



**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS 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, 2013**



COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF HUMACAO

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2013

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CIUDAD AUTÓNOMA DE HUMACAO

MARCELO TRUJILLO PANISSE • ALCALDE

PO BOX 178, HUMACAO, PR 00792

26 de marzo de 2014

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

Estimado licenciado 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 2013 según requerido por el "Single Audit Act of 1984" (Public Law 98-502). Ambos informes fueron preparados por la firma de CPA, Román Toro & CO., PSC.

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 Núm. M-10-23 y M-10-32 del 24 de noviembre y 9 de diciembre de 2009 respectivamente.

De tener alguna duda o necesitar información adicional sobre estos informes puede comunicarse con la Sra. Ivette Díaz Vélez, Directora de Finanzas al 852-2730 ó al 852-3066 ext. 2315.

Cordialmente,



Marcelo Trujillo Panisse  
Alcalde

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

HUMACAO CAPITAL DEL ESTE

VEN Y DESCUBRE POR QUÉ...



## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Member of the  
Municipal Assembly  
Humacao, Puerto Rico

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Humacao, Puerto Rico**, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 18 and 62 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information:

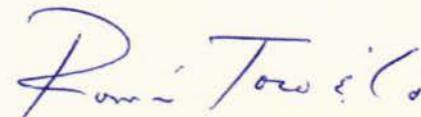
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Autonomous Municipality of Humacao, Puerto Rico's** basic financial statements. The financial data schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The financial data schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and others records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the financial data schedule is fairly stated in all material aspects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, on our consideration of the **Autonomous Municipality of Humacao, Puerto Rico's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Autonomous Municipality of Humacao, Puerto Rico's** internal control over financial reporting and compliance.

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

Yauco, Puerto Rico  
March 20, 2014

Stamp #E93377 was affixed to  
the original report



**MANAGEMENT DISCUSSION AND ANALYSIS**

The following discussion and analysis of the Autonomous Municipality of Humacao's financial performance provides an overview of the Municipality's financial performance, including an overview and analysis of the financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements, including the notes to the financial statements, which are located after this analysis.

## 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:

- Net Position of the Municipality Governmental Activities, on a government-wide basis, decreased at the close of fiscal year 2013 by (\$2,278,583), and 2012 increased by \$2,832, as restated.
- Net Position of the Municipality Business-Type Activities (new activities in 2013), on a government-wide basis, exceeded its liabilities at the close of fiscal year 2013 by \$238,092.
- Net Position of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2013 by \$122,989,373, and 2012 by \$125,029,864, as restated.
- Total Revenues of the Municipality Governmental Activities, on a government-wide basis, decreased by \$2.3 million (3.5%) and expenses decreased \$562,874 (0.008%) in comparison with year 2012.
- The Municipality Business-Type Activities, on a government-wide basis, increased by \$238,092, product of capital contribution of \$500,000 to cover the initial operation of a new enterprise.
- Total net change in net position, on a government-wide basis, amounted to (\$2,040,491), a decrease of (\$2,043,323) (721.5%) with respect to prior year (2012) net change.

### Fund Highlights

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:

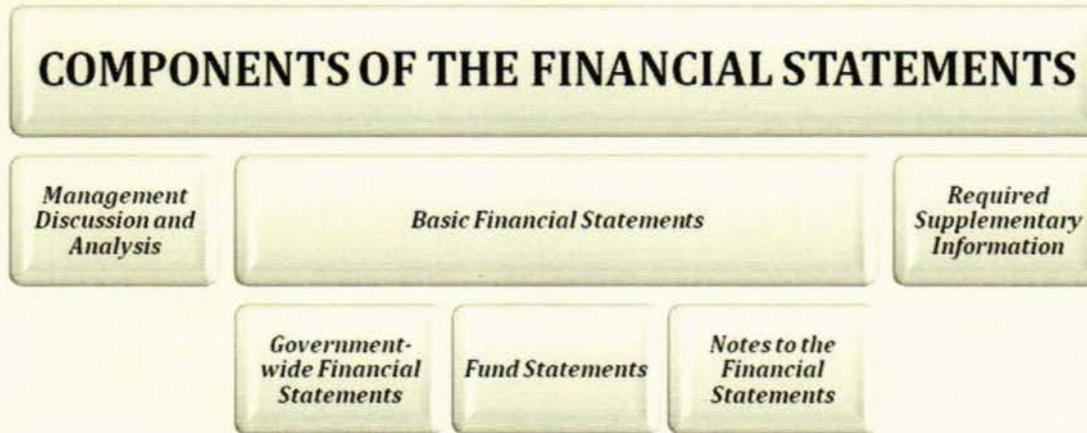
- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$37,186,847, a decrease of (\$3,370,696) in comparison with the prior year.
- The General Fund reported a deficiency of revenues under expenditures and other financing sources and uses of \$2,138,256 and unassigned fund balance of \$6,245,114.
- Proprietary funds reported fund net position of \$238,092, due to a contributed capital by the general fund of \$500,000.
- The business-type activities of the Municipality include the EMDERCMAH Enterprises as new enterprise for the administration and operation of enterprise.

### General Financial Highlights

- The net investment in net capital assets as of June 30, 2013 was \$89,842,852.
- Long-Term General and Special Obligations decreased to \$70,691,156 a decrease of (\$3,173,000) in comparison with prior year balance.
- Other long-term debts increases and net reductions from payments amounted to \$1,502,594 and \$700,631, respectively.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$1,917,929 due to a budgetary appropriation of prior year budgetary fund balance of \$2,101,135.
- Estimated revenues decreased (\$1,671,820) were mainly due to \$1,126,606 of construction excise taxes and \$546,840 of volume of business taxes. Expenditures were less than estimated by \$1,855,026.

## 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, which include three components: (a) Governmental-Wide Financial Statements, (b) Fund Financial Statements, and (c) Notes to the 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.

*Statement of Net Position* – The *Statement of Net Position* presents information on all of the Municipality's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether its financial position 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 financial position of the Municipality.

*Statement of Activities* – The *Statement of Activities* presents information showing how the Municipality's net position changed during the year. All changes in net position (current year's revenues less expenses) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental and business-type activities). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the Municipality include general government, public works and sanitation; public safety, culture and recreation, housing, welfare, and community development and education. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. The business-type activities of the Municipality include the EMDERCDMAH Enterprises as new enterprise for the administration and operation of some Municipality new building for recreational facilities.

The government-wide financial statements can be found on pages 19-20 of this report.

- **Fund Financial Statements**

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Municipality can be divided into two categories: governmental funds and proprietary funds. The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Government regulations, as well by bond covenants.

*Governmental Funds* – 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.

As required by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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 \$37.2 million. Approximately 16.8% 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 Municipality maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for five major funds and an aggregate total for all non-major funds. The Municipality's major governmental funds are the General Fund, Head Start Fund, Art Center Fund, Multiuses Coliseum Fund, and Debt Service Fund.

The General Fund is the chief operating fund of the Municipality. At the end of the current fiscal year, the General Fund balance was \$8,861,943 of which \$6,356,145 represents unassigned fund balance of the General Fund. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balances represent 14.4% of the total fund expenditures, while total fund balance represents 20.0% of that same amount. This percentage is a key financial policy for the Municipality of which needs to be greater than 10%.

The net decrease to fund balance for the General Fund for 2013 was \$3,370,696. This decrease was a result of the transfer to other governmental and enterprise fund of \$1,747,691 in comparison of prior year. The Municipality will continued streamlining of operations throughout the Municipality by freezing staff positions.

The governmental fund financial statements can be found on pages 21-24 of this report.

The Municipality adopts an annual appropriated budget for its general fund. The Budgetary Comparison Schedule has been provided for the General Fund to demonstrate compliance with this budget (pages 62-63).

*Proprietary Fund* – The Municipality maintain only one type of proprietary fund. *Enterprise fund* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Municipality uses enterprise funds to account for its EMDERCDMAH Enterprises. Proprietary funds financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary funds financial statements provide separate information of EMDERCDMAH Enterprises, which are considered to be major proprietary fund of the Municipality.

The basic proprietary fund financial statements can be found on pages 25-26 of this report.

- **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

*Government-Wide Financial Statements Analysis*

The following table presents a summary of the Statements of Net Position as of June 30, 2013 and 2012:

Table 1

Commonwealth of Puerto Rico  
 Autonomous Municipality of Humacao  
 Statement of Net Position  
 June 30,

|                                  | Governmental Activities |                      | Business-Type Activities |             | Total                |                      |
|----------------------------------|-------------------------|----------------------|--------------------------|-------------|----------------------|----------------------|
|                                  | 2013                    | 2012                 | 2013                     | 2012        | 2013                 | 2012                 |
| Current and Non-current Assets   | \$ 66,421,183           | \$ 73,129,899        | \$ 238,092               | \$ -        | \$ 66,659,275        | \$ 73,129,899        |
| Capital Assets                   | 156,770,173             | 153,883,590          | -                        | -           | 156,770,173          | 153,883,590          |
| <b>Total Assets</b>              | <b>223,191,356</b>      | <b>227,013,489</b>   | <b>238,092</b>           | <b>-</b>    | <b>223,429,448</b>   | <b>227,013,489</b>   |
| Current Liabilities              | 4,486,986               | 5,048,243            | -                        | -           | 4,486,986            | 5,048,243            |
| Unearned Revenues                | 17,524,562              | 16,135,818           | -                        | -           | 17,524,562           | 16,135,818           |
| Long-Term Liabilities            | 78,428,527              | 80,799,564           | -                        | -           | 78,428,527           | 80,799,564           |
| <b>Total Liabilities</b>         | <b>100,440,075</b>      | <b>101,983,625</b>   | <b>-</b>                 | <b>-</b>    | <b>100,440,075</b>   | <b>101,983,625</b>   |
| Net Position:                    |                         |                      |                          |             |                      |                      |
| Net Investment in Capital Assets | 89,842,852              | 88,895,168           | -                        | -           | 89,842,852           | 88,895,168           |
| Restricted                       | 31,278,179              | 31,806,205           | -                        | -           | 31,278,179           | 31,806,205           |
| Unrestricted                     | 1,630,250               | 4,328,491            | 238,092                  | -           | 1,868,342            | 4,328,491            |
| <b>Total Net Assets</b>          | <b>\$122,751,281</b>    | <b>\$125,029,864</b> | <b>\$ 238,092</b>        | <b>\$ -</b> | <b>\$122,989,373</b> | <b>\$125,029,864</b> |

**Analysis of Net Position**

As noted earlier, net position (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$122,751,281 at the close of the most recent fiscal year.

The largest portion of the Municipality's net position reflects its net investment in capital assets (e.g., land, buildings, infrastructure, motor vehicles, and machinery and equipment) for \$89,842,852 [total capital assets less accumulated depreciation and less any related outstanding debt used to acquire those assets]. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

Restricted net position represent resources that are subject to external restrictions on how they may be used.

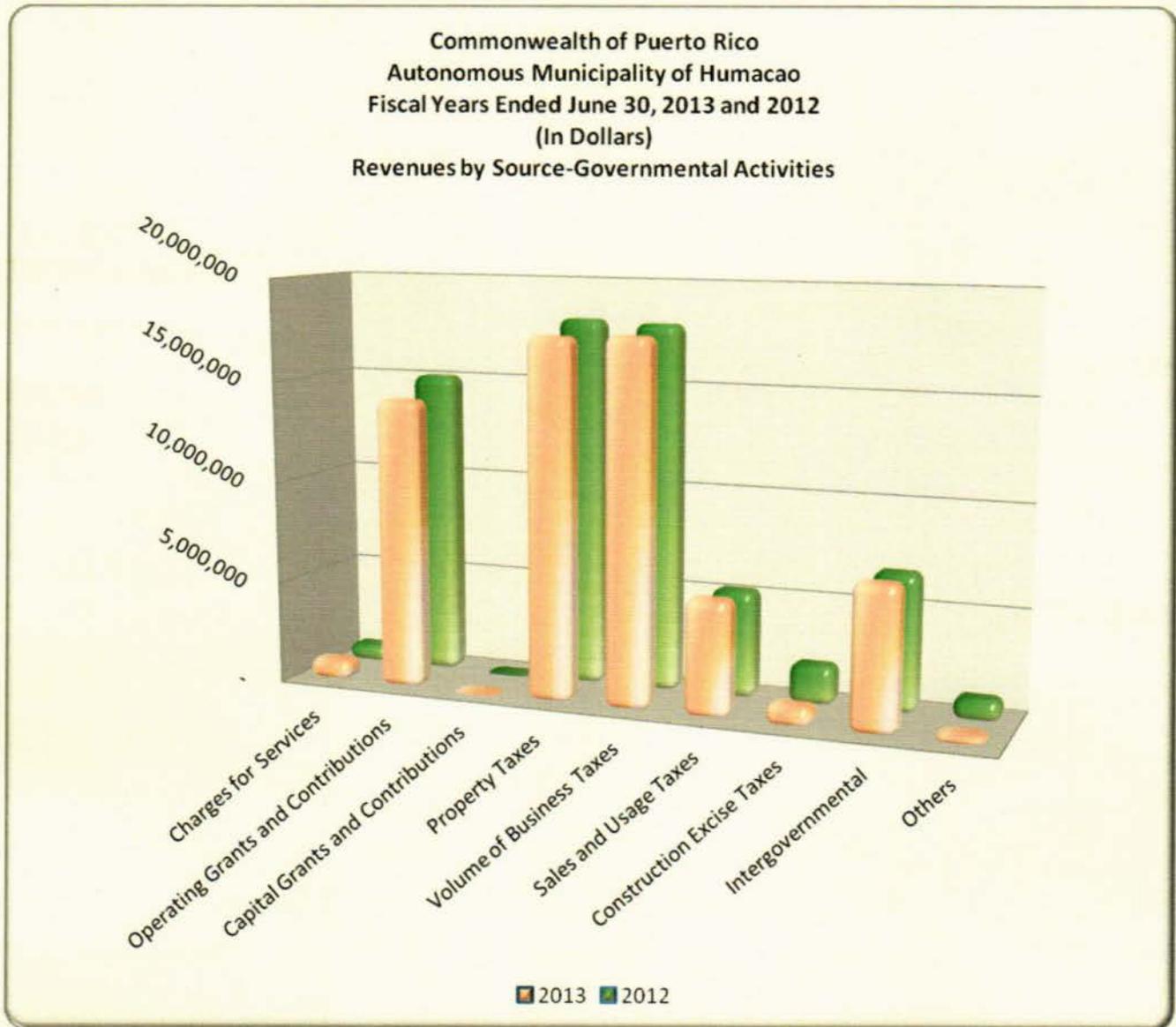
Unrestricted net position are the part of the net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2013 the Municipality presented unrestricted net position of \$1,868,342. This balance was affected by long term obligations such as compensated absences \$6,612,015, and other debts for the amount of \$1,125,356 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. There is \$238,092 in unrestricted net position reported in connection with the Municipality's business-type activities and \$1,630,250 in governmental activities.

An additional portion of the Municipality's net position (\$31,278,179) represents resources that are subject to external restrictions on how they may be used. There was a decrease of \$528,026 in restricted net position. (See **Table 1** and **Figure 1**).

