 80,799,564</b>	<b>\$ 57,184,212</b>

10. DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 11).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 9). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

11. PROPERTY TAXES

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1<sup>st</sup> of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business, or (2) owns residential real property with a value in excess of \$15,000 (at 1957 market price).

The MRCC is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Real property tax is assessed by the MRCC on each piece of real estate and on each building or residence. The property tax contribution is levied each year over the appraised value of the real property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957.

**11. PROPERTY TAXES - continuation**

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. The difference between the advances and the final settlement from MRCC for the fiscal year 2012 is pending of final determination.

The tax rate for fiscal year 2012 is 8.83% for real property and 6.83% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 7.80% and 5.80%, respectively, belongs to the Municipality. The Commonwealth of Puerto Rico also contributes an annual tax rate of 0.20% of the property tax collected. The remaining percentage is distributed as follows: (a) 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. The remaining portion belonging to the Municipality of 1.80% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 12). The Municipality hasn't reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

As previously mentioned, on March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The effect of this Law was an increase in the valuation of the real properties and in the exemption granted for the residential units occupied by their owners by multiply both amount by ten. Accordingly, the residential units occupied by their owners are exempt from real property taxes on the first \$150,000 assessed value. For such exempted amounts, the Puerto Rico Secretary of the Treasury assumes payment of the basic tax to the Municipality (6.00%), except for residential units assessed at less than \$35,000 on which a complete exemption is granted. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

In addition, the law grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with an annual net sales volume of less than \$150,000. The MRCC advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the MRCC from taxpayers. The MRCC periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from MRCC. Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

**12. VOLUME OF BUSINESS TAXES**

The volume of business taxes is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of \$3.0 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2012, the tax rates were as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.50% for all other organizations.

**12. VOLUME OF BUSINESS TAXES – continuation**

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration on or before the due date, the taxpayer is granted a 5% of discount. The volume of business tax receivable represents filed tax returns that were uncollected as of June 30, 2012. Collections of taxes during current fiscal year corresponding of the tax return based on the prior year gross sales are applicable to the next fiscal year and recorded as deferred revenues in the General Fund.

**13. SALES AND USAGE TAXES**

Municipality imposes a Sales and Usage Taxes of 1.5% (1.0% collected and belong to the Municipality and 0.5% collected by the Puerto Rico Secretary of the Treasury) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Use Tax Return Form, no later than the 10<sup>th</sup> of the following month from the month being reported. The Act also provides for restrictions on the use of the resources (including the 0.5% collected by the Puerto Rico Secretary of Treasury) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

- a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;
- b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and
- c. 0.1% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth's Legislature.

Sales tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2012, but pertaining to the current year period.

As per Ordinance Number 1, Series 2007-2008, the Municipality authorized that one third (1/3) of the sales taxes collected should be appropriated for the investment of Eligible Activities and Infrastructure Fund created by Ordinance Number 44, Series 2006-2007.

**14. CONSTRUCTION EXCISE TAXES**

Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings, and any structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, existing buildings and improvements, project design and other engineering fees, licenses and permits, consulting and legal fees. The tax is paid by the taxpayer before the beginning of the construction project. The activities covers by this tax and the exemption granted are as follows:

- a. All construction of a single-family residential construction projects not related to housing development projects, condominiums, or any similar projects, with a total cost exceeding \$50,000, will pay 5% of construction excise taxes. This project is exempt of the construction excise taxes for the first \$50,000 of the project construction costs.
- b. All construction projects related to improvement to a single-family residential using as principal residence are exempt of the construction excise taxes for the first \$10,000 of the project construction costs. The swimming pool is not considered and improvement to a single-family residential, accordingly, is not exempt of the construction excise taxes.
- c. All construction projects carried out by philosophic and humanistic organization have full exemption to the construction excise taxes.
- d. All construction projects carried out by state, federal and municipal governments have full exemption to the construction excise taxes if such projects are performed by administration.

**14. CONSTRUCTION EXCISE TAXES - continuation**

- e. All commercial projects in Urban Center of the Municipality should paid 1.5% of construction excise taxes. All residential projects in Urban Center have full exemption, including second plant to existing residential or commercial buildings to be used as social interest residential.

