

Oficina del Comisionado  
de Asesoría y Control Financiero

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2012**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2012**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

*Carlos R. Diaz Negrón*

Certified Public Accountant

MEMBER:

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

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## INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and  
Municipal Legislative Body  
Municipality of Las Marías  
Las Marías, Puerto Rico**

We have audited the financial statements of the governmental activities, each major funds, and the aggregate remaining fund information of the **Municipality of Las Marías, Puerto Rico** as of and for the year ended June 30, 2012 which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements Espiritu Santo Project. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Espiritu Santo Project, is based solely on the report of the other auditors.

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

Because of inadequacy of accounting records for the year prior to 2012, the were unable to obtain sufficient appropriate evidence regarding the amount of check property and equipment and accumulated depreciation are recorded in the accompany statement of net assets as of June 30, 2012 ( stated at \$32,297, 006 and \$9,450,372 respectively or the amount of depreciation expense for the year ended (stated at \$772,853).

In our opinion, except for the effects of such adjustments, if any as might have determined to be necessary had prior year records concerning property and equipment and related accumulated depreciate been adequate, the financial statements referred to in the first paragraph present fairly; in all material expect, the respective financial position of the governmental activities, each of mayor fund and the aggregate remaining informative of the Municipality of Las Marías, Puerto Rico as of June 30, 2012 and the respective change in financial position for the fiscal year the ended in conformity with accounting principles generally accepted in the United State of America.

In addition in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Las Marías, Puerto Rico** as of June 30, 2012, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

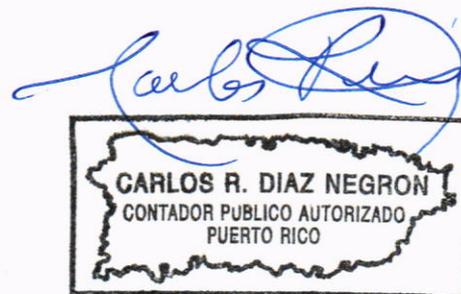
In accordance with Governmental Auditing Standards, we have also issued our report dated December 24, 2012, on our consideration of the Municipality of Las Marías, Puerto Rico' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Governmental Auditing Standards and should be considered in assessing the results of our audit.

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

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 8 and 34 through 36 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.

December 24, 2012  
Aguas Buenas, Puerto Rico

License No. 1339  
Expire December 1, 2013



The stamp No. **E40860** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2012**

Management of the *Municipality of Las Marias* of the Commonwealth of Puerto Rico (the "Municipality") provides this *Management's Discussion and Analysis* of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended **June 30, 2012**. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- ❖ The Municipality's in the Governmental Activities has reported assets and net assets amounting to **\$27,991,756** and **\$14,388,357** respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to **\$22,846,635 (82 percent of total Municipality's assets)**.
- ❖ The Municipality in the same activities has reported total liabilities amounting to **\$13,603,339** in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to **\$12,205,635 (90 percent of total liabilities)**.
- ❖ The Municipality has reported total revenues amounting to **\$11,369,622** in the accompanying Statement of activities for the Fiscal Year Ended **June 30, 2012**. The revenue divided for the following sources:
  - ❖ \$1,286,990 from grants and contribution \$2,274,067 from capital grants and contributions; and \$7,808,565 from general revenues.
- ❖ The Municipality has reported a decrease net change in net assets of **\$1,378,692** in the accompanying statement of activities.
- ❖ The Municipality's governmental funds reported combined ending fund balances of **\$3,431,385**.
- ❖ The Municipality has reported a superavit for the general fund amounting to **\$660,746**.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The Municipality's financial statements include three components: **(1)** the government-wide financial statements, **(2)** the fund financial statements, and **(3)** the notes to the financial statements (**collectively known as the basic financial statements**).

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)**  
**YEAR ENDED JUNE 30, 2012**

**Government-Wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended **June 30, 2012** even if cash involved have not been received or paid. The government-wide financial statements include: **(1)** the statements of net assets and **(2)** the statement of activities.

**Statement of Net Assets**

The statement of net *assets* presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (**equity**). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

**Statement of Activities**

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended **June 30, 2012**. All changes in net assets 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 not result in cash flows until future fiscal periods (**such as uncollected taxes and earned but unused vacation leave**). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (**such as federal grants**). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)**  
**YEAR ENDED JUNE 30, 2012**

**Fund Financial Statements**

The Municipality's fund financial statements, which consist of: **(1)** the balance sheet – governmental funds and **(2)** the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: **(1)** individual parts of the Municipality's government and **(2)** reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: **(1)** general fund, **(2)** debt service fund, and **(3)** other governmental funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year **(June 30, 2012)**. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund 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 Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has three major funds: **(1)** the general fund **(2)** the debt service fund **(3)** other governmental fund.