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

**FIGURE 1**



Changes in Net Position

The following table summarizes the changes in net position for the years ended June 30, 2013 and 2012:

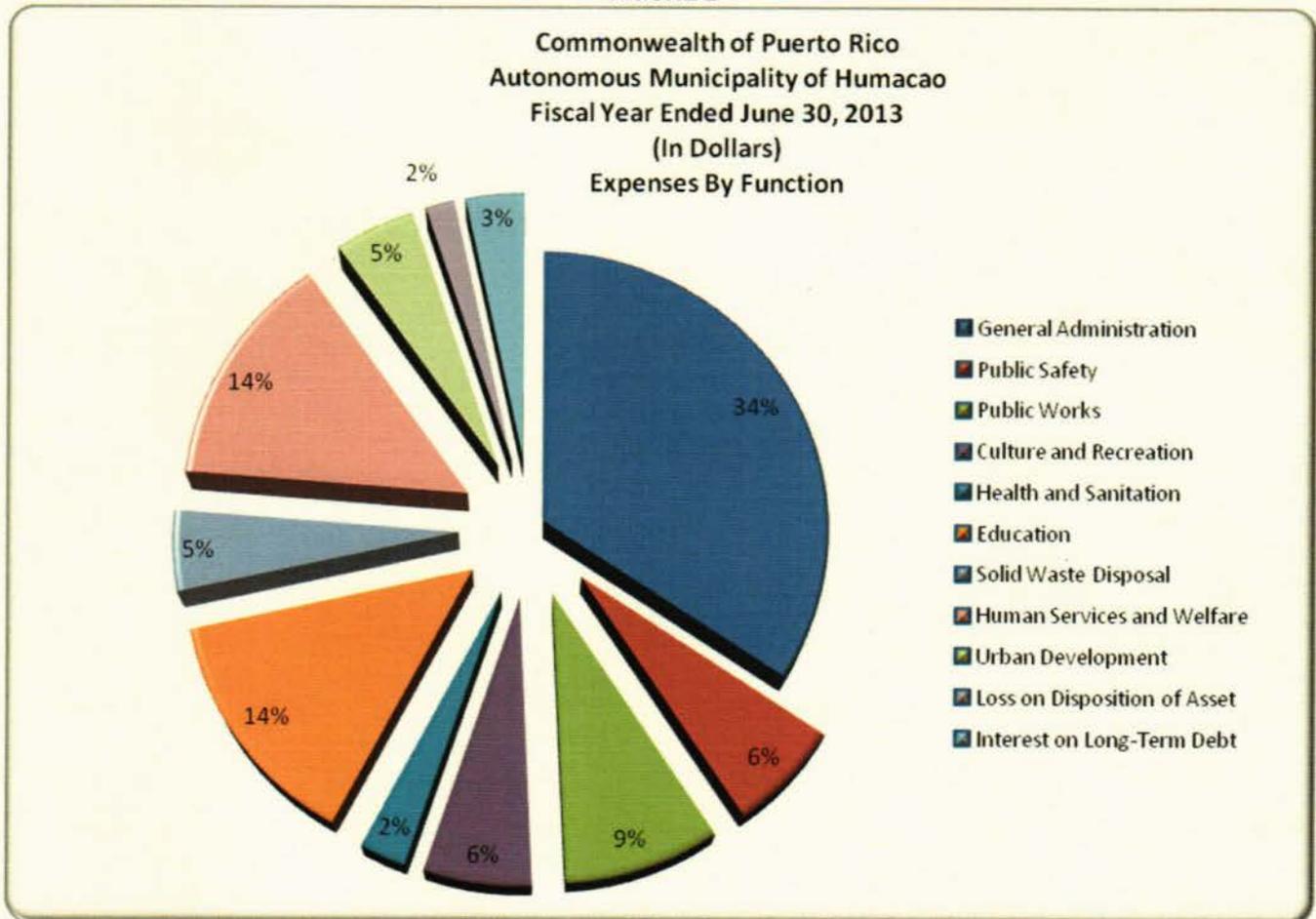
| Commonwealth of Puerto Rico<br>Autonomous Municipality of Humacao<br>Change in Net Assets<br>For the Fiscal Years Ending June 30, |                         |                       |                          |             |                       |                       |
|---|-------------------------|-----------------------|--------------------------|-------------|-----------------------|-----------------------|
|   | Governmental Activities |                       | Business-Type Activities |             | Total                 |                       |
|   | 2013                    | 2012                  | 2013                     | 2012        | 2013                  | 2012                  |
| <b>Revenues:</b>  |                         |                       |                          |             |                       |                       |
| Program Revenues:   |                         |                       |                          |             |                       |                       |
| Changes for Services  | \$ 1,032,487            | \$ 904,441            | \$ -                     | \$ -        | \$ 1,032,487          | \$ 904,441            |
| Operating Grants and Contributions  | 14,241,647              | 15,035,065            | -                        | -           | 14,241,647            | 15,035,065            |
| Capital Grants and Contributions  | -                       | -                     | -                        | -           | -                     | -                     |
| General Revenues:   |                         |                       |                          |             |                       |                       |
| Property Taxes  | 17,562,310              | 18,107,519            | -                        | -           | 17,562,310            | 18,107,519            |
| Volume of Business Taxes  | 17,707,818              | 17,978,630            | -                        | -           | 17,707,818            | 17,978,630            |
| Sales and Usage Taxes   | 5,677,608               | 5,301,160             | -                        | -           | 5,677,608             | 5,301,160             |
| Construction Excise Taxes   | 1,041,223               | 1,979,791             | -                        | -           | 1,041,223             | 1,979,791             |
| Intergovernmental   | 7,057,000               | 6,764,906             | -                        | -           | 7,057,000             | 6,764,906             |
| Other General Revenues  | 519,424                 | 1,112,294             | 674                      | -           | 520,098               | 1,112,294             |
| <b>Total Revenues</b>   | <b>64,839,517</b>       | <b>67,183,806</b>     | <b>674</b>               | <b>-</b>    | <b>64,840,191</b>     | <b>67,183,806</b>     |
| <b>Expenses:</b>  |                         |                       |                          |             |                       |                       |
| General Administration  | 22,852,678              | 21,541,795            | -                        | -           | 22,852,678            | 21,541,795            |
| Public Safety   | 4,229,332               | 4,293,161             | -                        | -           | 4,229,332             | 4,293,161             |
| Public Works  | 5,727,527               | 5,620,715             | -                        | -           | 5,727,527             | 5,620,715             |
| Culture and Recreation  | 3,966,798               | 3,376,793             | -                        | -           | 3,966,798             | 3,376,793             |
| Health and Sanitation   | 1,715,105               | 1,715,105             | -                        | -           | 1,715,105             | 1,715,105             |
| Public Instruction  | 9,158,014               | 9,520,833             | -                        | -           | 9,158,014             | 9,520,833             |
| Solid Waste Disposal  | 3,127,586               | 3,433,473             | -                        | -           | 3,127,586             | 3,433,473             |
| Human Services and Welfare  | 9,251,580               | 8,657,221             | -                        | -           | 9,251,580             | 8,657,221             |
| Urban Development   | 3,164,313               | 6,216,347             | -                        | -           | 3,164,313             | 6,216,347             |
| Loss on Disposition of Asset  | 1,134,871               | 340,758               | -                        | -           | 1,134,871             | 340,758               |
| Interest on Long-Term Debt  | 2,290,296               | 2,464,773             | -                        | -           | 2,290,296             | 2,464,773             |
| <b>Total Expenses</b>   | <b>66,618,100</b>       | <b>67,180,974</b>     | <b>-</b>                 | <b>-</b>    | <b>66,618,100</b>     | <b>67,180,974</b>     |
| <b>Business-Type Activities Expenses:</b>   |                         |                       |                          |             |                       |                       |
| EMDERCDMAH Enterprise   | -                       | -                     | 262,582                  | -           | 262,582               | -                     |
| <b>Total Expenses</b>   | <b>-</b>                | <b>-</b>              | <b>262,582</b>           | <b>-</b>    | <b>262,582</b>        | <b>-</b>              |
| <b>Increase (Decrease) in Net Position</b>  |                         |                       |                          |             |                       |                       |
| <b>Before Capital Contribution and Transfer</b>   | <b>(1,778,583)</b>      | <b>2,832</b>          | <b>(261,908)</b>         | <b>-</b>    | <b>(2,040,491)</b>    | <b>2,832</b>          |
| Capital Contributions   | (500,000)               | -                     | 500,000                  | -           | -                     | -                     |
| <b>Changes in Net Position</b>  | <b>(2,278,583)</b>      | <b>2,832</b>          | <b>238,092</b>           | <b>-</b>    | <b>(2,040,491)</b>    | <b>2,832</b>          |
| Net Position - Beginning  | 125,029,864             | 125,027,032           | -                        | -           | 125,029,864           | 125,027,032           |
| <b>Net Position - Ending</b>  | <b>\$ 122,751,281</b>   | <b>\$ 125,029,864</b> | <b>\$ 238,092</b>        | <b>\$ -</b> | <b>\$ 122,989,373</b> | <b>\$ 125,029,864</b> |

With respect to prior year, revenues decreased by approximately \$2.3 million or 3.5%, principally due to a decrease in operating grants and contributions for approximately \$800,000, property taxes for \$545,000, and construction excise taxes for \$938,000.

Approximately 27.1% of the Municipality's revenues came from property taxes, 27.3% from volume of business taxes, 22% from operating grants and contributions, 10.9% from intergovernmental revenue, and 12.7% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 34.3%, education with 13.7%, human services and welfare with 13.9%, and public works with 8.6%. Program revenues of the Municipality covered 22.9% of total expenses.

Figure 2 presents expenses by function of the governmental activities during the fiscal year 2012-2013:

FIGURE 2

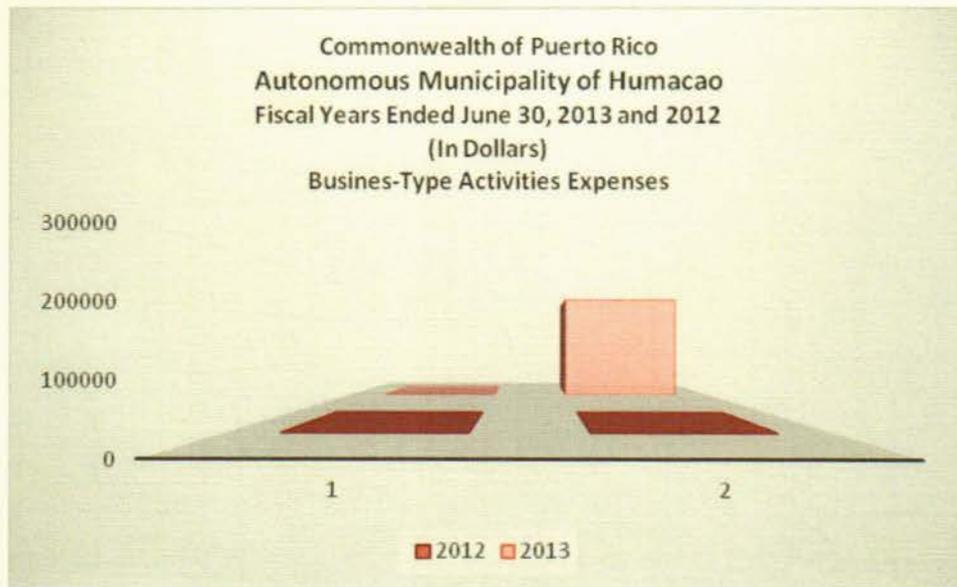


**Business-Type Activities.** The proprietary fund net position present a balance of \$238,092 during the current fiscal year, after a capital contributions of \$500,000 from general fund to cover the initial cost of operations.

During 2013 the Municipality created the EMDERCDMAH Enterprise as new enterprise for the administration and operation of some municipal recreational facilities. The Municipality expected that revenues for the activities cover all costs of operation of the facilities.

Figure 3 present revenues by sources and expenses comparison of the business-type activities during the past two years:

FIGURE 3



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):

| Functions/Programs               | Total Cost of Services |                      | Net Cost of Services |                      |
|----------------------------------|------------------------|----------------------|----------------------|----------------------|
|                                  | 2013                   | 2012                 | 2013                 | 2012                 |
| <b>Governmental Activities:</b>  |                        |                      |                      |                      |
| General Administration           | \$ 22,852,678          | \$ 21,541,795        | \$ 22,847,610        | \$ 19,313,549        |
| Public Safety                    | 4,229,332              | 4,293,161            | 3,840,257            | 4,293,161            |
| Public Works                     | 5,727,527              | 5,620,715            | 5,690,454            | 5,620,715            |
| Culture and Recreation           | 3,966,798              | 3,376,793            | 3,966,798            | 3,376,793            |
| Health and Sanitation            | 1,715,105              | 1,715,105            | 687,686              | 819,283              |
| Public Instruction               | 9,158,014              | 9,520,833            | 3,861,784            | (24,792)             |
| Solid Waste Disposal             | 3,127,586              | 3,433,473            | 3,127,586            | 3,433,473            |
| Human Services and Welfare       | 9,251,580              | 8,657,221            | 6,226,045            | 6,799,974            |
| Urban Development                | 3,164,313              | 6,216,347            | (2,329,421)          | 4,803,781            |
| Loss on Disposition of Asset     | 1,134,871              | 340,758              | 1,134,871            | 340,758              |
| Interest on Long-Term Debt       | 2,290,296              | 2,464,773            | 2,290,296            | 2,464,773            |
| <b>Total Expenses</b>            | <b>66,618,100</b>      | <b>67,180,974</b>    | <b>51,343,966</b>    | <b>51,241,468</b>    |
| <b>Business-Type Activities:</b> |                        |                      |                      |                      |
| EMDERCDMAH Enterprise            | 262,582                | -                    | 262,582              | -                    |
| <b>Total Expenses</b>            | <b>262,582</b>         | <b>-</b>             | <b>262,582</b>       | <b>-</b>             |
| <b>Total Expenses</b>            | <b>\$ 66,880,682</b>   | <b>\$ 67,180,974</b> | <b>\$ 51,606,548</b> | <b>\$ 51,241,468</b> |

Some of the cost of governmental activities in 2013 was paid by those who directly benefited from the programs (\$1,032,487) and other governments and organizations that subsidized certain programs with grants and contributions (\$14,241,647). The \$51,343,966 net cost of services was substantially covered by other general revenues including property, volume of business license taxes, sales and usage taxes and intergovernmental. Business-type activities in 2013 were paid by a capital contribution from general fund.

**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. 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 (see **Table 4**).

**Table 4**  
**Commonwealth of Puerto Rico**  
**Autonomous Municipality of Humacao**  
**Fund Balance**  
**As of June 30,**

|                       | <u>2013</u>                | <u>2012</u>                |
|-----------------------|----------------------------|----------------------------|
| <b>Fund Balances:</b> |                            |                            |
| Nonexpendable         | \$ -                       | \$ -                       |
| Restricted            | 26,246,259                 | 27,620,802                 |
| Committed             | 996,248                    | 209,104                    |
| Assigned              | 3,699,226                  | 2,932,085                  |
| Unassigned            | 6,245,114                  | 9,795,552                  |
| <b>Total</b>          | <b><u>\$37,186,847</u></b> | <b><u>\$40,557,543</u></b> |

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, 2013, the governmental funds reported combined ending fund balances of \$37,186,847, a net decrease of \$3,370,696 in comparison with the prior year. This decrease was caused primarily because of the transfer of unrestricted fund balances for special project and capital contribution for the new enterprise fund. Of total combined fund balances, \$6,245,114 (17%) 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 71.7% of total ending general fund balance. For the year ended June 30, 2013, the fund balance of the general fund decreased by \$2.5 million when compared with the prior year, mainly due to transfer of funds for special project and capital contribution for the new enterprise fund.