**15. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

**16. PENSION PLAN**

***Description of the Plan***

Employees of the Municipality participate in the Employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

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

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of their monthly gross salary. The Municipality is required by Act No. 447 to contribute 9.275% of its employees' gross salaries.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the ERS effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, for all years of creditable services, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable services.

16. PENSION PLAN - continuation

Law Number 305 was enacted on September 24, 1999, amended the Act Number 447 for the purpose of establishing a new program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system (ERS) 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 System 2000.

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

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

For the year ended June 30, 2012, total covered payroll was approximately \$25.0 million. Covered payroll refers to all compensation paid by the Municipality to employees covered by the System on which contributions to the pension are based.

**Funding Policy**

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

Contribution requirements are established by law and are as follows:

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

On July 6, 2011 was issued the Act No. 116, an amendment to Act No. 447 of May 15, 1951. This act brought the following amendments to the employer contribution requirements effective July 1, 2011: 10.275% of gross salary, increasing by 1% each July 1 each July 1 from the year 2012 to 2015 and then, increasing by 1.25% each July 1 from the year 2016 to 2020.

**Annual Contribution**

Total employee contributions to the above-mentioned plans during the year ended June 30, 2012, 2011 and 2010 amounted to approximately \$2,778,783. The Municipality's contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

FISCAL YEAR	LAW NO. 447	SYSTEM 2000
2012	\$ 488,197	\$ 564,576
2011	515,047	522,773
2010	557,540	496,522

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

The Employee's Retirement System of the Government of Puerto Rico provides additional information of the ERS and System 2000. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

**17. CONTINGENCIES**

**A. Claims and Judgments**

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

**B. Federal Grants**

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program requirements, the Municipality may be required to reimburse the grantor or pass-through agencies. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**18. COMMITMENTS**

**A. Operating Leases**

The Municipality leases real property, buildings, and equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund and in other governmental funds for the year ended June 30, 2012, amounted to approximately \$337,520. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

**B. Construction and Improvement Commitments**

The Municipality had encumbrances at June 30, 2012 for the construction, improvements, or renovation of several municipal facilities in the following funds:

	Encumbered For	Amount	Reported within Fund Balance Classification
Multiuses Coliseum Fund	Construction of Multiuses Coliseum	\$ 604,947	Restricted to Improvement and Construction of Facilities
Non Major Funds	Improvement and Construction of Facilities	\$ 287,008	Restricted to Improvement and Construction of Facilities

**C. Solid Waste Disposal Contract**

The Municipality has a solid waste disposal contract with E.C. Waste, Inc. cover the fiscal years beginning on October 1, 2012 through September 3, 2017, to provide the service for the recollection, management and disposal of solid waste. In the contract it was established that the Municipality is committed to pay E.C. Waste Inc. from \$12.20 through \$13.47 per unit served (with an annual income increase of 2.5%) applied to a starting minimum of 25,850 units, with a possible extension of two additional years. Expenditure for the year ended June 30, 2012 for this service amounts to \$3.0 million, approximately.

In addition, the Municipality is committed to pay additional \$22.10 through \$24.39 per tons that the Municipality transports and deposits of such solid wastes for their processing. The price of the rate is also subject to an annual income increase of two and a half percent (2.5%). Future commitments are scheduled as follows:

18. COMMITMENTS – continuation

Fiscal Year	Amount
2012-2013 (9 months)	\$ 2,838,330
2013-2014	3,856,562
2014-2015	3,952,724
2015-2016	4,051,212
2016-2017	4,152,803
2017-2018 (3 months)	<u>1,044,599</u>
Total	<u>\$19,896,230</u>

Both parties stipulate that the maximum payments charged to this contract during the five (5) years period should not exceed \$19,896,230.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 18, 2013, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2012.