**Notes to the Basic Financial Statements**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)**  
**YEAR ENDED JUNE 30, 2012**

**Government-wide Financial Statements Summary**

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by **\$14,388,357** at **June 30, 2012**.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment and all other property), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Otherwise, Municipality's Basic Financial Statement, not present increase in capital actives and accrued depreciation expenses, because al the time prepare the financial statement, Municipal Administrative was reevaluating actives files to establish of capitalization. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements:

**Condensed Statement of Net Assets:**

	<b><u>June 30, 2011</u></b>	<b><u>June 30, 2012</u></b>
Current assets	\$ 8,782,129	\$ 5,145,121
Capital assets	<u>22,419,964</u>	<u>22,846,635</u>
<b>Total assets</b>	<b>31,202,093</b>	<b>27,991,756</b>
Current liabilities	4,152,015	2,507,734
Non-current liabilities	<u>11,283,029</u>	<u>11,095,605</u>
<b>Total liabilities</b>	<b>15,435,044</b>	<b>13,603,339</b>
Net assets/ (liabilities):		
Invested in capital assets, net of related debt	19,828,810	17,453,801
Restricted	4,965,474	2,770,639
Unrestricted	<u>(9,027,235)</u>	<u>(5,836,083)</u>
<b>Total net assets</b>	<b><u>\$15,767,049</u></b>	<b><u>\$14,388,357</u></b>

An additional portion of the Municipality's net assets (**1 percent**) represents resources that are subject to restrictions on how they may be used. At the end of the current fiscal year, the Municipality has reported positive balances in two categories of net assets.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)**  
**YEAR ENDED JUNE 30, 2012**

**Government-wide Financial Statements Summary (Continue)**

**Condensed Statement of Activities:**

	<b><u>June 30, 2011</u></b>	<b><u>June 30, 2012</u></b>
<b>Revenues:</b>		
Program revenues:		
Operating grants and contributions	\$ 916,207	\$ 1,286,990
Capital grants and contributions	<u>2,420,461</u>	<u>2,274,067</u>
	<u>3,336,668</u>	<u>3,561,057</u>
<b>General revenues:</b>		
Property taxes	516,843	679,196
Municipal tax	107,066	172,658
Sales tax	1,038,337	943,931
Construction excise tax	339,479	271,202
Grants and entitlements	5,393,161	5,482,576
Rent	-	16,010
Other	<u>1,443,491</u>	<u>242,992</u>
	<u>8,838,377</u>	<u>7,808,565</u>
<b>Total revenues</b>	<b><u>12,175,045</u></b>	<b><u>11,369,622</u></b>
<b>Expenses:</b>		
General administration	3,116,072	5,276,706
Public safety	578,126	683,043
Education, culture and recreational	730,370	640,281
Public works	-	4,006,078
Health and welfare	356,760	1,013,319
Housing and urban development	5,115,631	910,228
Public housing and welfare	765,434	-
Interest	<u>419,199</u>	<u>218,659</u>
<b>Total expenses</b>	<b><u>11,081,592</u></b>	<b><u>12,748,314</u></b>
Change in net assets	1,093,453	(1,378,692)
<b>Net assets – at beginning of year</b>	<b><u>14,673,596</u></b>	<b><u>15,767,049</u></b>
<b>Net assets – at end of year</b>	<b><u>\$15,767,049</u></b>	<b><u>\$14,388,357</u></b>

**Fund Financial Statements Summary**

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)**  
**YEAR ENDED JUNE 30, 2012**

**Fund Financial Statements Summary (Continue)**

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

The following is a condensed presentation of the Municipality's balance sheet and results of operations of governmental funds:

**Condensed Balance Sheet – Governmental funds:**

	<u>June 30, 2011</u>	<u>June 30, 2012</u>
Total Assets – Major Funds	\$ 5,784,652	\$ 2,811,125
Total Assets – Nonmajor Funds	<u>3,285,112</u>	<u>2,704,523</u>
<b>Total assets</b>	<u>\$ 9,069,764</u>	<u>\$ 5,515,648</u>
Total Liabilities – Major Funds	\$ 3,141,530	\$ 1,399,696
Total Liabilities – Nonmajor Funds	<u>886,882</u>	<u>684,567</u>
<b>Total liabilities</b>	4,028,412	2,084,263
Fund Balances – Major Funds	2,643,122	1,613,794
Fund Balances – Nonmajor Funds	2,398,230	1,156,845
Unassigned	<u>                    </u>	<u>660,746</u>
<b>Total Fund Balance</b>	<u>\$ 9,069,764</u>	<u>\$ 5,515,648</u>