Table 5

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

| Description                         | 2013                  | 2012                  |
|-------------------------------------|-----------------------|-----------------------|
| <b>Revenues:</b>                    |                       |                       |
| Property Taxes                      | \$ 12,686,227         | \$ 13,202,864         |
| Volume of Business Taxes            | 17,707,818            | 17,978,630            |
| Sales and Usage Taxes               | 4,350,285             | 4,290,342             |
| Construction Excise Taxes           | 1,041,223             | 1,979,791             |
| Intergovernmental                   | 6,455,033             | 6,130,407             |
| Interests                           | 263,883               | 290,468               |
| Charges for Service                 | 1,027,419             | 895,822               |
| Miscellaneous                       | 239,821               | 295,811               |
| <b>Total Revenues</b>               | <b>43,771,709</b>     | <b>45,064,135</b>     |
| <b>Expenditures:</b>                |                       |                       |
| General Government                  | 20,904,384            | 20,036,571            |
| Public Safety                       | 3,737,521             | 3,898,330             |
| Public Work                         | 4,487,784             | 4,519,684             |
| Culture and Recreation              | 2,840,860             | 2,525,517             |
| Health and Sanitation               | 1,715,105             | 1,715,105             |
| Solid Waste Disposal                | 3,127,586             | 3,433,473             |
| Human Services and Welfare          | 5,814,439             | 5,509,967             |
| Urban Development                   | 1,350,602             | 1,262,569             |
| Capital Outlay                      | 153,445               | 206,680               |
| <b>Total Expenditures</b>           | <b>44,131,726</b>     | <b>43,107,896</b>     |
| Net Transfer In (Out)               | (2,138,256)           | (5,043,000)           |
| Other Financing Sources             | -                     | -                     |
| <b>Net Increase in Fund Balance</b> | <b>\$ (2,498,273)</b> | <b>\$ (3,086,761)</b> |

**Proprietary Funds**

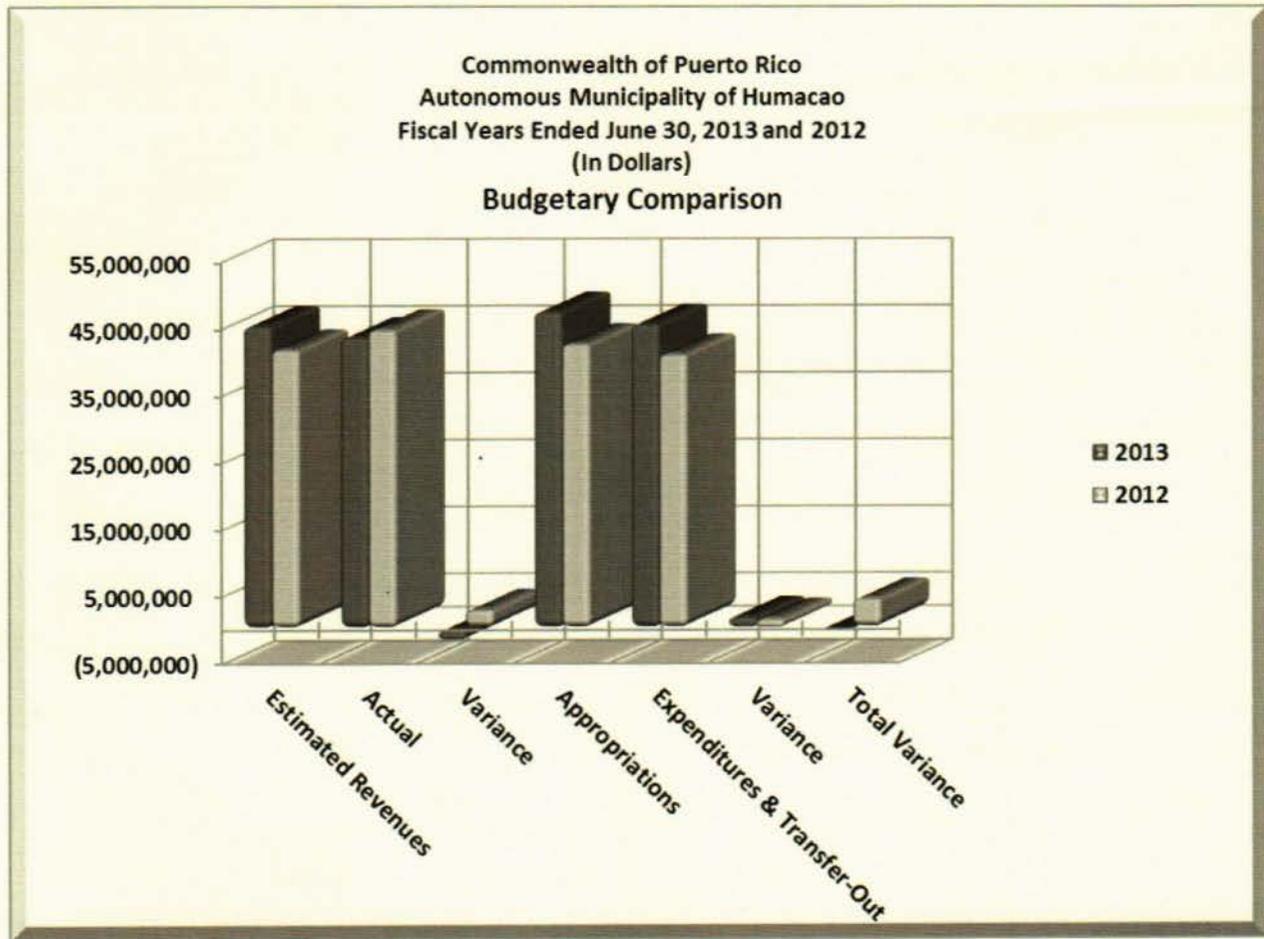
The Municipality's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund original budget for the fiscal period 2012-2013 present an increase of 3.1% with respect to prior year budget. During the fiscal year budget expenditures were increased by \$2,101,135 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 \$183,206 between final budget and actual expenditures was due mainly to economies in some functions.

**FIGURE 4**



**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the fiscal year, the Municipality has invested \$156,770,173 (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 \$2.9 million or over 2% from the prior year.

The Municipality invested a total of \$6,956,404 in capital assets during the fiscal year 2012-2013. Principal additions were as follows:

- Construction in Progress – \$5,665,527 – The principal projects are the following:
  - Multiple Use Coliseum
  - Art Center

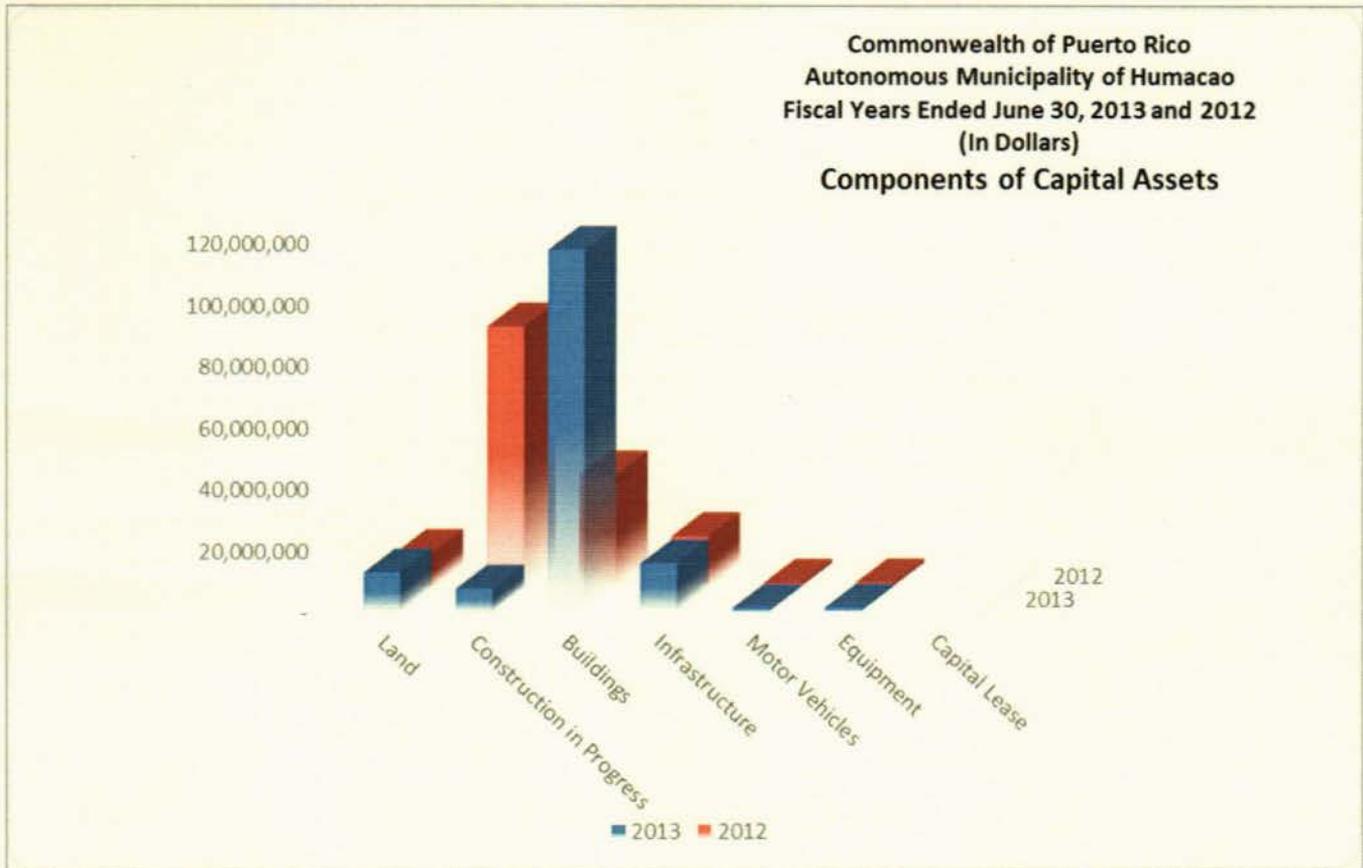
Both projects are finished and begin operation during the current year.

- Acquisition of Motor Vehicles – \$241,092
- Acquisition of Equipment – \$442,845

Other projects related to repair and maintenance of roads (not capitalized) and facilities were developed during the year 2013.

|                                | Governmental Activities     |                             |
|--------------------------------|-----------------------------|-----------------------------|
|                                | 2013                        | 2012                        |
| <b>Non-Depreciable Assets:</b> |                             |                             |
| Land                           | \$ 13,031,194               | \$ 11,591,294               |
| Construction in Progress       | 7,664,443                   | 85,032,375                  |
| <b>Depreciable Assets:</b>     |                             |                             |
| Buildings                      | 117,694,431                 | 36,941,642                  |
| Infrastructure                 | 15,765,640                  | 16,883,067                  |
| Motor Vehicles                 | 1,281,853                   | 1,686,073                   |
| Equipment                      | 1,332,612                   | 1,749,139                   |
| <b>Total</b>                   | <b><u>\$156,770,173</u></b> | <b><u>\$153,883,590</u></b> |

FIGURE 5



**Long-Term Debts**

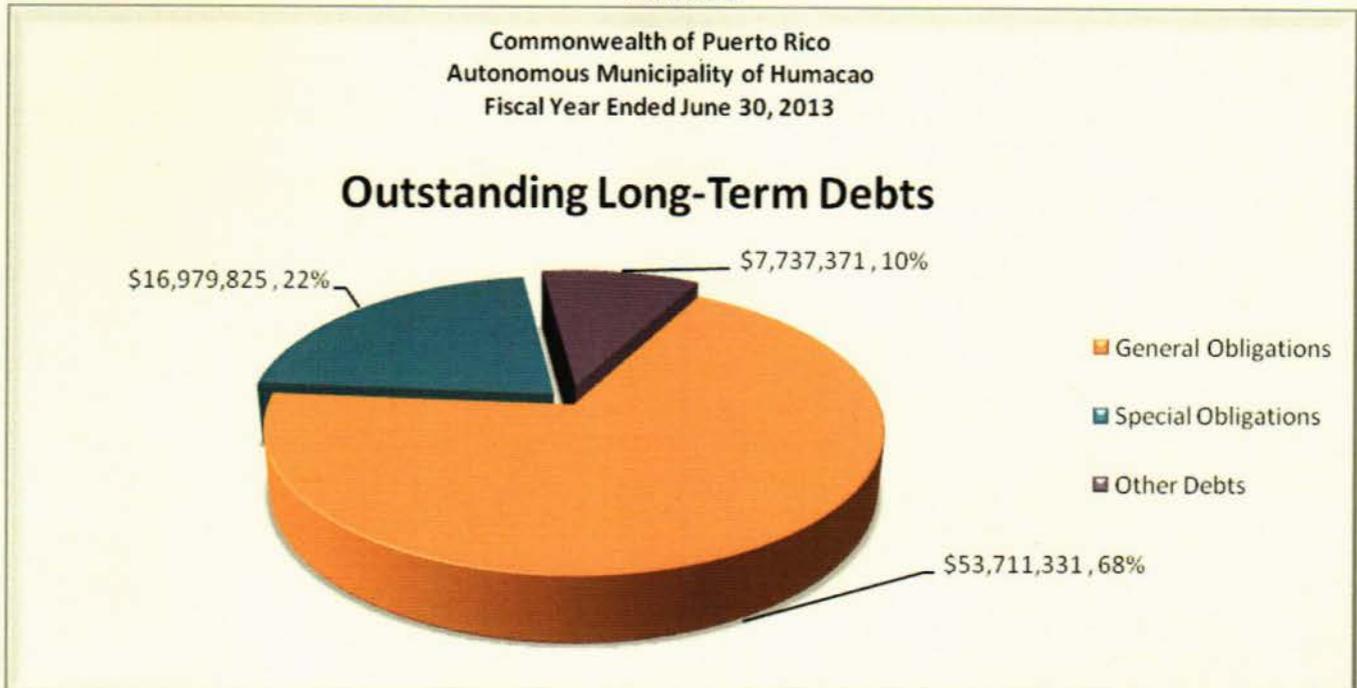
At year-end, the Municipality had \$78,428,527 in general and special bonds, a decrease of \$2.4 million. The following is a summary of the Municipality's outstanding debt as of June 30, 2013 and 2012:

**Table 7**

**Commonwealth of Puerto Rico  
 Autonomous Municipality of Humacao  
 Outstanding Long-Term Debts  
 As of June 30,**

|                          | <b>Governmental Activities</b> |                      |
|--------------------------|--------------------------------|----------------------|
|                          | <b>2013</b>                    | <b>2012</b>          |
| General Obligation Bonds | \$ 53,711,331                  | \$ 56,065,331        |
| Special Obligation Bonds | 16,979,825                     | 17,798,825           |
| Others Debts             | 7,737,371                      | 6,935,408            |
| <b>Total</b>             | <b>\$ 78,428,527</b>           | <b>\$ 80,799,564</b> |