END OF NOTES

MUNICIPALITY OF HUMACAO, PUERTO RICO

**REQUIRED SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2012

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Notes 1 and 2)	Final Budget
<b>BUDGETARY FUND BALANCE, JULY 1, 2011</b>	<b><u>\$11,381,738</u></b>	<b><u>\$11,381,738</u></b>	<b><u>\$ 11,381,738</u></b>	<b><u>\$ -</u></b>
Resources (Inflows):				
Property Taxes	12,689,938	12,689,938	13,202,864	512,926
Volume of Business Taxes	16,962,058	16,962,058	17,978,630	1,016,572
Sales and Usage Taxes	4,264,752	4,264,752	4,290,342	25,590
Intergovernmental Revenues	5,702,106	5,702,106	5,984,946	282,840
Construction Excise Taxes	2,500,000	2,500,000	1,979,791	(520,209)
Interest	500,000	500,000	238,603	(261,397)
Miscellaneous	1,361,000	1,361,000	1,243,498	(117,502)
Total Resources (Inflows)	<u>43,979,854</u>	<u>43,979,854</u>	<u>44,918,674</u>	<u>938,820</u>
Amounts Available for Appropriation	<u>55,361,592</u>	<u>55,361,592</u>	<u>56,300,412</u>	<u>938,820</u>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	3,733,068	3,781,269	3,591,711	189,558
General Government	15,905,579	16,328,334	15,740,824	587,510
Public Safety	4,313,070	4,324,700	3,763,752	560,948
Public Works	4,635,011	4,734,695	4,409,749	324,946
Culture and Recreation	2,525,201	2,743,260	2,554,839	188,421
Health and Sanitation	1,715,105	1,715,105	1,715,105	-
Solid Waste Disposal	3,240,000	3,455,574	3,433,473	22,101
Human Services and Welfare	6,223,260	6,076,546	5,663,887	412,659
Urban Development	1,391,795	1,241,438	1,126,751	114,687
Capital Outlays	297,765	290,641	265,021	25,620
Transfers to Other Funds	-	3,145,143	3,145,143	-
Total Charges to Appropriations	<u>43,979,854</u>	<u>47,836,705</u>	<u>45,410,255</u>	<u>2,426,450</u>
<b>BUDGETARY FUND BALANCE, JUNE 30, 2012</b>	<b><u>\$11,381,738</u></b>	<b><u>\$ 7,524,887</u></b>	<b><u>\$10,890,157</u></b>	<b><u>\$3,365,270</u></b>

See accompanying Notes to Required Supplementary Information

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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1. **Budgetary Reporting**

The Budgetary Comparison Schedule - General Fund is presented as Required Supplementary Information in accordance with Section 1700 of the GASB Codification, *The Budget and Budgetary Accounting*. Formal and legal budgetary control is based upon major classes of expenditures known as functions. The Municipality's expenditures in the General Government function exceeded the budgetary amount by \$568,755, due to far greater than expected increased expenditures for utilities and professional services.

2. **Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**  
**Sources/Inflows of Resources:**

Budgeted Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 51)	\$56,300,412
Difference – Budget to GAAP:	
Reclassified Revenues per GASB Number 54	145,461
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	<u>(11,381,738)</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 20)	<u>\$45,064,135</u>

**Uses/Outflows of Resources:**

Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 51)	\$45,410,255
Difference – Budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(486,443)
Payment of Prior Year Encumbrance	835,636
Reclassified Expenditures per GASB Number 54	493,591
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(3,145,143)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures, and Changes in Fund Balance (See Page 20)	<u>\$43,107,896</u>

**MUNICIPALITY OF HUMACAO, PUERTO RICO**

**SINGLE AUDIT SECTION**

**YEAR ENDED JUNE 30, 2012**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO

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

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	CFDA NUMBER	FEDERAL ENTITY IDENTIFYING NUMBER	PASS-THROUGH FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Water and Waste Disposal System for Rural Communities	10.760	63-003-690-66-0046	\$ 921,097
Pass-Through Puerto Rico Department of Education:			
Child and Adult Care Food Program .....	10.558	CC-081	<u>926,952</u>
Total U.S. Department of Agriculture .....			<u>1,848,049</u>
U.S. Department of Housing and Urban Development:			
Community Development Block Grant/Entitlement Grants (CDBG) (Cluster).....	14.218		1,645,321
Community Development Block Grant ARRA/Entitlement Grants (CDBG-R) – Recovery Act Funded (Cluster) .....	14.253		<u>38,116</u>
Sub-Total Community Development Block Grant (Cluster)			1,683,437
Emergency Shelter Grants Program (ESG).....	14.231		1,225
Section 8 Housing Choice Vouchers .....	14.871		1,812,710
Housing Opportunities for Persons with AIDS (HOPWA)	14.241		70,557
Homelessness Prevention and Rapid Re- Housing Program (HPRP) – Recovery Act Funded .....	14.257		<u>245,546</u>
Total U.S. Department of Housing and Urban Development			<u>3,813,475</u>
U.S. Department of Homeland Security:			
Pass-Through Puerto Rico Governor's Office:			
Disaster Grants - Public Assistance.....	97.036	FEMA-1798	18,456
.....		FEMA-4017	558,415
Homeland Security Grant Program (HSGP) .....	97.067	2007-GE-T7-0043	<u>708</u>
Total U.S. Department of Homeland Security .....			<u>577,579</u>
U.S. Department of Transportation direct programs:			
Federal Transit – Capital Investment Grants .....	20.500		<u>108,231</u>
Total U.S. Department of Transportation .....			<u>108,231</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward).....			<u>6,347,334</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO**