**Condensed Statement of Operations – Governmental funds:**

Total Revenues – Major Funds	\$10,482,523	\$ 7,767,455
Total Revenues – Nonmajor Funds	<u>1,692,522</u>	<u>3,561,057</u>
<b>Total revenues</b>	<u>12,175,045</u>	<u>11,328,512</u>
Total expenditures – Major Funds	10,602,641	7,787,375
Total expenditures – Nonmajor Funds	<u>2,277,653</u>	<u>5,498,466</u>
<b>Total expenditures</b>	<u>12,880,294</u>	<u>13,285,841</u>
Other financing sources (uses) Major	505,000	
Other financing sources (uses) Nonmajor	-	200,000
Revenues Over (under) Expenses – Major	(120,118)	(19,920)
Revenues Over (under) Expenses – Nonmajor	<u>(585,131)</u>	<u>(1,737,409)</u>
<b>Fund Balance at beginning of year</b>	<u>5,241,601</u>	<u>5,188,714</u>
<b>Fund Balance at end of year</b>	<u>\$ 5,041,352</u>	<u>\$ 3,431,385</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)**  
**YEAR ENDED JUNE 30, 2012**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2012, amounts to \$35,297,006 with an accumulated depreciation of \$9,430,372 (including depreciation charges for the year totaled \$772,853), leaving a net book value of \$22,846,634. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, machinery and equipment and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

**Debt Administration**

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law also requires that, in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity". Act No. 64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's basic tax revenues.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)**  
**YEAR ENDED JUNE 30, 2012**

**Debt Administration (Continue)**

Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

**Financial Contact**

The Municipality's financial statements are designed to present users (**citizens, taxpayers, customers, investors and creditors**) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 2<sup>nd</sup>. floor of the **Las Marias City Hall, Las Marias, Puerto Rico.**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**STATEMENT OF NET ASSETS**  
**As Of JUNE 30, 2012**

<b>ASSETS</b>	<b>GOVERNMENTAL ACTIVITIES</b>
Cash and cash equivalents	\$ 3,194,172
Cash with fiscal agent	1,342,966
Accounts receivable:	
Other agencies	449,631
Property tax	19,444
Sale tax	95,367
Municipal tax	
Deferred costs	43,541
Capital assets, net	<u>22,846,635</u>
<b>Total Assets</b>	<u><b>27,991,756</b></u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities:</b>	
Accounts payable and accrued expenses	445,881
Accrued interest	70,935
Deferred revenue	384,672
Due to other agencies	496,276
Long-term debt:	
Due within one year	1,110,030
Due in more than one year	<u>11,095,605</u>
<b>Total liabilities</b>	<u><b>13,603,339</b></u>
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt	17,453,801
Restricted for:	
Debt service	750,683
Capital project and others	2,019,956
Unrestricted	<u>(5,836,083)</u>
<b>Total Net Assets</b>	<u><b>\$14,388,357</b></u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<u><b>FUNCTIONS AND PROGRAMS</b></u>	<u><b>EXPENSES</b></u>	<b>PROGRAM REVENUE</b>		
		<u><b>OPERATING GRANTS AND CONTRIBUTIONS</b></u>	<u><b>CAPITAL GRANTS AND CONTRIBUTIONS</b></u>	<u><b>NET (EXPENSE)/ REVENUE</b></u>
Governmental activities:				
General administration	\$ (5,276,706)	\$ 695,507		\$ (4,581,199)
Public safety	(683,043)			(683,043)
Education, culture and recreational	(640,281)	21,245		(619,036)
Public works	(4,006,078)		\$1,413,802	(2,592,276)
Health and welfare	(1,013,319)	570,238		(443,081)
Housing and urban development	(910,228)		860,265	(49,953)
Interest	<u>(218,659)</u>	<u>                    </u>	<u>                    </u>	<u>(218,659)</u>
Total governmental activities	<u>(12,748,314)</u>	<u>1,286,990</u>	<u>2,274,067</u>	<u>(9,187,257)</u>
General revenue:				
Taxes:				
Property taxes				679,196
Municipal tax				172,658
Sale tax				943,931
Construction excise tax				271,202
Grants and entitlements				5,482,576
Rent				16,010
Other				<u>242,992</u>
Total general revenues				<u>7,808,565</u>
Changes in net assets				(1,378,692)
Net assets at beginning				<u>15,767,049</u>
Net assets at end				<u>\$14,388,357</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**As Of JUNE 30, 2012**