FIGURE 6



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

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2012-2013 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 16.5%, which compares with the Commonwealth rate of 13.8%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2013-2014 are \$45.2 million, approximately \$180,000 more than the fiscal year 2012-2013. 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 2012-2013:

| Federal Program  | CFDA Number | Total Award                | Total Expended           |
|--|-------------|----------------------------|--------------------------|
| Community Development Block Grant/Entitlement Grants - Cluster | 14.253      | \$ 420,401                 | \$ 16,754                |
| Homelessness Prevention and Rapid Re-Housing Program           | 14.257      | 642,921                    | 13,038                   |
| Energy Efficiency and Conservation Grant Program               | 81.128      | <u>595,500</u>             | <u>387,630</u>           |
| <b>Total</b>   |             | <b><u>\$ 1,658,822</u></b> | <b><u>\$ 417,422</u></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  
 AUTONOMOUS MUNICIPALITY OF HUMACAO, PUERTO RICO  
 STATEMENT OF NET POSITION  
 JUNE 30, 2013

|  | GOVERNMENTAL<br>ACTIVITIES   | BUSINESS - TYPE<br>ACTIVITIES | TOTAL                        |
|--|------------------------------|-------------------------------|------------------------------|
| <b>ASSETS:</b>   |                              |                               |                              |
| Cash and Investments                                   | \$ 42,468,210                | \$ 238,092                    | \$ 42,706,302                |
| Cash with Fiscal Agent                                 | 18,997,087                   | -                             | 18,997,087                   |
| Receivables (Net):                                     |                              |                               |                              |
| Federal Grants   | 4,356,341                    | -                             | 4,356,341                    |
| Property Taxes   | 256,916                      | -                             | 256,916                      |
| Sales and Usage Taxes                                  | 334,637                      | -                             | 334,637                      |
| Due from Government Units                              | 7,992                        | -                             | 7,992                        |
|  | <u>66,421,183</u>            | <u>238,092</u>                | <u>66,659,275</u>            |
| Capital Assets:  |                              |                               |                              |
| Land and Construction in Progress                      | 102,289,196                  | -                             | 102,289,196                  |
| Other Capital Assets [Net of Accumulated Depreciation] | 54,480,977                   | -                             | 54,480,977                   |
| Total Capital Assets                                   | <u>156,770,173</u>           | <u>-</u>                      | <u>156,770,173</u>           |
| <b>TOTAL ASSETS</b>                                    | <b><u>223,191,356</u></b>    | <b><u>238,092</u></b>         | <b><u>223,429,448</u></b>    |
| <b>LIABILITIES:</b>                                    |                              |                               |                              |
| Accounts Payable and Accrued Expenses                  | 504,608                      | -                             | 504,608                      |
| Accrued Interest                                       | 1,040,421                    | -                             | 1,040,421                    |
| Due to Governmental Units                              | 2,941,957                    | -                             | 2,941,957                    |
| Unearned Revenues                                      | 17,524,562                   | -                             | 17,524,562                   |
| Noncurrent Liabilities:                                |                              |                               |                              |
| Due Within One Year                                    | 7,088,188                    | -                             | 7,088,188                    |
| Due in More than One Year                              | 71,340,339                   | -                             | 71,340,339                   |
| <b>TOTAL LIABILITIES</b>                               | <b><u>100,440,075</u></b>    | <b><u>-</u></b>               | <b><u>100,440,075</u></b>    |
| <b>NET POSITION:</b>                                   |                              |                               |                              |
| Net Investment in Capital Assets                       | 89,842,852                   | -                             | 89,842,852                   |
| Restricted for:  |                              |                               |                              |
| Head Start   | 1,565,396                    | -                             | 1,565,396                    |
| Debt Service   | 16,545,230                   | -                             | 16,545,230                   |
| Community Development Projects                         | 659,789                      | -                             | 659,789                      |
| Other Purposes   | 12,507,764                   | -                             | 12,507,764                   |
| Unrestricted   | <u>1,630,250</u>             | <u>238,092</u>                | <u>1,868,342</u>             |
| <b>TOTAL NET POSITION</b>                              | <b><u>\$ 122,751,281</u></b> | <b><u>\$ 238,092</u></b>      | <b><u>\$ 122,989,373</u></b> |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO  
 AUTONOMOUS MUNICIPALITY OF HUMACAO  
 STATEMENT OF ACTIVITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| Functions/Programs                            | Expenses             | Program Revenues     |                                    |                                  | Net (Expense) Revenue and Changes in Net Position |                            |                       |
|---|----------------------|----------------------|------------------------------------|----------------------------------|---|----------------------------|-----------------------|
|   |                      | Charges For Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities                           | Business - Type Activities | Total                 |
| <b>PRIMARY GOVERNMENT:</b>                    |                      |                      |                                    |                                  |   |                            |                       |
| <b>Governmental Activities:</b>               |                      |                      |                                    |                                  |   |                            |                       |
| Mayor and Municipal Legislature               | \$ 4,105,337         | \$ -                 | \$ -                               | \$ -                             | \$ (4,105,337)                                    | \$ -                       | \$ (4,105,337)        |
| General Government                            | 18,747,341           | 5,068                | -                                  | -                                | (18,742,273)                                      | -                          | (18,742,273)          |
| Public Safety                                 | 4,229,332            | -                    | 389,075                            | -                                | (3,840,257)                                       | -                          | (3,840,257)           |
| Public Works                                  | 5,727,527            | -                    | 37,073                             | -                                | (5,690,454)                                       | -                          | (5,690,454)           |
| Culture and Recreation                        | 3,966,798            | -                    | -                                  | -                                | (3,966,798)                                       | -                          | (3,966,798)           |
| Health and Sanitation                         | 1,715,105            | 1,027,419            | -                                  | -                                | (687,686)   | -                          | (687,686)             |
| Public Instruction                            | 9,158,014            | -                    | 5,296,230                          | -                                | (3,861,784)                                       | -                          | (3,861,784)           |
| Solid Waste Disposal                          | 3,127,586            | -                    | -                                  | -                                | (3,127,586)                                       | -                          | (3,127,586)           |
| Human Services and Welfare                    | 9,251,580            | -                    | 3,025,535                          | -                                | (6,226,045)                                       | -                          | (6,226,045)           |
| Urban Development                             | 3,164,313            | -                    | 5,493,734                          | -                                | 2,329,421   | -                          | 2,329,421             |
| Loss on Disposition of Asset                  | 1,134,871            | -                    | -                                  | -                                | (1,134,871)                                       | -                          | (1,134,871)           |
| Interest on Long-Term Debt                    | 2,290,296            | -                    | -                                  | -                                | (2,290,296)                                       | -                          | (2,290,296)           |
| <b>Total Governmental Activities</b>          | <b>66,618,100</b>    | <b>1,032,487</b>     | <b>14,241,647</b>                  | <b>-</b>                         | <b>(51,343,966)</b>                               | <b>-</b>                   | <b>(51,343,966)</b>   |
| <b>Business - Type Activities:</b>            |                      |                      |                                    |                                  |   |                            |                       |
| EMDERCDMAH Enterprise                         | 262,582              | -                    | -                                  | -                                | -   | (262,582)                  | (262,582)             |
| <b>Total Business - Type Activities</b>       | <b>262,582</b>       | <b>-</b>             | <b>-</b>                           | <b>-</b>                         | <b>-</b>  | <b>(262,582)</b>           | <b>(262,582)</b>      |
| <b>Total Primary Government</b>               | <b>\$ 66,880,682</b> | <b>\$ 1,032,487</b>  | <b>\$ 14,241,647</b>               | <b>\$ -</b>                      | <b>(51,343,966)</b>                               | <b>(262,582)</b>           | <b>(51,606,548)</b>   |
| <b>General Revenues:</b>                      |                      |                      |                                    |                                  |   |                            |                       |
| Taxes:  |                      |                      |                                    |                                  |   |                            |                       |
| Property Taxes, levied for General Purposes   |                      |                      |                                    |                                  | 12,943,143  | -                          | 12,943,143            |
| Property Taxes, levied for Debt Service       |                      |                      |                                    |                                  | 4,619,167   | -                          | 4,619,167             |
| Volume of Business Taxes                      |                      |                      |                                    |                                  | 17,707,818  | -                          | 17,707,818            |
| Sales and Usage Taxes                         |                      |                      |                                    |                                  | 5,677,608   | -                          | 5,677,608             |
| Construction Excise Taxes                     |                      |                      |                                    |                                  | 1,041,223   | -                          | 1,041,223             |
| Intergovernmental                             |                      |                      |                                    |                                  | 7,057,000   | -                          | 7,057,000             |
| Interest                                      |                      |                      |                                    |                                  | 263,883   | 674                        | 264,557               |
| Miscellaneous                                 |                      |                      |                                    |                                  | 255,541   | -                          | 255,541               |
| Capital Contribution                          |                      |                      |                                    |                                  | (500,000)   | 500,000                    | -                     |
| <b>Total General Revenues</b>                 |                      |                      |                                    |                                  | <b>49,065,383</b>                                 | <b>500,674</b>             | <b>49,566,057</b>     |
| <b>CHANGES IN NET POSITION</b>                |                      |                      |                                    |                                  | <b>(2,278,583)</b>                                | <b>238,092</b>             | <b>(2,040,491)</b>    |
| Net Position - Beginning of Year, As Restated |                      |                      |                                    |                                  | 125,029,864                                       | -                          | 125,029,864           |
| <b>NET POSITION - ENDING OF YEAR</b>          |                      |                      |                                    |                                  | <b>\$ 122,751,281</b>                             | <b>\$ 238,092</b>          | <b>\$ 122,989,373</b> |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF HUMACAO

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2013

|   | GENERAL<br>FUND      | HEAD START<br>FUND  | ART<br>CENTER<br>FUND | MULTIUSES<br>COLISEUM<br>FUND | DEBT<br>SERVICE<br>FUND | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|---|----------------------|---------------------|-----------------------|-------------------------------|-------------------------|--------------------------------|--------------------------------|
| <b>ASSETS:</b>  |                      |                     |                       |                               |                         |                                |                                |
| Cash and Investments  | \$ 23,695,554        | \$ 297,590          | \$ 2,905,933          | \$ 1,624,992                  | \$ -                    | \$ 13,944,141                  | \$ 42,468,210                  |
| Cash with Fiscal Agent  | 5,500                | -                   | 36,250                | 301,439                       | 17,585,651              | 1,068,247                      | 18,997,087                     |
| Receivables:  |                      |                     |                       |                               |                         |                                |                                |
| Sales and Usage Taxes   | 334,637              | -                   | -                     | -                             | -                       | -                              | 334,637                        |
| Property Taxes  | 256,916              | -                   | -                     | -                             | -                       | -                              | 256,916                        |
| Federal Grants  | -                    | 1,770,309           | -                     | -                             | -                       | 2,586,032                      | 4,356,341                      |
| Due from Other Funds  | 2,290,586            | 282                 | -                     | -                             | -                       | 12,237                         | 2,303,105                      |
| Due from Governmental Units   | 401                  | -                   | -                     | -                             | -                       | 7,591                          | 7,992                          |
| <b>Total Assets</b>   | <b>\$ 26,583,594</b> | <b>\$ 2,068,181</b> | <b>\$ 2,942,183</b>   | <b>\$ 1,926,431</b>           | <b>\$ 17,585,651</b>    | <b>\$ 17,618,248</b>           | <b>\$ 68,724,288</b>           |
| <b>LIABILITIES:</b>   |                      |                     |                       |                               |                         |                                |                                |
| Account Payable   | \$ 504,608           | \$ -                | \$ -                  | \$ -                          | \$ -                    | \$ -                           | \$ 504,608                     |
| Bond Payable  | -                    | -                   | -                     | -                             | 3,227,000               | -                              | 3,227,000                      |
| Accrued Interest  | -                    | -                   | -                     | -                             | 1,040,421               | -                              | 1,040,421                      |
| Due to Governmental Units   | 175,114              | -                   | 2,766,843             | -                             | -                       | -                              | 2,941,957                      |
| Due to Other Funds  | 1,188                | 254,023             | -                     | 10,799                        | -                       | 2,037,095                      | 2,303,105                      |
| Unearned Revenues - Volume of Business Taxes                              | 16,783,825           | -                   | -                     | -                             | -                       | 740,737                        | 17,524,562                     |
| <b>Total Liabilities</b>  | <b>17,464,735</b>    | <b>254,023</b>      | <b>2,766,843</b>      | <b>10,799</b>                 | <b>4,267,421</b>        | <b>2,777,832</b>               | <b>27,541,653</b>              |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>                                     |                      |                     |                       |                               |                         |                                |                                |
| Unavailable Revenues - Municipal Revenue                                  |                      |                     |                       |                               |                         |                                |                                |
| Collection Agency   | 256,916              | -                   | -                     | -                             | -                       | -                              | 256,916                        |
| Unavailable Revenues - Federal Grants                                     | -                    | 1,712,852           | -                     | -                             | -                       | 2,026,020                      | 3,738,872                      |
| <b>Total Deferred Inflows of Resources</b>                                | <b>256,916</b>       | <b>1,712,852</b>    | <b>-</b>              | <b>-</b>                      | <b>-</b>                | <b>2,026,020</b>               | <b>3,995,788</b>               |
| <b>FUND BALANCES:</b>   |                      |                     |                       |                               |                         |                                |                                |
| Restricted  | 239,790              | 101,306             | 175,340               | 1,915,632                     | 13,318,230              | 10,495,961                     | 26,246,259                     |
| Committed   | 985,589              | -                   | -                     | -                             | -                       | 10,659                         | 996,248                        |
| Assigned  | 1,280,419            | -                   | -                     | -                             | -                       | 2,418,807                      | 3,699,226                      |
| Unassigned  | 6,356,145            | -                   | -                     | -                             | -                       | (111,031)                      | 6,245,114                      |
| <b>Total Fund Balances</b>  | <b>8,861,943</b>     | <b>101,306</b>      | <b>175,340</b>        | <b>1,915,632</b>              | <b>13,318,230</b>       | <b>12,814,396</b>              | <b>37,186,847</b>              |
| <b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b> | <b>\$ 26,583,594</b> | <b>\$ 2,068,181</b> | <b>\$ 2,942,183</b>   | <b>\$ 1,926,431</b>           | <b>\$ 17,585,651</b>    | <b>\$ 17,618,248</b>           | <b>\$ 68,724,288</b>           |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO  
 AUTONOMOUS MUNICIPALITY OF HUMACAO, PUERTO RICO  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2013

|  |                     |                              |
|--|---------------------|------------------------------|
| <b>Total Fund Balances – Government Funds (Page 21)</b>  |                     | <b>\$ 37,186,847</b>         |
| Amount reported for Governmental Activities in the Statement of Net Position (Page 19)   |                     |                              |
| 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   | \$ 102,289,196      |                              |
| Depreciable Capital Assets   | 94,564,080          |                              |
| Accumulated Depreciation   | <u>(40,083,103)</u> |                              |
| Total Capital Assets   |                     | 156,770,173                  |
| 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 unavailable in the funds: |                     |                              |
| CDBG Program   | 642,123             |                              |
| Head Start Program   | 1,712,852           |                              |
| Early Head Start Program   | 1,212,705           |                              |
| Property Taxes   | 256,916             |                              |
| Other Major Fund   | <u>171,192</u>      |                              |
| Total Unavailable Revenues   |                     | 3,995,788                    |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:  |                     |                              |
| General Obligation Bonds   | (67,464,156)        |                              |
| Law Number 146-MRCC  | (555,137)           |                              |
| Law Number 42-MRCC   | (408,219)           |                              |
| Claims and Judgments   | (162,000)           |                              |
| Compensated Absences   | <u>(6,612,015)</u>  |                              |
| Total Long-Term Liabilities  |                     | <u>(75,201,527)</u>          |
| <b>Total Net Position of Governmental Activities (Page 19)</b>   |                     | <b>\$ <u>122,751,281</u></b> |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO  
 AUTONOMOUS MUNICIPALITY OF HUMACAO,  
 PUERTO RICO  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