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

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Subtotal of Expenditures of Federal Awards (Balance Brought Forward) .....			<b>\$ 6,347,334</b>
U. S. Department of Health and Human Services:			
Pass-Through Puerto Rico Office for Elderly Affairs:			
Special Programs for the Aging – Title III, Part C – Nutritional Services .....	93.045	N/AV	<u>80,759</u>
Pass-Through Puerto Rico Administration of Families and Children Affairs:			
Child Care and Development Block Grant .....	93.575	2011-039	<u>164,097</u>
Head Start Program .....	93.600	02CH9944-006	<u>8,428,865</u>
Total U.S. Department of Health and Human Services .....			<u>8,673,721</u>
U. S. Department of Justice:			
Pass-Through Puerto Rico Department of Justice:			
Edward Byrne Memorial Justice Assistance Grant Program - Recovery Act Funded .....	16.738	2009-SU-B9-0053	<u>159,016</u>
U. S. Department of Energy:			
Energy Efficiency and Conservation Block Grant Program - (EECBG) Recovery Act Funded .....	81.128		<u>95,198</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS .....</b>			<b><u>\$15,275,269</u></b>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the Municipality of Humacao, Puerto Rico (Municipality). The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net assets of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available.

**3. FEDERAL CFDA NUMBER**

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

**4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Expenditures of federal awards are reported in the Municipality's Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Fund as follows: Head Start - \$7,151,643 and Other Governmental Funds \$8,123,626.

**5. SUBRECIPIENTS**

Of the federal expenditures presented in the Schedule, the Municipality provided federal awards to subrecipients as follows:

PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT PROVIDED TO SUBRECIPIENTS
ARRA Homelessness Prevention And Rapid Re-Housing Program (HPRP) .....	14.257	<u>\$88,531</u>

**6. MAJOR PROGRAMS**

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

**END OF NOTES**

**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***

Honorable Mayor and Members of the  
Municipal Assembly  
Municipality of Humacao, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Humacao, Puerto Rico, as of and for the year ended June 30, 2012, which collectively comprise the Municipality of Humacao, Puerto Rico's basic financial statements and have issued our report thereon dated March 18, 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**

In planning and performing our audit, we considered Municipality of Humacao, Puerto Rico'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 Municipality of Humacao, Puerto Rico's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Humacao, Puerto Rico'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.

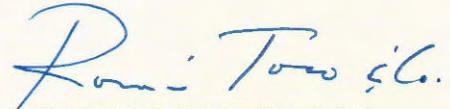
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Municipality of Humacao, Puerto Rico'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 instance of noncompliance or other matters that are required to be reported under Government Auditing Standard.

**Compliance and Other Matters. (continued)**

This report is intended solely for the information and use of management, Municipal Assembly, others within the entity, 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.



ROMAN TORO & CO., CPA, C.S.P.  
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Yauco, Puerto Rico  
March 18, 2013

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the original of this report



**INDEPENDENT AUDITOR'S 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**

Honorable Mayor and Members of the  
Municipal Assembly  
Municipality of Humacao, Puerto Rico

**Compliance**

We have audited Municipality of Humacao, Puerto Rico's compliance, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality of Humacao, Puerto Rico's major federal programs for the year ended June 30, 2012. Municipality of Humacao, Puerto Rico'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 Municipality of Humacao, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of Humacao, Puerto Rico'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 Municipality of Humacao, Puerto Rico'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 Municipality of Humacao, Puerto Rico's compliance with those requirements.