	<b>GENERAL FUND</b>	<b>DEBT SERVICE</b>	<b>OTHER GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b>ASSETS:</b>				
<b>Cash:</b>				
Cash in bank	\$1,179,441		\$2,014,731	\$3,194,172
Cash with fiscal agent	3,965	\$1,004,290	334,711	1,342,966
<b>Receivables:</b>				
Property taxes	15,873	3,571		19,444
Due for others governmental agencies	204,550		245,081	449,631
Municipal license tax				
Sale tax	50,289	45,078		95,367
Due from other funds	<u>304,068</u>	<u>          </u>	<u>110,000</u>	<u>414,068</u>
<b>Total assets</b>	<b><u>\$1,758,186</u></b>	<b><u>\$1,052,939</u></b>	<b><u>\$2,704,523</u></b>	<b><u>\$5,515,648</u></b>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 346,855		\$ 99,026	\$ 445,881
Deferred revenues	144,309		281,473	425,782
Bond and interest payable		\$ 302,256		302,256
Due to other fund	110,000		304,068	414,068
Due to other agencies	<u>496,276</u>	<u>          </u>	<u>          </u>	<u>496,276</u>
<b>Total liabilities</b>	<b><u>1,097,440</u></b>	<b><u>302,256</u></b>	<b><u>684,567</u></b>	<b><u>2,084,263</u></b>
<b>Fund balances:</b>				
Restricted for:				
Debt service		750,683		750,683
Capital project			863,111	863,111
Other purpose			1,156,845	1,156,845
Unassigned	<u>660,746</u>	<u>          </u>	<u>          </u>	<u>660,746</u>
<b>Total fund balances</b>	<b><u>660,746</u></b>	<b><u>750,683</u></b>	<b><u>2,019,956</u></b>	<b><u>3,431,385</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$1,758,186</u></b>	<b><u>\$1,052,939</u></b>	<b><u>\$2,704,523</u></b>	<b><u>\$5,515,648</u></b>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**As Of JUNE 30, 2012**

**Fund balances in governmental funds** \$ 3,431,385

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 22,846,635

Deferred cost used in governmental activities are not financial resources and therefore are not reported in funds. 43,541

Amount recorded as deferred income in governmental funds and as income in governmental activities. 41,110

Long-term liabilities and accrual expenses are not due and payable in the current period and therefore are not reported in the governmental funds:

Bonds and notes payable (7,740,000)

Compensated absences (1,268,321)

Accrued interest (9,679)

Amount due to CRIM (44,521)

Amount due Governmental Development Bank (2,911,793)

***Net assets of governmental activities*** **\$14,388,357**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUNDS</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>Revenues:</b>				
Taxes:				
Property taxes	\$ 566,839	\$ 112,357		\$ 679,196
Municipal taxes	172,658			172,658
Sale tax	492,435	451,496		943,931
Excise taxes	271,202			271,202
Intergovernmental	5,482,576		\$ 3,561,057	9,043,633
Rental income	16,010			16,010
Licenses and permits	3,401			3,401
Interest		135		135
Other	198,346			198,346
<b>Total Revenues</b>	<u>7,203,467</u>	<u>563,988</u>	<u>3,561,057</u>	<u>11,328,512</u>
<b>Expenditures:</b>				
General administration	4,020,989		911,718	4,932,707
Public safety	555,745			555,745
Education and recreational	218,504		258,867	477,371
Public works and sanitation	1,854,607		2,897,710	4,752,317
Health and welfare	478,131		526,509	1,004,640
Urban development			903,672	903,672
Debt service:				
Principal		394,000		394,000
Interest		265,399		265,399
<b>Total expenditures</b>	<u>7,127,976</u>	<u>659,399</u>	<u>5,498,466</u>	<u>13,285,841</u>
<b>Excess (deficiency) of revenue over expenditures</b>	<u>75,491</u>	<u>95,411</u>	<u>(1,937,409)</u>	<u>(1,957,329)</u>
<b>Other financing sources (uses):</b>				
Operating transfer in	600,135	234,572		834,707
Operating transfer out	(234,572)	(600,135)		(834,707)
Proceed from loan			200,000	200,000
<b>Total other financing sources</b>	<u>365,563</u>	<u>(365,563)</u>	<u>200,000</u>	<u>200,000</u>
<b>Excess of revenues and other financing source over (under) expenditures and other financing sources</b>	<u>441,054</u>	<u>(460,974)</u>	<u>(1,737,409)</u>	<u>(1,757,329)</u>
<b>Fund balance at beginning of year, as previous by reported</b>	1,079,692	1,064,295	2,897,365	5,041,352
<b>Restatement</b>	(860,000)	147,362	860,000	147,362
<b>Fund balance beginning of year as restated</b>	<u>219,692</u>	<u>1,211,657</u>	<u>3,757,365</u>	<u>5,188,714</u>
<b>Fund balance at end of year</b>	<u>\$ 660,746</u>	<u>\$ 750,683</u>	<u>\$ 2,019,956</u>	<u>\$ 3,431,385</u>

OK by  
07/02/2013

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

**Net change in fund balances – total governmental funds** \$(1,757,329)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 1,199,524

Governmental funds report proceed from general long-term debt as other financial sources whereas the proceed increase the long-term debt in the statements of net assets. (200,000)

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

Amount due to Governmental development Bank	106,740
Bond and notes	394,000
Amount due to CRIM	5,500

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

Accrued interest	46,740
Compensating absences	(585,917)
Other	151,273
Deferred revenue	41,110
Chance in deferred charges	(7,480)

Depreciation expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (772,853)

***Changes in Net Assets of Governmental Activities*** **\$(1,378,692)**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. ORGANIZATION**

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting entity**

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

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

**Government wide and fund financial statements**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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

Government-wide statements

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

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

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

Fund financial statements

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

The Municipality reports the following major governmental funds:

A) General Fund

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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

B) Debit service fund

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

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

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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

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

Proprietary fund financial statements include a statement of net assets, a statement of revenues, expenses and changes in fund nets, and statements of cash flows for the proprietary fund which include a low income housing project know as Espiritu Santo Project.