|   | GENERAL FUND        | HEAD START FUND   | ART CENTER FUND    | MULTIUSES COLISEUM FUND | DEBT SERVICE FUND    | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|---------------------|-------------------|--------------------|-------------------------|----------------------|--------------------------|--------------------------|
| <b>REVENUES:</b>                                    |                     |                   |                    |                         |                      |                          |                          |
| Property Taxes                                      | \$ 12,686,227       | \$ -              | \$ -               | \$ -                    | \$ 4,619,167         | \$ -                     | \$ 17,305,394            |
| Volume of Business Taxes                            | 17,707,818          | -                 | -                  | -                       | -                    | -                        | 17,707,818               |
| Sales and Usage Taxes                               | 4,350,285           | -                 | -                  | -                       | 1,327,323            | -                        | 5,677,608                |
| Licences and Permits                                | 1,041,223           | -                 | -                  | -                       | -                    | -                        | 1,041,223                |
| Federal Assistance                                  | -                   | 6,813,016         | -                  | -                       | -                    | 12,055,054               | 18,868,070               |
| Intergovernmental                                   | 6,455,033           | -                 | -                  | -                       | -                    | 601,967                  | 7,057,000                |
| Charges for Services                                | 1,027,419           | -                 | -                  | -                       | -                    | -                        | 1,027,419                |
| Rent  | 93,020              | -                 | -                  | -                       | -                    | -                        | 93,020                   |
| Miscellaneous                                       | 410,684             | -                 | 17,743             | 3,045                   | -                    | -                        | 431,472                  |
| <b>Total Revenues</b>                               | <b>43,771,709</b>   | <b>6,813,016</b>  | <b>17,743</b>      | <b>3,045</b>            | <b>5,946,490</b>     | <b>12,657,021</b>        | <b>69,209,024</b>        |
| <b>EXPENDITURES:</b>                                |                     |                   |                    |                         |                      |                          |                          |
| Current:  |                     |                   |                    |                         |                      |                          |                          |
| Mayor and Municipal Legislature                     | 3,694,444           | -                 | -                  | -                       | -                    | -                        | 3,694,444                |
| General Government                                  | 17,209,940          | -                 | -                  | -                       | -                    | 431,498                  | 17,641,438               |
| Public Safety                                       | 3,737,521           | -                 | -                  | -                       | -                    | 257,015                  | 3,994,536                |
| Public Works  | 4,487,784           | -                 | -                  | -                       | -                    | 329,908                  | 4,817,692                |
| Culture and Recreation                              | 2,840,860           | -                 | -                  | -                       | -                    | 274,802                  | 3,115,662                |
| Health and Sanitation                               | 1,715,105           | -                 | -                  | -                       | -                    | -                        | 1,715,105                |
| Public Instruction                                  | -                   | 6,814,519         | -                  | -                       | -                    | 2,343,495                | 9,158,014                |
| Solid Waste Disposal                                | 3,127,586           | -                 | -                  | -                       | -                    | -                        | 3,127,586                |
| Human Services and Welfare                          | 5,814,439           | -                 | -                  | -                       | -                    | 3,290,394                | 9,104,833                |
| Urban Development                                   | 1,350,602           | -                 | -                  | -                       | -                    | 1,696,314                | 3,046,916                |
| Capital Outlay                                      | 153,445             | -                 | 2,890,525          | 2,746,776               | -                    | 1,165,658                | 6,956,404                |
| Debt Service:                                       |                     |                   |                    |                         |                      |                          |                          |
| Principal   | -                   | -                 | -                  | -                       | 3,416,794            | -                        | 3,416,794                |
| Interest and Other Charges                          | -                   | -                 | -                  | -                       | 2,290,296            | -                        | 2,290,296                |
| <b>Total Expenditures</b>                           | <b>44,131,726</b>   | <b>6,814,519</b>  | <b>2,890,525</b>   | <b>2,746,776</b>        | <b>5,707,090</b>     | <b>9,789,084</b>         | <b>72,079,720</b>        |
| <b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b> | <b>(360,017)</b>    | <b>(1,503)</b>    | <b>(2,872,782)</b> | <b>(2,743,731)</b>      | <b>239,400</b>       | <b>2,867,937</b>         | <b>(2,870,696)</b>       |
| <b>OTHER FINANCING SOURCES (USES):</b>              |                     |                   |                    |                         |                      |                          |                          |
| Transfers – In                                      | 189,617             | -                 | -                  | -                       | 80,182               | 1,747,691                | 2,017,490                |
| Transfers – Out                                     | (2,327,873)         | -                 | -                  | -                       | -                    | (189,617)                | (2,517,490)              |
| <b>Total Other Financing Sources (Uses)</b>         | <b>(2,138,256)</b>  | <b>-</b>          | <b>-</b>           | <b>-</b>                | <b>80,182</b>        | <b>1,558,074</b>         | <b>(500,000)</b>         |
| <b>Net Change in Fund Balances</b>                  | <b>(2,498,273)</b>  | <b>(1,503)</b>    | <b>(2,872,782)</b> | <b>(2,743,731)</b>      | <b>319,582</b>       | <b>4,426,011</b>         | <b>(3,370,696)</b>       |
| Fund Balances – Beginning                           | 11,360,216          | 102,809           | 3,048,122          | 4,659,363               | 12,998,648           | 8,388,385                | 40,557,543               |
| <b>FUND BALANCES – ENDING</b>                       | <b>\$ 8,861,943</b> | <b>\$ 101,306</b> | <b>\$ 175,340</b>  | <b>\$ 1,915,632</b>     | <b>\$ 13,318,230</b> | <b>\$ 12,814,396</b>     | <b>\$ 37,186,847</b>     |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

**BASIC FINANCIAL STATEMENTS**

COMMONWEALTH OF PUERTO RICO  
 AUTONOMOUS 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, 2013

|   |                    |                              |
|---|--------------------|------------------------------|
| <b>Net Change in Fund Balances – Government Funds (Page 23)</b>   |                    | <b>\$ (3,370,696)</b>        |
| Amount reported for Governmental Activities in the Statement of Activities (Page 20) 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:              |                    |                              |
| Capital Outlays   | \$ 6,956,404       |                              |
| Depreciation Expense  | <u>(2,934,950)</u> |                              |
| Excess of Capital Outlays over Depreciation Expense   |                    | 4,021,454                    |
| 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   | (670,954)          |                              |
| Head Start Program  | (3,328,170)        |                              |
| Property Taxes  | 256,916            |                              |
| Other Funds   | <u>(627,299)</u>   |                              |
| Total Revenues  |                    | (4,369,507)                  |
| 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. |                    |                              |
|   |                    | (1,134,871)                  |
| Repayment of long-term principal is expenditure in the governmental funds, but issuing debt reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were  |                    |                              |
|   |                    | 3,416,794                    |
| 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. These activities consist of:  |                    |                              |
| Increase in Compensated Absences  | <u>(841,757)</u>   |                              |
| Total Additional Expenses   |                    | <u>(841,757)</u>             |
| <b>Change in Net Position of Governmental Activities (Page 20)</b>  |                    | <b>\$ <u>(2,278,583)</u></b> |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO  
 AUTONOMOUS MUNICIPALITY OF HUMACAO  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
 IN FUND NET POSITION – PROPRIETARY FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

|   | <u>EMDERCDMAH<br/>ENTERPRISE</u> |
|---|----------------------------------|
| <b>OPERATING REVENUES:</b>                |                                  |
| Charges for Services                      | \$ -                             |
| Total Operating Revenues                  | <u>-</u>                         |
| <b>OPERATING EXPENSES:</b>                |                                  |
| Contractual Services                      | <u>262,582</u>                   |
| Total Operating Expenses                  | <u>262,582</u>                   |
| Operating Income (Loss)                   | <u>(262,582)</u>                 |
| <b>NONOPERATING REVENUES (EXPENSES):</b>  |                                  |
| Interest Revenues                         | <u>674</u>                       |
| Income (Loss) Before Capital Contribution | (261,908)                        |
| Capital Contribution                      | <u>500,000</u>                   |
| <b>CHANGES IN NET ASSETS</b>              | <b>238,092</b>                   |
| NET POSITION, JULY 1, 2012                | <u>-</u>                         |
| <b>NET POSITION, JUNE 30, 2013</b>        | <b><u>\$ 238,092</u></b>         |

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
 AUTONOMOUS MUNICIPALITY OF HUMACAO  
 STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

|  | <u>EMDERCDMAH<br/>ENTERPRISE</u> |
|--|----------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                  |
| Receipts from Customers and Users  | \$ -                             |
| Payments to Suppliers  | (262,582)                        |
| Payments to Employees  | <u>-</u>                         |
| Net Cash Provided by Operating Activities  | <u>(262,582)</u>                 |
| <b>CASH FLOWS FROM NONCAPITAL<br/>FINANCING ACTIVITIES:</b>  | -                                |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES:</b>                               |                                  |
| Capital Contribution   | <u>500,000</u>                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                  |
| Interest Received  | <u>674</u>                       |
| <b>Net Increase in Cash</b>  | <b>238,092</b>                   |
| Cash, July 1, 2012   | <u>-</u>                         |
| <b>Cash, June 30, 2013</b>   | <b><u>\$ 238,092</u></b>         |
| <b>Reconciliation of Operating Income to Net Cash<br/>Provided (Used) by Operating Activities:</b> |                                  |
| Operating Income (Loss)  | \$ 262,582                       |
| Adjustment to reconcile operating income to net cash<br>provided by Operating Activities:          |                                  |
| (Increase) Decrease in Current Assets  | -                                |
| Increase (Decrease) in Current Liabilities   | <u>-</u>                         |
| <b>Net Cash Provided by Operating Activities</b>   | <b><u>\$ 262,582</u></b>         |

See accompanying Notes to Basic Financial Statements.

## 1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Autonomous Municipality of Humacao of the Commonwealth of 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, 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. 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. A second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

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 balances and transactions; 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. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

These financial statements present the respective financial position of the governmental and business type activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2013, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended.

Continue

## 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)***

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* 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. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's Puerto Rico Electric Power Authority function of the government. Elimination of these charges would distort the direct cost and program revenue reported for the various functions concerned. 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 to external customers for support.

The focus of the *Statement of Net Position* 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 Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the Municipality's management are not presented as restricted net position.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for the different business-type activities of the Municipality and for each function of the Municipality's governmental activities. *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 and Proprietary Fund Financial Statements (GFFS)***

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

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.

Continue

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 GFFS. 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.

The proprietary fund – enterprise – are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services (including depreciation) be financed or recovered primarily through user charges, or where the Municipality has decided that periodic determination of revenues earned and expenses incurred is appropriate.

The Municipality includes as operating transactions in the enterprise funds any activity undertaken in the course of ordinary business, as well as ancillary activities or activities that are a natural extension of, or that result from, these activities. Transactions resulting from events or transactions clearly distinct from the ordinary activities and which are not expected to occur frequently or regularly are reported as non-operating transactions.

The Municipality reports the following major enterprise fund:

EMDERCDMAH Enterprises – This is the fund used to account for the operations of all of the enterprises facilities that combined the administration and operation of the EMDERCDMAH Enterprise.

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

The financial statements of the proprietary funds are the following:

*Statement of Net Position* – Assets and liabilities are presented in a classified format to distinguish between current and long term assets and liabilities.

*Statement of Revenues, Expenses and Changes in Net Position* – Revenues and expenses are reported by distinguishing between operating and non-operating revenues and expenses.

*Statement of Cash Flows* – The primary purpose of the statement of cash flows is to provide relevant information about the cash receipts and disbursements of the Municipality during the fiscal year. The information of the *Statement of Cash Flows* should help financial report users assess (1) the Municipality's ability to generate future net cash flows; (2) ability to meet its obligation as they come due; (3) its needs for external financing; (4) the reasons for differences between operating income and associated cash receipts and disbursements and the effects on the entity's financial position of operating, capital and related financing activities, non-capital related financing activities and investment activities during the period.

Continue

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

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

During the course of operations the Municipality has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

**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**

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.

**Government-wide Financial Statements**

The government-wide and proprietary financial statements are reported using the *economic resources measurement focus* and the *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. 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 met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

The enterprise funds follows the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash, respectively. The enterprise funds also distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally results from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Continue

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, 2013, all revenues sources met this availability criterion.

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). However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-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). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Sheet*. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

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. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2013, which are recorded as governmental fund liabilities of June 30, 2013 which is the date when resources were available in the debt service fund. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

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.

Continue

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

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.

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the *Budgetary Comparison Schedule – General Fund*:

***Original Budget***

1. Prior to May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

***Final Budget***

The final budgetary data presented in the Budgetary Comparison Schedule – General Fund reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.
2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. Interfund transactions of the General Fund are not included in the budgetary basis.
3. Certain accrued liabilities and other debts are not included in the budgetary basis.

Continue

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

4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

**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, 2013. 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.

Continue

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

**4) 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. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset acquired. Depreciation and amortization expense is recorded only in the GWFS. No depreciation is recorded for land and construction in progress. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

| 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.

**5) Deferred Outflows/Inflows of Resources**

In addition to assets, the *Statement of Financial Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no items that qualify for reporting in this category.

In addition to liabilities, the *Statement of Financial Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Municipality has no items that qualify for reporting in this category.

Continue

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

The Municipality has items, which arises only under a modified accrual basis of accounting that qualifies for reporting indeffered inflows of resources. Accordingly, the items, *unavailable revenue*, is reported only in the governmental funds BalanceSheet. The governmental funds report *unavailable revenues* from Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount become available.

**6) Unearned Revenues**

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

**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 noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, 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, if any. As per GASB Statement No. 65, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

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, 2013. 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.

**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.

Continue

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

**10) Accounting for Pension Costs**

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 GASBS No. 27, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing defined benefit pension plan and Defined Contribution Hybrid Program, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 17).

**11) Accounting for Pension Costs**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Municipality's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**12) Net Position/Fund Balance**

**A) Net Position**

Net position represent the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements.

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

- *Net Invested in Capital Assets* – 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.

For Governmental Activities, net investment in capital assets is comprised of the following:

|  |                             |
|--|-----------------------------|
| Capital Assets, Net of Accumulated Depreciation..... | \$156,770,173               |
| Outstanding Balance on Related Debt.....             | (70,691,156)                |
| Unspent Capital Debt Proceeds.....                   | <u>3,763,835</u>            |
| <b>Total Net Investment in Capital Assets .....</b>  | <b><u>\$ 89,842,852</u></b> |

- *Restricted Net Position* – 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.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Unrestricted Net Position* – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net position 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.

***Net Position Flow Assumption***

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

**B) Fund Balance**

***Fund Balance Classification***

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the Municipality 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.

***Fund Balance Flow Assumption***

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

***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 the collection of property taxes and other main income. 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.

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.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

***Policy on Committing Funds***

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 or 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. 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, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

***Policy on Assigning Funds***

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level 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, is the policy of the Municipality that Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the 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.

***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.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) Components of Fund Balance

|  | GENERAL<br>FUND     | HEAD START<br>FUND | ART<br>CENTER<br>FUND | MULTIUSES<br>COLISEUM<br>FUND | DEBT<br>SERVICE<br>FUND | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|--|---------------------|--------------------|-----------------------|-------------------------------|-------------------------|--------------------------------|--------------------------------|
| <b>Restricted For:</b>                     |                     |                    |                       |                               |                         |                                |                                |
| Improvement of Streets and Sidewalks       | \$ -                | \$ -               | \$ -                  | \$ -                          | \$ -                    | \$ 134,844                     | \$ 134,844                     |
| Improvement and Construction of Facilities | -                   | -                  | 175,340               | 1,915,632                     | -                       | 3,360,205                      | 5,451,177                      |
| Capital Outlay                             | -                   | -                  | -                     | -                             | -                       | 300,539                        | 300,539                        |
| Welfare                                    | 220,850             | -                  | -                     | -                             | -                       | 1,308,048                      | 1,528,898                      |
| Public Safety                              | 18,940              | -                  | -                     | -                             | -                       | 255,228                        | 274,168                        |
| Renewable Energy Projects                  | -                   | -                  | -                     | -                             | -                       | 230,387                        | 230,387                        |
| Improvement to Water and Sewer System      | -                   | -                  | -                     | -                             | -                       | 4,653,876                      | 4,653,876                      |
| Debt Repayment                             | -                   | -                  | -                     | -                             | 13,318,230              | -                              | 13,318,230                     |
| Public Instruction                         | -                   | 101,306            | -                     | -                             | -                       | 87,654                         | 188,960                        |
| Sanitation                                 | -                   | -                  | -                     | -                             | -                       | 165,180                        | 165,180                        |
| <b>Total Restricted</b>                    | <u>239,790</u>      | <u>101,306</u>     | <u>175,340</u>        | <u>1,915,632</u>              | <u>13,318,230</u>       | <u>10,495,961</u>              | <u>26,246,259</u>              |
| <b>Committed To:</b>                       |                     |                    |                       |                               |                         |                                |                                |
| Professional Services                      | 238,136             | -                  | -                     | -                             | -                       | -                              | 238,136                        |
| Solid Waste Disposal                       | 747,453             | -                  | -                     | -                             | -                       | -                              | 747,453                        |
| Welfare                                    | -                   | -                  | -                     | -                             | -                       | 10,659                         | 10,659                         |
| <b>Total Committed</b>                     | <u>985,589</u>      | <u>-</u>           | <u>-</u>              | <u>-</u>                      | <u>-</u>                | <u>10,659</u>                  | <u>996,248</u>                 |
| <b>Assigned To:</b>                        |                     |                    |                       |                               |                         |                                |                                |
| General Government                         | 380,769             | -                  | -                     | -                             | -                       | 20,034                         | 400,803                        |
| Public Instruction                         | -                   | -                  | -                     | -                             | -                       | 761                            | 761                            |
| Welfare                                    | 414,144             | -                  | -                     | -                             | -                       | 27,441                         | 441,585                        |
| Improvement and Construction of Facilities | 133,536             | -                  | -                     | -                             | -                       | 2,301,525                      | 2,435,061                      |
| Culture and Recreation                     | 6,307               | -                  | -                     | -                             | -                       | 15,796                         | 22,103                         |
| Improvement of Streets and Sidewalks       | 44,987              | -                  | -                     | -                             | -                       | 53,250                         | 98,237                         |
| Capital Outlay                             | 188,338             | -                  | -                     | -                             | -                       | -                              | 188,338                        |
| Public Safety                              | 112,338             | -                  | -                     | -                             | -                       | -                              | 112,338                        |
| <b>Total Assigned</b>                      | <u>1,280,419</u>    | <u>-</u>           | <u>-</u>              | <u>-</u>                      | <u>-</u>                | <u>2,418,807</u>               | <u>3,699,226</u>               |
| <b>Unassigned:</b>                         | <u>6,356,145</u>    | <u>-</u>           | <u>-</u>              | <u>-</u>                      | <u>-</u>                | <u>(111,031)</u>               | <u>6,245,114</u>               |
| <b>Total Fund Balances</b>                 | <u>\$ 8,861,943</u> | <u>\$ 101,306</u>  | <u>\$ 175,340</u>     | <u>\$ 1,915,632</u>           | <u>\$ 13,318,230</u>    | <u>\$ 12,814,396</u>           | <u>\$ 37,186,847</u>           |

E. 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.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

F. 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, 2013 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.

G. Cash Flows

Statement of Cash Flows is presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. As of June 30, 2013, there are not investments or cash equivalents reported, only cash in commercial banks.