In our opinion, Municipality of Humacao, Puerto Rico, 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**

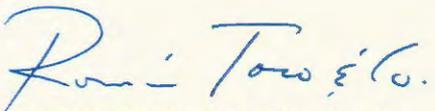
Management of Municipality of Humacao, Puerto Rico, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Humacao, Puerto Rico'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 Municipality of Humacao, Puerto Rico's internal control over compliance.

**Internal Control Over Compliance (continued)**

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 management, Municipal Assembly, others within the entity, 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.

  
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Yauco, Puerto Rico  
March 18, 2013

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

- Type of auditor's report issued:  Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion
- Internal control over financial reporting:
- Significant deficiency identified?  Yes  None reported
  - Material weakness (es) identified?  Yes  No
- Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

- Internal control over major programs:
- Significant deficiency identified?  Yes  None reported
  - Material weakness (es) identified?  Yes  No
- Type of auditor's report issued on compliance for Major Programs:  Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion
- Any audit finding disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
10.760	Water and Waste Disposal System for Rural Communities
14.218; 14.253	Community Development Block Grant – Entitlement Grants (Cluster)
14.257	Homelessness Prevention and Rapid Re- Housing Program
14.871	Section 8 – Rental Housing Choice Vouchers
16.738	Edward Byrne Memorial Justice Assistance Grant Program
93.600	Head Start Program
97.036	Disaster Grants - Public Assistance

Dollar threshold used to distinguish between Type A and Type B Programs: \$458,258

- Auditee qualified as low-risk auditee?  Yes  No

**END OF SECTION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2012**

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**SECTION II – FINANCIAL STATEMENTS FINDINGS**

None.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.

**END OF SECTION**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF HUMACAO, PUERTO RICO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012

Year	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
<b>(1) Prior Audit Findings, fully corrected or not noted during our audit:</b>					
2011	2011-III-1	Section 8 HCV program's restricted cash funds (NRA/HAP) was levied by the U.S. Internal Revenue Service (IRS) in matters unrelated to the program's operations and objectives.	14.871	\$6,273 (as of June 30, 2012)	The Municipality reimbursed the Section 8 program with the missing funds on April 2012.

**(2) Prior Audit Findings, not corrected or partially corrected:**

None.

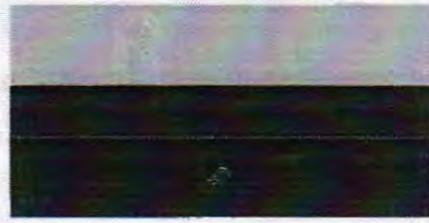
**(3) Corrective action taken is significantly different from corrective action previously reported:**

None.

**(4) Prior Audit Findings, are no longer valid:**

None.

END OF SCHEDULE



**MUNICIPIO DE HUMACAO**

**Informe Especial sobre el cumplimiento con las  
recomendaciones del Contralor y la corrección de las  
fallas señaladas en los Informes de Auditoría  
M-10-23 del 24 de noviembre de 2009 y  
M-10-32 del 9 de diciembre de 2009**

**18 de marzo de 2013**



## **MUNICIPIO DE HUMACAO**

### **CONTENIDO**

<b>BASE LEGAL</b>	<b>1</b>
<b>ALCANCE Y METODOLOGIA</b>	<b>2</b>
<b>INFORME DE LOS AUDITORES INDEPENDIENTES</b>	<b>2-3</b>
<b>CARTAS A LA GERENCIA</b>	<b>3</b>
<b>COMENTARIOS DE LA GERENCIA</b>	<b>3</b>
<b>AGRADECIMIENTO</b>	<b>3</b>
<b>ANEJO A:</b>	
<b>Recomendaciones no cumplimentadas y     parcialmente cumplimentadas</b>	

18 de marzo de 2013

Hon. Alcalde  
Municipio de Humacao  
Humacao, Puerto Rico

Realizamos una auditoría, que incluyó la realización de aquellos procedimientos que consideramos necesarios, para expresar una opinión sobre el cumplimiento del Municipio con las recomendaciones del Contralor y la corrección de las fallas señaladas en los Informes de Auditoría **M-10-23 del 24 de noviembre de 2009** y **M-10-32 del 9 de diciembre de 2009**. La misma se efectuó a base de las disposiciones que se establecen en los **artículos 7.010 y 8.016 de la Ley Núm. 81 del 30 de agosto de 1991, Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991, según enmendada (Ley Núm. 81)**.