The Municipality has elected to not apply all statements and interpretation issued by FASB after November 30, 1989.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are include on the statement of net assets. The statement of revenues, expenses and change in fund net assets present increases (revenues) and decrease (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operating of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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

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

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

Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of Treasury but not in the Municipality's name. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2012.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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

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

**Interfund receivables and payables**

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

**Capital assets**

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

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

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

Infrastructure	50 years
Building	40 years
Improvement to land	25 years
Vehicles	7 years
Machinery and equipment	10 years
Computer and printer	3 years
Furniture	15 years

**Subsequent events:**

Managements has evaluated subsequent events through December 24, 2012, the date that the financial statements were available to be issued.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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

**Risk financing**

The Municipality carries insurance to cover 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. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2012 amounted to approximately \$171,770. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$156,913 for workers compensation insurance covering all municipal employees.

**Compensated absences**

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed.

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 or more of service who are entitled to sick leave pay up to the maximum allowed.

Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Assets.

**Fund Balance**

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

Pursuant to the provisions of GASB 54, the fund balances amounts are reported as nonspendable restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

- ❖ **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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

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

**Use of estimates**

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

**3. PROPERTY TAX**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**3. PROPERTY TAX (CONTINUED)**

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated value as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, where by 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 CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June 30.

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

The annual rate for fiscal year 2012 is 8.78% for real property and 6.78% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. . The Commonwealth contributes an annual tax rate of 0.2% of the property tax collected and the remaining rate is imposed to the taxpayer.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**3. PROPERTY TAX (CONTINUED)**

On January 26, 2000, Public Law, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the central government to the municipalities was assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. As of June 30, 2012, the amount due to CRIM amounting to \$177,454 is presented as other long-term debt (see Note 9).

**4. VOLUME OF BUSINESS TAX**

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2012, \$147,153 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying financial statements.

**5. SALE AND USE TAX**

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

Pursuant to the provisions of the Law Number 80 of July, 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, for all the municipalities in Puerto Rico, of which 1% will be collected by the municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. A portion of those funds will be deposited in the Puerto Rico Governmental Development Bank, as a redemption fund, for financing capital projects to the municipalities.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**6. GRANTS AND ENTITLEMENTS REVENUE**

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

**7. DEFERRED REVENUE**

Deferred revenue consists of the followings:

Municipal license tax collected in the fiscal year corresponding to the following fiscal year	\$ 103,200
Portion of grants received for which qualifying expenditures have not been incurred.	281,473
Other receivable not available in current fiscal year	<u>41,110</u>
Property tax deferred for governmental fund financial statement and recurred as income in the governmental wide financial statements.	<u>\$ 425,783</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**8. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Balance June 30, 2012</u>
Cost basis of capital asset, not subject to depreciation and amortization:				
Infrastructure land	\$ 5,416,663			\$ 5,416,663
Construction in progress	<u>8,618,150</u>	<u>\$908,209</u>	<u>                    </u>	<u>9,526,359</u>
Total cost basis of capital assets, not subject to depreciation and amortization	<u>14,034,813</u>	<u>908,209</u>	<u>                    </u>	<u>14,943,020</u>
Cost basis of capital assets, subject to depreciation and amortization:				
Buildings, structures and building improvements	3,215,510			3,215,510
Infrastructure	6,686,104			6,686,104
Land improvements	3,947,699	278,393		4,226,092
Licensed vehicles	2,100,888			2,100,888
Machinery and equipment	<u>1,112,469</u>	<u>12,923</u>	<u>                    </u>	<u>1,125,392</u>
Total cost basis of capital assets subject to depreciation and amortization	<u>17,062,670</u>	<u>291,316</u>	<u>                    </u>	<u>17,353,986</u>
Less accumulated depreciation for:				
Buildings, structures and building improvements	(704,519)	(160,774)		(865,293)
Infrastructure	(3,878,676)	(320,274)		(4,198,950)
Land improvements	(2,037,220)	(60,259)		(2,097,479)
Licensed vehicles	(1,103,282)	(163,151)		(1,266,433)
Machinery and equipment	<u>(953,822)</u>	<u>(68,395)</u>	<u>                    </u>	<u>(1,022,217)</u>
Total accumulated depreciation and amortization	<u>(8,677,519)</u>	<u>(772,853)</u>	<u>                    </u>	<u>(9,450,372)</u>
Total depreciable capital assets, net	<u>8,385,151</u>	<u>(481,537)</u>		<u>7,903,614</u>
Governmental activities capital assets, net	<u>\$22,419,964</u>	<u>\$ 426,671</u>	<u>\$                    </u>	<u>\$22,846,634</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**8. CAPITAL ASSETS (CONTINUED)**