H. 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.

I. 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.

J. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2013:

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.

Continue

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, 2013 (FY 2013-2014). 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.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013 (FY 2014-2015). Earlier application is encouraged.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of Statement 68, which is required to be applied in fiscal years beginning after June 15, 2014 (FY 2014-2015).

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

Continue

### 3. CASH AND INVESTMENTS

#### *Cash in Banks*

The Municipality's cash and investments at June 30, 2013 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 \$63.5 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, 2013, the pool cash account in interest bearing commercial banks accounts had a balance of \$42.5 million of which \$23.6 million in the General Fund, \$297,590 of Head Start Program, \$2.9 million in the Art Center Fund, \$1.6 million in the Multiuses Coliseum Fund, and \$13.9 in Other Governmental Funds; of which \$341,367, \$99,080, and \$30.4 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 0.80%, respectively. Also, \$2,297,003 was invested in in three separate accounts in Popular Bank of Puerto Rico, Trust Division, which generates an annual interest of 0.125% (\$1,159,652) and 0.20% for the other two (\$1,132,501 and \$4,850). 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.

Cash with fiscal agent in the debt service fund consists principally of property tax collections amounting to \$17.6 million that are restricted for the payment of the Municipality's debt service, as required by law. Cash with Fiscal Agent consist principally of \$301,439 of unspent proceeds of bonds for the Multiuses Coliseum, \$36,250 for the Art Center, \$5,500 in the General Fund, and \$1.1 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, 2013:

#### **Credit Risk**

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013, the Municipality has invested only in cash equivalents of \$42.5 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, 2013. 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, 2013.

Continue

**3. CASH AND INVESTMENTS— continuation**

***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, 2013, the Municipality has balances deposited in commercial banks amounting to \$44.5million 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 \$19.0 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, 2013. 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, 2013, 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, 2013, (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, 2013, 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, 2013.

**4. RECEIVABLES**

As of June 30, 2013, the account receivable in the amount of \$334,637 corresponded to the Sales and Usage Taxes and \$256,916 of Property Taxes.

**5. 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:

| <b>Governmental Funds:</b>     |                      |
|--------------------------------|----------------------|
| Volume of Business Taxes       | \$ 16,783,825        |
| Federal Grants                 | \$ 740,737           |
| <b>Total Unearned Revenues</b> | <b>\$ 17,524,562</b> |

**6. DEFERRED INFLOWS OF RESOURCES**

Governmental funds balance sheet report *deferred inflows of resources* 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 inflows of resources* reported in the basic financial statements were as follows:

| <b>Governmental Funds:</b>                 |                     |
|--|---------------------|
| Property Taxes - Commonwealth              | \$ 256,916          |
| Federal Grants:                            |                     |
| Head Start                                 | 1,712,852           |
| Other Governmental Funds                   | 2,026,020           |
| <b>Total Deferred Inflows of Resources</b> | <b>\$ 3,995,788</b> |

Continue

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

**A. Interfund Receivable and Payable Balances**

During the course of operations, numerous transactions occur between the Municipality's funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as "Due from Other Funds" and "Due to Other Funds" on the Balance Sheet and Statement of Net Position and will be settled within one year. Due to/from Other Funds at June 30, 2013 are summarized as follows:

| INTERFUND<br>RECEIVABLE | INTERFUND<br>PAYABLE    | AMOUNT              |
|-------------------------|-------------------------|---------------------|
| General Fund            | Head Start Fund         | \$ 253,773          |
| General Fund            | Other Non-Major Funds   | 2,036,813           |
| 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 | <u>10,799</u>       |
| Total                   |                         | <u>\$ 2,303,105</u> |

**B. Interfund Transfers**

During the course of the fiscal year, transactions occur between the Municipality's funds for operating subsidies. Related interfund receipts and disbursements are classified as "Transfers In" and "Transfers Out" on the Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Net Position. The transfers are routine and consistent with the activities of the funds. Principality, 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        | \$ 80,182           | Bond Principal and Interest Payments |
| Other Non-Major Fund | General Fund              | 189,617             | Equity Transfer                      |
| General Fund         | Municipal Enterprise Fund | 500,000             | Capital Contribution                 |
| General Fund         | Other Non-Major Fund      | <u>1,747,691</u>    | Capital Projects and Improvements    |
|                      | Total                     | <u>\$ 2,517,490</u> |                                      |

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

As of June 30, 2013, 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 (\$97,105), AEELA (\$55,715), US Department of Housing and Urban Development (\$21,219) for reimbursement of Section 8 Rental Moderate Rehabilitation Programs, and General Service Administration (\$1,075). Amount due by Art Center Fund is to Infrastructure Financial Agency (\$2,766,843).

Continue

**9. CAPITAL ASSETS**

Capital Assets activities for the fiscal year ended June 30, 2013 was as follows:

| DESCRIPTION                            | BALANCE               |                      |                        | BALANCE<br>JUNE 30,<br>2013 |
|--|-----------------------|----------------------|------------------------|-----------------------------|
|  | JULY 1,<br>2012       | INCREASE             | DECREASE               |                             |
| <b>Non-Depreciable Capital Assets:</b> |                       |                      |                        |                             |
| Land                                   | \$ 11,591,294         | \$ 1,439,900         | \$ -                   | \$ 13,031,194               |
| Construction in Progress               | 85,032,375            | 5,665,527            | (83,033,459)           | 7,664,443                   |
| Total Non-Depreciable Capital Assets   | <u>96,623,669</u>     | <u>7,105,427</u>     | <u>(83,033,459)</u>    | <u>20,695,637</u>           |
| <b>Depreciable Capital Assets:</b>     |                       |                      |                        |                             |
| Buildings                              | 56,631,867            | 81,847,361           | -                      | 138,479,228                 |
| Infrastructure                         | 23,111,300            | 353,138              | (1,107,525)            | 22,356,913                  |
| Motor Vehicles                         | 7,911,809             | 241,092              | -                      | 8,152,901                   |
| Equipment                              | 6,853,947             | 442,845              | (128,195)              | 7,168,597                   |
| Total Depreciable Capital Assets       | <u>94,508,923</u>     | <u>82,884,436</u>    | <u>(1,235,720)</u>     | <u>176,157,639</u>          |
| <b>Less Accumulated Depreciation:</b>  |                       |                      |                        |                             |
| Buildings                              | (19,690,225)          | (1,094,572)          | -                      | (20,784,797)                |
| Infrastructure                         | (6,228,233)           | (363,040)            | -                      | (6,591,273)                 |
| Motor Vehicles                         | (6,225,736)           | (645,312)            | -                      | (6,871,048)                 |
| Equipment                              | (5,104,808)           | (832,026)            | 100,849                | (5,835,985)                 |
| Total Accumulated Depreciation         | <u>(37,249,002)</u>   | <u>(2,934,950)</u>   | <u>100,849</u>         | <u>(40,083,103)</u>         |
| Total Depreciable Capital Assets (Net) | <u>57,259,921</u>     | <u>79,949,486</u>    | <u>(1,134,871)</u>     | <u>136,074,536</u>          |
| <b>CAPITAL ASSETS, NET</b>             | <u>\$ 153,883,590</u> | <u>\$ 87,054,913</u> | <u>\$ (84,168,330)</u> | <u>\$ 156,770,173</u>       |

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

|                                 | AMOUNT              |
|---------------------------------|---------------------|
| Mayor and Municipal Legislature | \$ 410,893          |
| General Government              | 264,146             |
| Public Safety                   | 234,796             |
| Public Works                    | 909,835             |
| Culture and Recreation          | 851,136             |
| Human Service and Welfare       | 146,747             |
| Urban Development               | 117,397             |
| Total Depreciation Expenses     | <u>\$ 2,934,950</u> |

Continue

**10. 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 11).

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2013:

| Type of Obligation and Purpose                     | Issue Date | Original Borrowing | Maturity Date | Interest Rate | Balance Amount       |
|--|------------|--------------------|---------------|---------------|----------------------|
| <b>General Obligation Bonds:</b>                   |            |                    |               |               |                      |
| <b>Property Taxes Income:</b>                      |            |                    |               |               |                      |
| Purchase of Equipment                              | 1995       | \$ 1,099,000       | 2013          | 4.70% - 6.63% | \$ 110,000           |
| General Construction                               | 1995       | 1,485,000          | 2014          | 4.87% - 6.19% | 300,000              |
| General Construction                               | 1998       | 8,395,000          | 2018          | 4.87% - 6.71% | 3,875,000            |
| General Construction                               | 2003       | 4,020,000          | 2027          | 1.28% - 6.50% | 3,095,000            |
| General Construction                               | 2004       | 5,200,000          | 2028          | 4.17% - 5.31% | 4,165,000            |
| General Construction                               | 2005       | 1,720,000          | 2030          | 4.17% - 5.31% | 1,445,000            |
| Land Acquisition                                   | 2006       | 370,000            | 2030          | 4.17% - 5.31% | 305,000              |
| General Construction                               | 2006       | 10,620,000         | 2031          | 1.37% - 5.68% | 9,200,000            |
| General Construction                               | 2006       | 10,620,000         | 2031          | 0.47% - 6.58% | 9,185,000            |
| Purchase of Equipment                              | 2007       | 2,055,000          | 2014          | 1.53% - 6.50% | 700,000              |
| General Construction                               | 2009       | 19,915,000         | 2035          | 4.80% - 7.50% | 19,120,000           |
| General Construction                               | 2011       | 2,255,331          | 2036          | 3.00% - 7.50% | 2,211,331            |
| <b>Total General Obligations Bonds</b>             |            |                    |               |               | <b>53,711,331</b>    |
| <b>Special Obligations Bonds - Property Taxes</b>  |            |                    |               |               |                      |
| <b>Property Taxes Income:</b>                      |            |                    |               |               |                      |
| Refinancing Purpose                                | 1995       | 4,786,000          | 2013          | 1.38% - 8.00% | 475,000              |
| Rural Development - General Construction           | 2000       | 1,412,000          | 2030          | 4.25%         | 1,230,000            |
| Rural Development - General Construction           | 2005       | 848,000            | 2035          | 4.125%        | 805,000              |
| Rural Development - General Construction           | 2005       | 2,900,000          | 2035          | 4.00%         | 2,821,000            |
| <b>Subtotal</b>                                    |            |                    |               |               | <b>5,331,000</b>     |
| <b>Sales and Use Taxes:</b>                        |            |                    |               |               |                      |
| General Construction                               | 2011       | 9,612,825          | 2033          | 3.00% - 7.50% | 9,427,825            |
| General Construction                               | 2011       | 2,265,000          | 2036          | 3.00% - 7.50% | 2,221,000            |
| <b>Subtotal</b>                                    |            |                    |               |               | <b>11,648,825</b>    |
| <b>Total Special Obligations Bonds</b>             |            |                    |               |               | <b>16,979,825</b>    |
| <b>Total General and Special Obligations Bonds</b> |            |                    |               |               | <b>\$ 70,691,156</b> |

Variable interest rates on bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the USA, and (2) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the US Internal Revenue Code.

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, 2013, 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.

Continue

**10. GENERAL LONG-TERM DEBTS— continuation**

**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.

**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 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<br>JULY 1,<br>2012 | NEW<br>ISSUES       | RETIREMENTS<br>AND<br>ADJUSTMENTS | BALANCE<br>JUNE 30,<br>2013 | AMOUNTS<br>DUE WITHIN<br>ONE YEAR | AMOUNTS<br>DUE AFTER<br>NEXT YEAR |
|----------------------|----------------------------|---------------------|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------------|
| Law Number 146-MRCC  | \$ 584,359                 | \$ -                | \$ (29,222)                       | \$ 555,137                  | \$ 29,218                         | \$ 525,919                        |
| Law Number 42-MRCC   | 418,791                    | -                   | (10,572)                          | 408,219                     | 11,243                            | 396,976                           |
| Claims and Judgments | 162,000                    | -                   | -                                 | 162,000                     | -                                 | 162,000                           |
| Compensated Absences | 5,770,258                  | 1,502,594           | (660,837)                         | 6,612,015                   | 3,664,727                         | 2,947,288                         |
| <b>TOTAL</b>         | <b>\$ 6,935,408</b>        | <b>\$ 1,502,594</b> | <b>\$ (700,631)</b>               | <b>\$ 7,737,371</b>         | <b>\$ 3,705,188</b>               | <b>\$ 4,032,183</b>               |

Continue

**10. GENERAL LONG-TERM DEBTS- continuation**

**D. Changes in General Long-Term Debts**

The following is a summary of changes in long-term debts for the year ended June 30, 2013:

| DESCRIPTION               | BALANCE              | NEW<br>ISSUE        | RETIREMENTS           | BALANCE              | AMOUNTS                | AMOUNTS                |
|---------------------------|----------------------|---------------------|-----------------------|----------------------|------------------------|------------------------|
|                           | JULY 1,<br>2012      |                     | AND<br>ADJUSTMENTS    | JUNE 30,<br>2013     | DUE WITHIN<br>ONE YEAR | DUE AFTER<br>NEXT YEAR |
| General Obligations Bonds | \$ 56,065,331        | \$ -                | \$ (2,354,000)        | \$ 53,711,331        | \$ 2,511,000           | \$ 51,200,331          |
| Special Obligations Bonds | 17,798,825           | -                   | (819,000)             | 16,979,825           | 872,000                | 16,107,825             |
| Other Obligations         | 6,935,408            | 1,502,594           | (700,631)             | 7,737,371            | 3,705,188              | 4,032,183              |
| <b>TOTAL</b>              | <b>\$ 80,799,564</b> | <b>\$ 1,502,594</b> | <b>\$ (3,873,631)</b> | <b>\$ 78,428,527</b> | <b>\$ 7,088,188</b>    | <b>\$ 71,340,339</b>   |

**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, 2013 are as follows:

| YEAR ENDING<br>JUNE 30, | General Obligation Bonds |                      | Special Obligation Bonds & Note |                      | Other Noncurrent Obligations |                     | TOTAL                |                      |
|-------------------------|--------------------------|----------------------|---------------------------------|----------------------|------------------------------|---------------------|----------------------|----------------------|
|                         | PRINCIPAL<br>PAYMENT     | INTEREST<br>PAYMENT  | PRINCIPAL<br>PAYMENT            | INTEREST<br>PAYMENT  | PRINCIPAL<br>PAYMENT         | INTEREST<br>PAYMENT | PRINCIPAL            | INTEREST             |
| 2014                    | \$ 2,511,000             | \$ 2,423,669         | \$ 872,000                      | \$ 820,597           | \$ 3,705,188                 | \$ 59,617           | \$ 7,088,188         | \$ 3,303,883         |
| 2015                    | 2,553,000                | 3,194,547            | 421,000                         | 1,039,452            | 3,150,454                    | 57,092              | 6,124,454            | 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            |
| 2018                    | 2,462,000                | 2,782,439            | 505,000                         | 955,207              | 43,564                       | 49,244              | 3,010,564            | 3,786,890            |
| 2019-2023               | 11,092,000               | 11,955,144           | 3,018,000                       | 4,253,167            | 232,526                      | 205,251             | 14,342,526           | 16,413,562           |
| 2024-2028               | 13,641,000               | 8,255,360            | 4,070,000                       | 3,138,086            | 263,316                      | 144,903             | 17,974,316           | 11,538,349           |
| 2029-2033               | 12,358,000               | 3,872,704            | 5,195,000                       | 1,603,381            | 257,689                      | 40,841              | 17,810,689           | 5,516,926            |
| 2034-2036               | 4,619,331                | 626,337              | 1,972,825                       | 167,298              | -                            | -                   | 6,592,156            | 793,635              |
| <b>TOTAL</b>            | <b>\$ 53,711,331</b>     | <b>\$ 39,089,487</b> | <b>\$ 16,979,825</b>            | <b>\$ 13,975,422</b> | <b>\$ 7,737,371</b>          | <b>\$ 663,384</b>   | <b>\$ 78,428,527</b> | <b>\$ 53,728,293</b> |

**11. 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 12).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 10). 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.