#### **BASE LEGAL**

El 27 de marzo de 2012 el Municipio contrató los servicios de esta firma para realizar la auditoría de sus estados financieros de acuerdo con los requisitos del **Single Audit Act** y a tenor con la **Ley Núm. 81 y el Reglamento Revisado sobre Normas Básicas para los Municipios de Puerto Rico**. Este fue aprobado por el Comisionado de Asuntos Municipales el 30 de junio de 1995 y comenzó a regir el 31 de julio de 1995.

## ALCANCE Y METODOLOGIA

La auditoría cubrió del 1 de julio de 2011 al 30 de junio de 2012. El examen se realizó de acuerdo con las normas de auditoría generalmente aceptadas promulgadas en las **Normas de Auditoría Gubernamental emitidas por el Contralor General de los Estados Unidos, el Manual de Normas de Auditoría del Contralor de Puerto Rico y el Instituto Americano de Contadores Públicos Autorizados** en lo que concierne al cumplimiento con las recomendaciones y la corrección de las fallas señaladas en los Informes de Auditoría **M-10-23 del 24 de noviembre de 2009 y M-10-32 del 9 de diciembre de 2009**. Efectuamos las pruebas que consideramos necesarias de acuerdo con las circunstancias. Además, como parte de nuestro examen, asistimos el 7 de septiembre de 2012 a la orientación ofrecida por la Oficina del Contralor sobre el cumplimiento con las recomendaciones del Contralor y la corrección de las fallas señaladas en los Informes de Auditoría **M-10-23 del 24 de noviembre de 2009 y M-10-32 del 9 de diciembre de 2009**.

## INFORME DE LOS AUDITORES INDEPENDIENTES

Hemos examinado el cumplimiento del Municipio de Humacao con las recomendaciones del Contralor de Puerto Rico emitidas en sus informes **M-10-23 del 24 de noviembre de 2009 y M-10-32 del 9 de diciembre de 2009**. La gerencia es responsable de que el Municipio de Humacao cumpla con estas recomendaciones. Nuestra responsabilidad es la de expresar una opinión sobre el cumplimiento del Municipio de Humacao basado en nuestro examen.

Nuestro examen fue realizado de acuerdo a las normas de atestación promulgadas por el Instituto Americano de Contadores Públicos Autorizados y, por lo tanto, incluyó examinar, a base de pruebas, evidencia acerca del cumplimiento del Municipio de Humacao con las recomendaciones mencionadas en el primer párrafo y la realización de cualquier otro procedimiento que consideramos necesario según las circunstancias. Nosotros creemos que nuestro examen provee una base razonable para nuestra opinión. Nuestra opinión no representa una base legal para determinar el cumplimiento del Municipio de Humacao con las recomendaciones que se especifican en el primer párrafo.

Nuestro examen reveló las áreas de no cumplimiento con las recomendaciones del Contralor de Puerto Rico emitidas en sus informes **M-10-23 del 24 de noviembre de 2009** y **M-10-32 del 9 de diciembre de 2009** que se incluyen en el anejo de recomendaciones no cumplimentadas y parcialmente cumplimentadas que se acompaña, para el año terminado el 30 de junio de 2012.

En nuestra opinión, excepto por las áreas de no cumplimiento señaladas en el anejo al que hace referencia el tercer párrafo, el Municipio de Humacao cumplió, en todos los aspectos materiales, con las recomendaciones que se especifican en el primer párrafo, para el año terminado el 30 de junio de 2012.

Este informe es emitido para conocimiento y uso exclusivo de la Oficina del Contralor de Puerto Rico y del Municipio de Humacao en relación al cumplimiento con los Artículos 7.010 y 8.016 de la Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico y no debe ser utilizado para ningún otro propósito.

### CARTAS A LA GERENCIA

Los hallazgos de este informe se sometieron al Alcalde, Hon. Marcelo Trujillo Panisse, para comentarios.