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

<u>Governmental activities</u>	<u>Amount</u>
General government	\$ 14,125
Public Safety	127,298
Public housing and welfare	162,910
Health and sanitation	453,285
Culture, recreation and education	8,679
Urban and economic development	<u>6,556</u>
<b>Total depreciation expenses</b>	<b><u>\$772,853</u></b>

**9. LONG-TERM DEBTS**

The Municipality's Legislatures is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service.

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2012 was as follows:

The general long-term debt activity for the year ended June 30, 2012, was as follows:

<u>Description</u>	<u>Balance at June 30, 2011</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 8,268,000	\$200,000	\$487,000	\$ 7,981,000	\$ 270,000
Notes payable to the Governmental Development Bank	3,018,533		106,740	2,911,793	37,804
Compensated absences	682,404	585,917		1,268,321	800,000
Due to CRIM	46,747		2,226	44,521	2,226
Due To CRIM	<u>3,274</u>		<u>3,274</u>		
<b>Total</b>	<b><u>\$12,018,958</u></b>	<b><u>\$785,917</u></b>	<b><u>\$599,240</u></b>	<b><u>\$12,205,635</u></b>	<b><u>\$1,110,030</u></b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**9. LONG-TERM DEBTS (CONTINUED)**

**A. GENERAL OBLIGATIONS BONDS AND NOTES**

The Municipality issues general and special (public improvements) obligations bonds and notes to provide for the acquisition and construction of mayor capital facilities and equipment, as well as, to cover certain operating needs. Long-term debt at June 30, 2012 is composed of the following debts Notes payable with:

	<u>Outstanding Amount</u>
1992 serial bonds face amount of \$290,000 due in annual principal installments ranging from \$18,000 to \$22,000; plus interest due in annual installments at 5.625% through January 1, 2017	\$ 100,000
1997 serial bonds face amount of \$40,000 due in annual principal installments ranging from \$2,000 to \$3,000; plus interest due in annual installments at 4.50% through January 1, 2022	26,000
1999 serial bonds face amount of \$330,000 due in annual principal installments ranging from \$15,000 to \$35,000; plus interest due in semiannual installments at variable rates (2.70% to 7.81%) through July 1, 2020	205,000
2006 serial bonds face amount of \$155,000 due in annual principal installments ranging from \$4,000 to \$10,000; plus interest due in semiannual installments at 4.25% through January 1, 2033	139,000
2009 serial bonds face amount of \$60,000 due in annual principal installments ranging from \$5,000 to \$10,000; plus interest due in annual installments at variable rate (4.75% to 7.50%) through July 1, 2018	50,000
2012 serial municipal bonds face amount of \$200,000 due in annual installments ranging from \$5,000 to \$12,000 plus interest 3.70% through January 1, 2036.	195,000
2006 serial bonds face amount of \$120,000 due in two annual principal installments of \$20,000; plus interest due in semiannual installments at variable rate (6.62% to 7.00) through July 1, 2013	40,000
2007 serial bonds face amount of \$105,000 due in annual principal installments ranging from \$15,000 to \$20,000; plus interest due in semiannual installments at variable rate (3.93% to 7.25%) through July 1, 2014	50,000
1999 serial bonds face amount of \$805,000 due in annual principal installments ranging from \$30,000 to \$65,000; plus interest due in semiannual installments at 5.00% through July 1, 2024	555,000

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**9. LONG-TERM DEBTS (CONTINUED)**