Continue

## 12. 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.

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 2013 is pending of final determination.

The tax rate for fiscal year 2013 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.

Continue

### 13. 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, 2013, the tax rates were as follows:

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

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, 2013. 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.

### 14. 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, 2013, 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.

On February 1, 2014 was enacted the Act Numbers 18 to create the "Law of Municipal Administration Fund (MAF)" and 19 that creates the Municipal Financing Corporation (COFIM by Spanish acronyms). These Acts amend the composition of the SUT effective February 1, 2014 and thereafter. See Note 21 for the changes contemplated by these Acts.

### 15. 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:

Continue

15. CONSTRUCTION EXCISE TAXES— continuation

- 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.
- 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.

16. 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.

17. PENSION PLAN

*Description of the Plan*

Employees of the **Municipality** participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (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.

Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the system to Chapter 5 of the ERS. The System 2000 applied to employees joining the ERS on or after January 1, 2000.

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

- (a) General Rule – The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.
- (b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)

Continue

17. PENSION PLAN- continuation

- (c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

Retirement age for participants who joined public service after June 30, 2013. The retirement age shall be 67 years, except in the case of Public Officers in High-Risk Positions, for whom it shall be fifty eight (58) years.

***Participant of the Program***

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

As of July 1, 2013, every employee who is a participant of the System, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the System, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars (\$10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars (\$10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from it.

***Annuity for Years of Service***

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars (\$500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars (\$500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars (\$500).

Continue

17. PENSION PLAN— continuation

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised. Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service. The maximum retirement annuity (as of June 30, 2013) for the participants shall be seventy-five percent (75%) of the average compensation.

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

- (1) For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus
- (2) For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

- (1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.
- (2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.
- (3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

Continue

17. PENSION PLAN- continuation

As per Act No. 3 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

- (1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:
  - (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service.
  - (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.
  - (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.
- (2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.
- (3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:
  - (i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.
  - (ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

**Pension Computation**

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

- (i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.
- (ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.
- (iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.

Continue

17. PENSION PLAN- continuation

- (iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.
- (v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.
- (vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447.

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

- (i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.
- (ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.
- (iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.
- (iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.
- (v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

**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.

Continue

17. PENSION PLAN- continuation

**Contributions of Participants of Defined Benefit Program**

Contribution requirements are established by law and are as follows:

|   |                                      |
|---|--------------------------------------|
| Complete supplementation plan between ERS and the Federal Social Security |                                      |
| Hired on or before March 31, 1990   | 8.275% of gross salary               |
| Coordination plan between ERS and the Federal Social Security             |                                      |
| Hired on or before March 31, 1990   | 5.775% of gross salary up to \$6,600 |
|   | 8.275% of gross salary over \$6,600  |
| Mayors and members of the Police Corps                                    | 8.275% of gross salary               |

**Contributions of Participants of Hybrid Program**

Contribution requirements are established by law and are as follows:

- (a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.
- (b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:
  - (1) Effective July 1, 2013, shall contribute seven percent (7%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
  - (2) Effective July 1, 2014, shall contribute eight point five percent (8.5%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
  - (3) Effective July 1, 2015, shall contribute ten percent (10%) of their full monthly salaries.

The participants of the Hybrid Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

- (c) Mandatory Contribution for the Purchase of Disability Insurance – Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

**Employer Contributions to the System (ERS and Hybrid Program)**

Every employer shall mandatorily contribute to the System the following:

|              |   |
|--------------|---|
| July 1, 2011 | Ten point two hundred seventy-five percent (10.275%) of the salary of each participant    |
| July 1, 2012 | Eleven point two hundred seventy-five percent (11.275%) of the salary of each participant |

Continue

17. PENSION PLAN- continuation

Every employer, beginning on July 1, 2013, shall mandatorily contribute to the System the following:

|              |  |
|--------------|--|
| July 1, 2013 | Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant      |
| July 1, 2014 | Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant    |
| July 1, 2015 | Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant    |
| July 1, 2016 | Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant     |
| July 1, 2017 | Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant |
| July 1, 2018 | Eighteen point twenty-five percent (18.025%) of the salary of each participant                 |
| July 1, 2019 | Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant    |
| July 1, 2020 | Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant      |

It is provided that the established increases applicable to the municipalities for fiscal years 2012-2013 and 2013-2014, shall be included in the budget petition submitted by the Office of Management and Budget to the Legislative Assembly.

***Death, Disability or Terminal Illness Benefits***

**Death of a Participant in Active Service**

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

**Death of a Pensioner**

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

**Separation from Service for Disability or Terminal Illness**

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

***Disability Insurance***

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator.

Continue

**17. PENSION PLAN- continuation**

**Additional Benefits Program**

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

- (a) A Medication Bonus equal to one hundred (\$100), which shall be paid no later than July 15 of each year;
- (b) A Christmas Bonus equal to two hundred dollars (\$200), which shall be paid no later than December 20 of each year; and
- (c) A Commonwealth contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars (\$100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars (\$2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

The persons who retire under the provisions of Act 305-1999, known as "Retirement Savings Accounts Program", and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

**Annual Contribution**

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

Total employee contributions to the above-mentioned plans during the year ended June 30, 2013, 2012 and 2011 amounted to approximately \$2,818,704.

| FISCAL YEAR | DEFINED BENEFIT | HYBRID PROGRAM |
|-------------|-----------------|----------------|
| 2013        | \$ 451,967      | \$ 620,120     |
| 2012        | 488,197         | 564,576        |
| 2011        | 515,047         | 522,773        |

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 the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

Continue

**18. HEALTHCARE COSTS**

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to approximately \$1,715,105 for the fiscal year ended June 30, 2013.

**19. 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.

**20. 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, 2013, amounted to approximately \$324,954. 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, 2013 for the construction, improvements, or renovation of several municipal facilities in the following funds:

|                 | Encumbered For                             | Amount       | Reported within Fund Balance Classification              |
|-----------------|--|--------------|--|
| General Fund    | Solid Waste Disposal                       | \$ 747,453   | Restricted for Solid Waste Disposal                      |
| Art Center Fund | Construction of Art Center                 | \$ 1,843,199 | Restricted to Improvement and Construction of Facilities |
| Non Major Funds | Improvement and Construction of Facilities | \$ 168,670   | Restricted to Improvement and Construction of Facilities |

Continue

**20. COMMITMENTS – continuation**

**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, 2013 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, 2013 for this service amounts to \$3.8 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:

| Fiscal Year          | Amount              |
|----------------------|---------------------|
| 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>\$17,057,900</u> |

**21. NET POSITION RESTATEMENTS**

During the year, the Municipality adjusted the governmental net position for capital assets not previously recognized, and adjustment for the implementation of GASB No. 65. The following schedule reconciles the June 30, 2012 Net Position, as previously reported to Beginning Net Position, as restated, July 1, 2012, for Governmental Activities.

|   | NET ASSETS            |
|---|-----------------------|
| Net Position, as Previously Reported, June 30, 2012 | \$ 125,415,713        |
| Implementation of GASB 65                           | <u>(385,849)</u>      |
| Beginning Net Position, as Restated, July 1, 2012   | <u>\$ 125,029,864</u> |

**22. NEW ACCOUNTING STANDARDS**

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2013:

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

GASB 62 does not have any impact on the Municipality's financial statements.

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.

Continue

## 22. NEW ACCOUNTING STANDARDS— continuation

GASB Statement No. 64 ("GASB 64") Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53 was issued in June 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of Statement No. 64 are effective for financial statements for periods beginning after June 15, 2011 and were adopted the Municipality effective July 1, 2012 with no significant impact on the 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 and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as revenues and expenses. The adoption of this statement require that debt issuance costs be recognized as an expenses in the period incurred.

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. GASB 66 does not have any impact on the Municipality's financial statements.

## 23. SUBSEQUENT EVENTS

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through March 20, 2014, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

**END OF NOTES**

**AUTONOMOUS MUNICIPALITY OF HUMACAO, PUERTO RICO**

***REQUIRED SUPPLEMENTARY INFORMATION***

**YEAR ENDED JUNE 30, 2013**

|  | Budget Amounts       |                      | Actual Amounts                           | Variance with      |
|--|----------------------|----------------------|--|--------------------|
|  | Original             | Final                | (Budgetary Basis)<br>(See Notes 1 and 2) | Final Budget       |
| <b>BUDGETARY FUND BALANCE, JULY 1, 2012</b>  | <b>\$ 10,890,157</b> | <b>\$ 10,890,157</b> | <b>\$ 10,890,157</b>                     | <b>\$ -</b>        |
| Resources (Inflows):                         |                      |                      |  |                    |
| Property Taxes                               | 12,977,412           | 12,977,412           | 12,686,227                               | (291,185)          |
| Volume of Business Taxes                     | 18,254,658           | 18,254,658           | 17,707,818                               | (546,840)          |
| Sales and Usage Taxes                        | 4,425,658            | 4,425,658            | 4,350,285                                | (75,373)           |
| Intergovernmental Revenues                   | 5,698,021            | 5,698,021            | 6,368,912                                | 670,891            |
| Construction Excise Taxes                    | 2,167,829            | 2,167,829            | 1,041,223                                | (1,126,606)        |
| Interest                                     | 505,000              | 505,000              | 243,095                                  | (261,905)          |
| Miscellaneous                                | 1,328,830            | 1,328,830            | 1,288,028                                | (40,802)           |
| <b>Total Resources (Inflows)</b>             | <b>45,357,408</b>    | <b>45,357,408</b>    | <b>43,685,588</b>                        | <b>(1,671,820)</b> |
| Amounts Available for Appropriation          | 56,247,565           | 56,247,565           | 54,575,745                               | (1,671,820)        |
| Charges to Appropriations (Outflows):        |                      |                      |  |                    |
| Mayor and Municipal Legislature              | 3,917,691            | 3,916,976            | 3,744,091                                | 172,885            |
| General Government                           | 17,227,694           | 17,465,933           | 17,162,028                               | 303,905            |
| Public Safety                                | 4,060,958            | 4,051,038            | 3,734,800                                | 316,238            |
| Public Works                                 | 4,678,325            | 4,628,134            | 4,349,784                                | 278,350            |
| Culture and Recreation                       | 2,656,366            | 2,991,317            | 2,834,255                                | 157,062            |
| Health and Sanitation                        | 1,715,105            | 1,715,105            | 1,715,105                                | -                  |
| Solid Waste Disposal                         | 3,240,000            | 3,921,175            | 3,875,039                                | 46,136             |
| Human Services and Welfare                   | 6,306,918            | 6,248,917            | 5,803,837                                | 445,080            |
| Urban Development                            | 1,287,951            | 1,269,806            | 1,235,188                                | 34,618             |
| Capital Outlays                              | 266,400              | 266,400              | 165,648                                  | 100,752            |
| Transfers to Other Funds                     | -                    | 983,742              | 983,742                                  | -                  |
| <b>Total Charges to Appropriations</b>       | <b>45,357,408</b>    | <b>47,458,543</b>    | <b>45,603,517</b>                        | <b>1,855,026</b>   |
| <b>BUDGETARY FUND BALANCE, JUNE 30, 2013</b> | <b>\$ 10,890,157</b> | <b>\$ 8,789,022</b>  | <b>\$ 8,972,228</b>                      | <b>\$ 183,206</b>  |

The accompanying Notes to Required Supplementary Information are an integral part of this schedule.

**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.

**2. Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

|  | <u>General Fund</u>  |
|--|----------------------|
| <b>Sources/Inflows of Resources:</b>   |                      |
| Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 62)                            | \$ 54,575,745        |
| Difference – Budget to GAAP:   |                      |
| GASB 54 Reclassification of Revenue  | 86,121               |
| The Fund Balance (Deficit) at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes | <u>(10,890,157)</u>  |
| Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 23)             | <u>\$ 43,771,709</u> |
| <b>Uses/Outflows of Resources:</b>   |                      |
| Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 62)                         | \$ 45,603,517        |
| 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 | (1,352,847)          |
| Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes      | 411,036              |
| Reclassified expenditures per GASB Number 54   | 453,762              |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes                         | <u>(983,742)</u>     |
| Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 23)         | <u>\$ 44,131,726</u> |

**END OF THIS SECTION**

**AUTONOMOUS MUNICIPALITY OF HUMACAO, PUERTO RICO**

***SUPPLEMENTARY INFORMATION BY  
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT***

| <u>Line Item No.</u> | <u>Assets</u>   | <u>Value</u>             |
|----------------------|---|--------------------------|
|                      | <b>Current Assets - Cash:</b>   |                          |
| 111                  | Cash - Unrestricted   | \$ 43,912                |
| 113                  | Cash - Other Restricted   | 318,815                  |
| <b>100</b>           | <b>Total Cash</b>   | <b><u>362,727</u></b>    |
|                      | <b>Receivables:</b>   |                          |
| 128                  | Fraud Recovery  | 24,404                   |
| <b>120</b>           | <b>Total Receivables, Net of Allowances<br/>for Doubtful Accounts</b> | <b><u>24,404</u></b>     |
| <b>150</b>           | <b>Total Current Assets</b>   | <b><u>387,131</u></b>    |
|                      | <b>Fixed Assets:</b>  |                          |
| 164                  | Furniture, Equipment & Machinery - Administration                     | 56,263                   |
| 166                  | Accumulated Depreciation  | (56,263)                 |
| <b>160</b>           | <b>Total Capital Assets, Net of Accumulated Depreciation</b>          | <b><u>-</u></b>          |
| <b>190</b>           | <b>Total Assets</b>   | <b><u>\$ 387,131</u></b> |
|                      | <b>Liabilities<br/>and Equity</b>                                     |                          |
|                      | <b>Current Liabilities:</b>   |                          |
| 322                  | Accrued Compensated Absences - Current Portion                        | \$ 23,892                |
| <b>310</b>           | <b>Total Current Liabilities</b>                                      | <b><u>23,892</u></b>     |
|                      | <b>Non-current Liabilities:</b>                                       |                          |
| 354                  | Accrued Compensated Absences - Non-current                            | 12,338                   |
| <b>310</b>           | <b>Total Current Liabilities</b>                                      | <b><u>12,338</u></b>     |
| <b>300</b>           | <b>Total Liabilities</b>  | <b><u>36,230</u></b>     |
|                      | <b>Equity:</b>  |                          |
| 511.1                | Restricted Net Position   | 331,018                  |
| 512.1                | Unrestricted Net Position   | 19,883                   |
| <b>513</b>           | <b>Total Equity / Net Position</b>                                    | <b><u>350,901</u></b>    |
| <b>600</b>           | <b>Total Liabilities and Equity / Net Position</b>                    | <b><u>\$ 387,131</u></b> |