### COMENTARIOS DE LA GERENCIA

Las situaciones presentadas en los Hallazgos de los Informes M-10-23 y M-10-32 considerados Parcialmente Cumplimentados y los No Cumplimentados actualmente están siendo evaluadas por los auditores de la Oficina del Contralor durante el proceso de auditoría que llevan a cabo en nuestro Municipio. No obstante, daremos seguimiento a las acciones correctivas de los hallazgos que se presenten relacionados con estos informes y a aquellas situaciones que se incluyan en las cartas que nos envíen los auditores.

### AGRADECIMIENTO

A los funcionarios y empleados del Municipio de Humacao les agradecemos la cooperación que nos prestaron durante nuestro examen.

Yauco, Puerto Rico  
18 de marzo de 2013



*Roman Toro & Co.*  
ROMAN TORO & CO., CPA, C.S.P.  
LICENCIA #35 - VIGENTE

**MUNICIPIO DE HUMACAO**

**ANEJO A:**

***Recomendaciones No Cumplimentadas y  
Parcialmente Cumplimentadas***

**INFORME ESPECIAL – CONTRALOR**

**30 de junio de 2012**

**MUNICIPIO DE HUMACAO**  
**INFORME ESPECIAL - CONTRALOR**  
**ANEJO DE RECOMENDACIONES NO CUMPLIMENTADAS Y**  
**PARCIALMENTE CUMPLIMENTADAS**  
**30 de junio de 2012**

**Informe M-10-23 emitido el 24 de noviembre de 2009**

<i>Número de Recomendación/Hallazgo</i>	<i>Recomendaciones de la Oficina del Contralor</i>	<i>Estatus del Hallazgo</i>	<i>Comentarios del Auditor Externo</i>
Recomendación 6 Hallazgo 2	Recobrar de los ex empleados concernientes o de las fianzas de los funcionarios responsables, los \$1,047 pagados indebidamente a cinco ex empleados, por sueldos y aportaciones patronales después que éstos habían cesados en sus puestos.	Parcialmente cumplimentado	La oficina de recaudaciones del Departamento de Finanzas ha logrado cobrar parte de las cantidades, y continúan con sus gestiones de cobro. El caso también ha sido referido a División Legal para acciones pertinentes.
Recomendación 7a Hallazgo 2	Asegurarse de que se corrijan las deficiencias relacionadas con los nombramientos de los empleados transitorios por períodos que exceden los términos establecidos.	Parcialmente cumplimentado	El Municipio se encuentra trasladando los empleados transitorios señalados a puestos permanentes.
Recomendación 4a-4 Hallazgo 4	Ejercer una supervisión eficaz sobre las funciones del Director de Finanzas para asegurarse de que corrija las deficiencias relacionadas con las faltas de control sobre las recaudaciones.	No cumplimentado	El Municipio se encuentra implementando cambios en los sistemas de recaudaciones. La Oficina de Auditoría Interna del Municipio encontró deficiencias en los sistemas actuales en su informe OAI-11-01 emitido el 16 de agosto del 2010, y en su investigación especial de seguimiento emitida el 7 de febrero del 2012.

**MUNICIPIO DE HUMACAO**  
**INFORME ESPECIAL - CONTRALOR**  
**ANEJO DE RECOMENDACIONES NO CUMPLIMENTADAS Y**  
**PARCIALMENTE CUMPLIMENTADAS**  
**30 de junio de 2012**

**Informe M-10-23 emitido el 24 de noviembre de 2009, continuación**

<i>Número de Recomendación/Hallazgo</i>	<i>Recomendaciones de la Oficina del Contralor</i>	<i>Estatus del Hallazgo</i>	<i>Comentarios del Auditor Externo</i>
Recomendación 8 Hallazgo 4	Establecer los controles internos necesarios para las operaciones relacionadas con las recaudaciones en el Centro de Diagnóstico y Tratamiento (CDT). Esto debe incluir, entre otras medidas, auditorías periódicas de dichas operaciones y adiestramiento y supervisión de personal que interviene en las mismas de manera que no se repitan situaciones como la comentada.	No cumplimentado	El Municipio se encuentra implementando cambios en los sistemas de recaudaciones. La Oficina de Auditoría Interna del Municipio encontró deficiencias en los sistemas actuales en su informe OAI-11-01 emitido el 16 de agosto del 2010, y en su investigación especial de seguimiento emitida el 7 de febrero del 2012.
Recomendación 7b Hallazgo 5	Asegurarse de que se corrijan las deficiencias relacionadas con las tareas conflictivas relacionadas con las operaciones del Sistema Mecanizado de Contabilidad.	No cumplimentado	El Municipio no acepta el hallazgo, y el personal señalado continúa con las mismas tareas.
Recomendación 7d Hallazgo 7	Asegurarse de que se corrijan las deficiencias relacionadas con los fondos especiales inactivos.	Parcialmente cumplimentado	El Departamento de Finanzas continúa en su reconciliación e identificación de fondos especiales.