**A. GENERAL OBLIGATIONS BONDS AND NOTES (CONTINUED)**

2001 serial bonds face amount of \$455,000 due in annual principal installments ranging from \$15,000 to \$45,000; plus interest due in semiannual installments at 8.00% through July 1, 2025	340,000
2002 serial bonds face amount of \$790,000 due in annual principal installments ranging from \$25,000 to \$60,000; plus interest due in semiannual installments at 6.00% through July 1, 2028	625,000
2004 serial bonds face amount of \$188,000 due in annual principal installments ranging from \$21,000 to \$27,000; plus interest due in semiannual installments at variable rates (5.00% to 6.00%) through July 1, 2019	168,000
2007 serial bonds face amount of \$855,000 due in annual principal installments ranging from \$35,000 to \$70,000; plus interest due in semiannual installments at 5.00% through July 1, 2024	610,000
2008 serial bonds face amount of \$554,000 due in annual principal installments ranging from \$95,000 to \$109,000; plus interest due in annual installments at variable rate (3.93% to 7.25%) through July 1, 2014	305,000
2008 serial bonds face amount of \$705,000 due in annual principal installments ranging from \$15,000 to \$65,000; plus interest due in semiannual installments at variable rate (3.93% to 7.00%) through July 1, 2032	680,000
2008 serial bonds face amount of \$855,000 due in annual principal installments ranging from \$15,000 to \$70,000; plus interest due in annual installments at variable rate (3.93% to 7.00%) through July 1, 2032	810,000
2008 serial bonds face amount of \$2,614,000 due in annual principal installments ranging from \$49,000 to \$231,000; plus interest due in annual installments at variable rate (3.93% to 7.00%) through July 1, 2032	2,488,000
2008 serial bonds face amount of \$101,000 due in annual principal installments ranging from \$2,000 to \$8,000; plus interest due in annual installments at variable rate (2.43% to 7.50%) through July 1, 2033	95,000
2009 serial bonds face amount of \$605,000 due in annual principal installments ranging from \$10,000 to \$45,000 plus and interest at variable rate (6.00% to 7.50%) through July 1, 2035	<u>500,000</u>
<b>Total General Obligations – Bonds</b>	<b><u>\$7,981,000</u></b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**9. LONG-TERM DEBTS (CONTINUED)**

**A. GENERAL OBLIGATIONS**

The annual debt service requirements of maturity for bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal payment</u>	<u>Interest payment</u>	<u>Total</u>
2013	\$ 270,000	\$ 220,410	\$ 490,410
2014	416,000	478,086	894,086
2015	427,000	434,730	861,730
2016	325,000	438,565	763,565
2017	353,000	426,503	779,503
2018-2022	1,850,000	1,779,536	3,629,536
2023-2027	1,942,000	1,132,568	3,074,568
2028-2032	1,806,000	521,180	2,327,180
2033-2036	<u>592,000</u>	<u>43,270</u>	<u>635,270</u>
<b>Total</b>	<b><u>\$7,981,000</u></b>	<b><u>\$5,474,848</u></b>	<b><u>\$13,455,848</u></b>

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

This amount represents the balance owed to CRIM and is payable in monthly installments of \$2,226 plus interest at 6.22%. The advances from CRIM and PR Treasury Department mature as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregate Obligation</u>
2013	\$ 2,226	\$ 2,908	\$ 5,134
2014	2,226	2,769	4,995
2015	2,226	2,631	4,857
2016	2,226	2,492	4,718
2017	2,226	2,354	4,580
2018-2022	11,131	9,262	20,393
2023-2027	11,131	6,230	17,361
2028-2033	<u>11,130</u>	<u>2,769</u>	<u>13,899</u>
	<b><u>\$44,522</u></b>	<b><u>\$31,415</u></b>	<b><u>\$75,937</u></b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**9. LONG-TERM DEBTS (CONTINUED)**

**C. OPERATING LOAN**

2002 operating loan payable in quarterly installments of \$127,887 including interest at 6.175% through July 1, 2032.

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregate Obligation</u>
2013	\$ 37,804	\$ 90,083	\$ 127,887
2014	79,152	176,622	255,774
2015	84,125	171,649	255,774
2016	89,411	166,363	255,774
2017	95,029	160,745	255,774
2018-2022	572,575	706,298	1,278,873
2023-2027	776,525	502,348	1,278,873
2028-2033	<u>1,177,172</u>	<u>229,588</u>	<u>1,406,760</u>
	<u>\$2,911,793</u>	<u>\$2,203,696</u>	<u>\$5,115,489</u>

**D. COMPENSATED ABSENCES**

The government-wide statement of net assets includes \$1,160,077 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**10. RETIREMENT SYSTEM:**

**Defined Benefit Pension Plan**

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Municipality hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**10. RETIREMENT SYSTEM (CONTINUED)**

**Defined Benefit Pension Plan (Continued)**

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten years of service to receive non-occupational disability benefits.

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

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary.

**Defined Contribution Plan**

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among others, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan and are rehired on or after January 1, 2000 become members of a Program as a condition to their employment received a refund of their contributions. In addition, employees who at December 31, 1999 were participants of the defined pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

The Municipality is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**10. RETIREMENT SYSTEM (CONTINUED)**

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump-sum to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Total employees and employer contributions to the above mentioned plans during the year ended June 30, 2012 amounted to approximately \$176,529 and \$200,642, respectively. This amount represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2012, a copy of which can be obtained from the Retirement System.