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

COMMONWEALTH OF PUERTO RICO  
**AUTONOMOUS MUNICIPALITY OF HUMACAO**

**SECTION 8 HOUSING CHOICE VOUCHERS –  
 FINANCIAL DATA SCHEDULE (RQ025)  
 PROGRAM REVENUES AND EXPENSES SUMMARY  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

| <u>Line Item No.</u> | <u>Revenues</u>                                  | <u>Value</u>              |
|----------------------|--|---------------------------|
| 70600                | HUD PHA Operating Grants                         | \$1,818,375               |
| 71100                | Investment Income - Unrestricted                 | 226                       |
| 71500                | Other Revenue                                    | <u>101,474</u>            |
| <b>70000</b>         | <b>Total Revenues</b>                            | <b><u>1,920,075</u></b>   |
| <br>                 |  |                           |
| <u>Expenses</u>      |  |                           |
|                      | <b>Administrative:</b>                           |                           |
| 91100                | Administrative Salaries                          | 156,856                   |
| 91500                | Employee Benefit Contributions - Administrative  | 40,730                    |
| 91600                | Office Expense                                   | 6,263                     |
| 91900                | Other  | <u>4,325</u>              |
| <b>91000</b>         | <b>Total Operating - Administrative</b>          | <b><u>208,174</u></b>     |
| <b>96900</b>         | <b>Total Operating Expenses</b>                  | <b><u>208,174</u></b>     |
|                      | <b>Excess of Operating Revenue over</b>          |                           |
| <b>97000</b>         | <b>Operating Expenses</b>                        | <b><u>1,711,901</u></b>   |
| 97300                | Housing Assistance Payments                      | 1,660,646                 |
| 97350                | HPA Portability-In                               | <u>89,001</u>             |
| <b>90000</b>         | <b>Total Expenses</b>                            | <b><u>1,957,821</u></b>   |
|                      | <b>Excess (Deficiency) of Total Revenue over</b> |                           |
| <b>97000</b>         | <b>(under) Total Expenses</b>                    | <b><u>\$ (37,746)</u></b> |
| <br>                 |  |                           |
|                      | <b>Memo Account Information:</b>                 |                           |
| *110030              | Beginning Equity                                 | \$ 388,647                |
| *11170               | Administrative Fee Equity                        | \$ 19,883                 |
| *11180               | Housing Assistance Payments Equity               | \$ 331,018                |
| *11190               | Unit Months Available                            | 3306                      |
| *11210               | Number of Unit Months Leased                     | 3293                      |

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

**1. BASIS OF PRESENTATION**

The accompanying Financial Data Schedule (FDS) includes the Section 8 Housing Choice Vouchers federal program activities of the Autonomous AUTONOMOUS MUNICIPALITY OF HUMACAO of the Commonwealth of Puerto Rico (Municipality). The information in the FDS is presented in accordance with the requirements of *HUD's Uniform Financial Reporting Standards for HUD Housing Programs*. Because the FDS 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 position 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Assets, Liabilities, Net Assets, Revenues and Expenses reported on the FDS, are reported on the full accrual basis of accounting. They are recognized following the *HUD's Uniform Financial Reporting Standards for HUD Housing Programs*.

**3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Assets, Liabilities and Net Assets are presented in the Municipality's Statement of Net Position. Revenues and Expenses are reported in the Statement of Activities.

**END OF NOTES**



**MUNICIPIO AUTONOMO 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**

**20 de marzo de 2014**



# MUNICIPIO AUTONOMO DE HUMACAO

## CONTENIDO

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| ALCANCE Y METODOLOGIA  | 2   |
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| ANEJO A:<br>Recomendaciones no cumplimentadas y<br>parcialmente cumplimentadas |     |

20 de marzo de 2014

Hon. Alcalde  
Municipio Autónomo 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 7 de marzo de 2013 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 para la Administración Municipal**. Este fue aprobado por el Comisionado de Asuntos Municipales el 18 de julio de 2008 y comenzó a regir el 18 de agosto de 2008.

## ALCANCE Y METODOLOGIA

La auditoría cubrió del 1 de julio de 2012 al 30 de junio de 2013. 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 11 de septiembre de 2013 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 Autónomo 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 Autónomo de Humacao cumpla con estas recomendaciones. Nuestra responsabilidad es la de expresar una opinión sobre el cumplimiento del Municipio Autónomo 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 Autónomo 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 Autónomo 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 2013.

En nuestra opinión, excepto por las áreas de no cumplimiento señaladas en el anejo al que hace referencia el tercer párrafo, el Municipio Autónomo 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 2013.

Este informe es emitido para conocimiento y uso exclusivo de la Oficina del Contralor de Puerto Rico y del Municipio Autónomo 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**

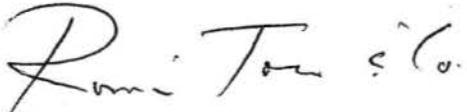
Los hallazgos de este informe se sometieron al Alcalde, Hon. Marcelo Trujillo Panisse, para comentarios.

### **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 Autónomo de Humacao les agradecemos la cooperación que nos prestaron durante nuestro examen.

  
ROMAN TORO & CO., CPA, C.S.P.  
LICENCIA #35 - VIGENTE

Yauco, Puerto Rico  
20 de marzo de 2014

La estampilla #E93380 fue adherida  
al original de este informe

**MUNICIPIO AUTONOMO DE HUMACAO**

**ANEJO A:**

*Recomendaciones No Cumplimentadas y  
Parcialmente Cumplimentadas*

**INFORME ESPECIAL – CONTRALOR**

**30 de junio de 2013**

**MUNICIPIO AUTONOMO DE HUMACAO**  
**INFORME ESPECIAL - CONTRALOR**  
**ANEJO DE RECOMENDACIONES NO CUMPLIMENTADAS Y**  
**PARCIALMENTE CUMPLIMENTADAS**  
**30 de junio de 2013**

**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<br>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<br>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 continúa evaluando el traslado de los empleados transitorios señalados a puestos permanentes.   |
| Recomendación 4a-4<br>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 en su informe OAI-11-01 emitido el 16 de agosto de 2010, y en su investigación especial de seguimiento emitida el 7 de febrero de 2012, en sus informes OAI-14-01 emitido el 12 de agosto de 2013 y el informe OAI-14-04 emitido el 28 de febrero de 2014. |

**MUNICIPIO AUTONOMO DE HUMACAO**  
**INFORME ESPECIAL - CONTRALOR**  
**ANEJO DE RECOMENDACIONES NO CUMPLIMENTADAS Y**  
**PARCIALMENTE CUMPLIMENTADAS**  
**30 de junio de 2013**

**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<br>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 en su informe OAI-11-01 emitido el 16 de agosto de 2010, y en su investigación especial de seguimiento emitida el 7 de febrero de 2012, en sus informes OAI-14-01 emitido el 12 de agosto de 2013 y el informe OAI-14-04 emitido el 28 de febrero de 2014. |
| Recomendación 7b<br>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<br>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 AUTONOMO DE HUMACAO**  
**INFORME ESPECIAL - CONTRALOR**  
**ANEJO DE RECOMENDACIONES NO CUMPLIMENTADAS Y**  
**PARCIALMENTE CUMPLIMENTADAS**  
**30 de junio de 2013**

**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<br>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. |



**AUTONOMOUS MUNICIPALITY OF HUMACAO, PUERTO RICO**

***SINGLE AUDIT REPORT***

**YEAR ENDED JUNE 30, 2013**



**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF HUMACAO, PUERTO RICO**  
**SINGLE AUDIT REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2013**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Autonomous Municipality of Humacao, Puerto Rico as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Autonomous Municipality of Humacao, Puerto Rico's basic financial statements, and have issued our report thereon dated March 20, 2014.

**Internal Control Over Financial Reporting**

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

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

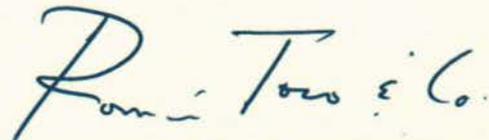
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



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

Yauco, Puerto Rico  
March 20, 2014

Stamp #E93378 was affixed to  
the original report



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

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

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

We have audited Autonomous 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 Autonomous Municipality of Humacao, Puerto Rico's major federal programs for the year ended June 30, 2013. Autonomous 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.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

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

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

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

## **Report on Internal Control Over Compliance**

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

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

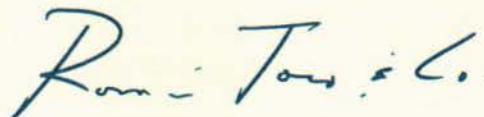
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Autonomous Municipality of Humacao, Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Autonomous Municipality of Humacao, Puerto Rico's basic financial statements. We issued our report thereon dated March 20, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Purpose of this Report**

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



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

Yauco, Puerto Rico  
March 20, 2014

Stamp #E93379 was affixed to  
the original report



COMMONWEALTH OF PUERTO RICO  
**AUTONOMOUS MUNICIPALITY OF HUMACAO, PUERTO RICO**  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| FEDERAL GRANTOR / PASS THROUGH<br>GRANTOR / PROGRAM OR CLUSTER TITLE                                | FEDERAL<br>CFDA<br>NUMBER | PASS-THROUGH<br>ENTITY IDENTIFYING<br>NUMBER | FEDERAL<br>EXPENDITURES |
|---|---------------------------|--|-------------------------|
| <b>U.S. Department of Agriculture:</b>  |                           |  |                         |
| Pass-Through Puerto Rico Department of Education:<br>Child and Adult Care Food Program .....        | 10.558                    | CC-081                                       | \$ 755,904              |
| USDA – Rural Development Direct Program:<br>Water and Waste Disposal System for Rural Communities.. | 10.760                    | 63-003-690-66-0046                           | <u>108,223</u>          |
| Total U.S. Department of Agriculture .....  |                           |  | <u>864,127</u>          |
| <b>U.S. Department of Housing and Urban Development:</b>  |                           |  |                         |
| Direct Programs:  |                           |  |                         |
| Community Development Block Grant/Entitlement<br>Grants (CDBG) (Cluster) .....                      | 14.218                    |  | 1,725,957               |
| <b>ARRA</b> – Community Development Block Grant/Entitlement<br>Grants (CDBG) (Cluster) .....        | 14.253                    |  | <u>16,754</u>           |
| Subtotal Community Development Block Grant/Entitlement<br>Grants (CDBG) (Cluster) .....             |                           |  | <u>1,742,711</u>        |
| Emergency Shelter Grants Program (ESG) .....  | 14.231                    |  | 1,300                   |
| Shelter Plus Care .....   | 14.238                    |  | 60,751                  |
| Housing Opportunities for Persons with AIDS (HOPWA) .....   | 14.241                    |  | 68,087                  |
| <b>ARRA</b> – Homelessness Prevention and Rapid Re-Housing<br>Program (HPRP) .....                  | 14.257                    |  | 13,038                  |
| Section 8 Housing Choice Vouchers .....   | 14.871                    |  | <u>1,974,882</u>        |
| Total U.S. Department of Housing and Urban Development  |                           |  | <u>3,860,769</u>        |
| <b>U.S. Department of Transportation:</b>   |                           |  |                         |
| Direct Program:   |                           |  |                         |
| Federal Transit – Capital Investment Grants (Cluster) .....   | 20.500                    |  | <u>52,839</u>           |
| Total U.S. Department of Transportation .....   |                           |  | <u>52,839</u>           |
| <b>U.S. Department of Energy:</b>   |                           |  |                         |
| Direct Program:   |                           |  |                         |
| <b>ARRA</b> – Energy Efficiency and Conservation Grant<br>Program .....                             | 81.128                    |  | <u>387,630</u>          |
| Total U.S. Department of Energy .....   |                           |  | <u>387,630</u>          |
| Subtotal Expenditures of Federal<br>Awards (Balance Carry Forward) .....                            |                           |  | <u>5,165,365</u>        |

Continue

COMMONWEALTH OF PUERTO RICO  
**AUTONOMOUS MUNICIPALITY OF HUMACAO, PUERTO RICO**  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| FEDERAL GRANTOR / PASS THROUGH<br>GRANTOR / PROGRAM OR CLUSTER TITLE  | FEDERAL<br>CFDA<br>NUMBER | PASS-THROUGH<br>ENTITY IDENTIFYING<br>NUMBER | FEDERAL<br>EXPENDITURES    |
|---|---------------------------|--|----------------------------|
| Subtotal of Expenditures of Federal Awards<br>(Balance Brought Forward).....  |                           |  | <u>\$ 5,165,365</u>        |
| <b>U. S. Department of Health and Human Services:</b>   |                           |  |                            |
| Pass-Through PR Office for Procurator for the Elderly:<br>Special Programs for the Aging – Title III, Part C –<br>Nutritional Services .....          | 93.045                    | N/AV   | 53,058                     |
| Pass-Through Administration for the Childhood Care and<br>Integral Development:<br>Child Care and Development Block Grant .....                       | 93.575                    | 2012-2013-039                                | 231,248                    |
| Head Start Program .....  | 93.600                    |  | <u>8,169,976</u>           |
| Total U.S. Department of Health and Human Services.....   |                           |  | <u>8,454,282</u>           |
| <b>U.S. Department of Homeland Security:</b>  |                           |  |                            |
| Pass-Through Office of the Governor Authorized<br>Representative:<br>Disaster Grants – Public Assistance (Presidentially Declared<br>Disasters) ..... | 97.036                    | FEMA-1798/4017                               | 649,835                    |
| Homeland Security Grant Program (HSGP) .....  | 97.067                    | N/AV   | <u>243,464</u>             |
| Total U.S. Department of Homeland Security .....  |                           |  | <u>893,299</u>             |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS .....</b>   |                           |  | <b><u>\$14,512,946</u></b> |

See notes to schedule of expenditures of federal awards.

COMMONWEALTH OF PUERTO RICO  
**AUTONOMOUS MUNICIPALITY OF HUMACAO, PUERTO RICO**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**NOTE 1 GENERAL**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the Autonomous Municipality of Humacao, Puerto Rico. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The Municipality reporting entity is defined in Note (1) (A) to the general-purpose 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.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present the financial position or the results of operations.
- B. The Municipality records the financial transactions and conditions of the grants consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, or when actually paid, whichever occurs first.

**NOTE 3 FEDERAL CFDA NUMBER**

The CFDA number 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.

**NOTE 4 PASS-THROUGH GRANTOR'S NUMBER**

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

**NOTE 5 MAJOR PROGRAMS**

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

**NOTE 6 RELATIONSHIPS 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 - \$6,814,519 and Other Governmental Funds \$7,698,427.

**END OF NOTES**

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF HUMACAO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:  Unmodified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion

Internal control over financial reporting:

- Significant control 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 control deficiency identified?  Yes  None reported
- Material weakness (es) identified?  Yes  No

Type of auditor's report issued on compliance for Major Programs:

Unmodified 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                                    |
| 14.218      | Community Development Block Grants/ Entitlement(CDBG)                |
| 14.253      | Community Development Block Grants ARRA (CDBG-R)                     |
| 14.871      | Section 8 Rental Housing Choice Vouchers                             |
| 81.128      | Energy Efficiency and Conservation Block Grant Program (EECBG)(ARRA) |
| 93.600      | Head Start Program   |
| 97.036      | Disaster Grants-Public Assistance                                    |

Dollar threshold used to distinguish between Type A and Type B Programs:

\$435,388

Auditee qualified as low-risk auditee?

Yes  No

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF HUMACAO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2013**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

None.

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

None.

**END OF SECTION**

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF HUMACAO, PUERTO RICO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

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| <b>Fiscal Year</b> | <b>Finding Number</b> | <b>Finding</b> | <b>CFDA Number</b> | <b>Questioned Cost(s)</b> | <b>Comments</b> |
|--------------------|-----------------------|----------------|--------------------|---------------------------|-----------------|
|--------------------|-----------------------|----------------|--------------------|---------------------------|-----------------|

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**(1) Prior Audit Findings, fully corrected or not noted during our audit:**

None.

**(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.

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**END OF SCHEDULE**

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