**MUNICIPIO DE HUMACAO**  
**INFORME ESPECIAL - CONTRALOR**  
**ANEJO DE RECOMENDACIONES NO CUMPLIMENTADAS Y**  
**PARCIALMENTE CUMPLIMENTADAS**  
**30 de junio de 2012**

**Informe M-10-32 emitido el 9 de diciembre de 2009**

<i>Número de Recomendación/Hallazgo</i>	<i>Recomendaciones de la Oficina del Contralor</i>	<i>Estatus del Hallazgo</i>	<i>Comentarios del Auditor Externo</i>
Recomendación 9b Hallazgo 3	Recobrar de los contratistas, los proveedores y otros, o de las fianzas de los funcionarios responsables los \$3,675 pagados indebidamente a un contratista por servicios de alquiler de equipo para sonido no brindados.	No cumplimentado	El Municipio rechaza el hallazgo, pero continúa con sus gestiones de cobro, y considera utilizar sus recursos legales para agilizar los mismos.



# Estado Libre Asociado de Puerto Rico Gobierno Municipal Hatillo

## Programas Federales



1 de abril de 2013

Lcdo. Carlos M. Santini Rodríguez  
Comisionado  
Oficina del Comisionado  
San Juan, PR 00936

**Att: Sra. Nancy Surillo-Analista de Propuestas**

Estimado licenciado Santini:

**RE: SINGLE AUDIT JUNE 30, 2012**

Reciba un saludo cordial a nombre de esta Administración Municipal y de esta servidora.

Por este medio le estoy enviando el Single Audit. Junio 2012, según solicitado. El martes 26 de marzo fue enviado por E.mail en formato PDF y el mismo fue confirmado como recibido. Esperamos que esté de acuerdo a los requisitos de su agencia.

De necesitar información adicional favor comunicarse con esta servidora al teléfono (787) 898-3840 ext. 259.

Cordialmente,

ANA ZAHIR ROSA PADILLA  
DIRECTORA PROGRAMAS FEDERALES

AZRPC/on

Anejos

Apartado #8,  
Hatillo PR 00659  
898-3840  
898-3835  
Fax 820-3747

GRAN CIUDAD DE TRADICIÓN Y CULTURA

13.4.2013  
13 APR - 5 PM 12:57



26 de marzo de 2013

Comisionado de Asuntos Municipales  
13 APR - 5 PM 1:38

Lcdo. Carlos M. Santini Rodríguez  
Comisionado  
Oficina del Comisionado de Asuntos Municipales  
P. O. Box 70167  
San Juan, PR 00936-8167

Estimado señor Santini:

Me place acompañar una (1) copia del "Annual Financial Report" y del "Single Audit Report" del Municipio Autónomo de Humacao para el año fiscal terminado al 30 de junio de 2012 según requerido por el "Single Audit Act of 1984" (Public Law 98-502).

También se incluye una (1) copia del Informe Especial de los Auditores Independientes sobre el cumplimiento con las recomendaciones del Contralor y la corrección de fallas señaladas en los Informes de Auditoría del Contralor Núm. M-10-23 y M-10-32 del 24 de noviembre y 9 de diciembre de 2009 respectivamente. Ambos informes fueron preparados por la firma de CPA, Román Toro & CO., PSC.

De tener alguna duda o necesitar información adicional sobre estos informes puede comunicarse con el Sr. Luis A. González Rodríguez, Director Oficina de Auditoría Interna, al 850-0075 ó al 852-3066 ext. 2210.

Cordialmente,

Marcelo Trujillo Panisse  
Alcalde

c Ivette Díaz Vélez, Directora de Finanzas Interina  
Luis A. González Rodríguez, Director Auditoría Interna

DIVISION REGULACION  
E INTERVENCION  
13 APR - 8 PM 2:40