**11. CONTINGENCIES**

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

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

**12. CORRECTION OF ERROR**

The fund balance as presented on prior year has been restated for correction of errors as follows:

	<u>General Funds</u>	<u>Other Funds</u>
To reclassify fund incorrectly record in the general fund	<u>\$ (860,000)</u>	<u>\$860,000</u>
Overstatements of liabilities	<u>\$ _____</u>	<u>\$147,362</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF BUDGETARY COMPARISON  
FOR THE YEAR ENDED JUNE 30, 2012**

**GENERAL FUND**

	<u>ORIGINAL BUDGET</u>	<u>AMMENDED BUDGET</u>	<u>ACTUAL</u>	<b>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</b>
<b>Revenues:</b>				
Taxes:				
Property taxes	\$ 452,132	\$ 452,132	\$ 452,132	\$
Municipal tax	130,000	130,000	158,415	28,415
Construction excise tax	875,605	875,605	271,202	(604,403)
Interest	1,875	1,875	6,944	5,069
Rent	11,100	11,100	16,010	4,910
Grants and entitlements	5,061,998	5,061,998	5,061,998	-
Other	<u>556,750</u>	<u>556,750</u>	<u>180,455</u>	<u>(376,295)</u>
Total revenues	<u>7,089,460</u>	<u>7,089,460</u>	<u>6,147,156</u>	<u>(942,304)</u>
<b>Expenditures:</b>				
General administration	3,463,785	3,662,869	3,617,899	(44,970)
Public safety	741,828	556,262	555,445	(817)
Education, culture and recreational	213,986	219,665	218,504	(1,161)
Public works and sanitation	2,184,980	2,185,898	2,169,464	(16,434)
Health and welfare	<u>484,881</u>	<u>464,766</u>	<u>478,381</u>	<u>13,615</u>
Total expenditures	<u>7,089,460</u>	<u>7,089,460</u>	<u>7,039,693</u>	<u>49,767</u>
<b>Excess of expenditures over revenues</b>	<u>\$</u>	<u>\$</u>	<u>\$ (892,537)</u>	<u>\$ (892,537)</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO SCHEDULE OF BUDGETARY COMPARISON**  
**JUNE 30, 2012**

**1. BUDGETS AND BUDGETARY ACCOUNTING**

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

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

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

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO SCHEDULE OF BUDGETARY COMPARISON**  
**JUNE 30, 2012**

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

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

Excess of expenditures over revenues, budgetary basis	\$ (892,537)
Adjustments to accounts payable and accrued expenses	(88,284)
Adjustments to accounts receivable	(170,560)
Sales tax not budgeted	492,435
Other revenue received in general funds	500,000
Transfer in did not budgeted	<u>600,000</u>
Excess of revenues and other financial sources under expenditures and other financial sources per generally accepted accounting principle	<u>\$ 441,054</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LAS MARÍAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012**

<u>FEDERAL GRANTOR / PASS THROUGH GRANTOR</u> <u>PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>
<b><u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>		
Direct Programs:		
Section 8 Vouchers and Portability	14.871	\$ 201,953
Indirect Program:		
Passed through PR Office of Municipal Affairs State Block Grant Program (SBGP)	14.228	<u>860,265</u>
Total HUD		<u>1,062,218</u>
<b><u>US DEPARTMENT OF AGRICULTURE</u></b>		
Direct Programs:		
Rural Development Grant	10.769	<u>61,271</u>
<b><u>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>		
Indirect Program:		
Passed through PR Family Department (ACUDEN) Child Care and Development Block Grant	93.575	13,954
Passed through the Elderly Commission Office Title III, Part B – Grants for Supportive Services and Seniors Centers	93.44	<u>56,844</u>
Total HHS		<u>70,798</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>		<b><u>\$1,194,287</u></b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LAS MARÍAS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2012**

**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Las Marías, Puerto Rico and is prepared on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

**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**

*Carlos R. Diaz Negrón*

Certified Public Accountant

MEMBER:

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

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

**To the Honorable Mayor and  
Municipal Legislative Body  
Municipality of Las Marías  
Las Marías, Puerto Rico**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Municipality of Las Marías, Puerto Rico, as of and for the year ended June 30, 2012, which collectively comprise the Municipality of Las Marías, Puerto Rico's basic financial statements and have issued our report thereon dated December 23, 2011. The report of the financial statement is qualified because of inadequate record of prior year expected assets. Exception discussed in preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Municipality of Las Marías, Puerto Rico's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality of Las Marías, Puerto Rico's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Las Marías, Puerto Rico's internal control over financial reporting.

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

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Finding 1-12. 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Las Marías, Puerto Rico's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 1-12.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 24, 2012  
Aguas Buenas, Puerto Rico

License No. 1339  
Expires December 1, 2013



CARLOS R. DIAZ NEGRON  
CONTADOR PUBLICO AUTORIZADO  
PUERTO RICO

The stamp No. **E40861** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

*Carlos R. Diaz Negrón*

Certified Public Accountant

MEMBER:

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

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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**To the Honorable Mayor and  
Municipal Legislative Body  
Municipality of Las Marías  
Las Marías, Puerto Rico**

**Compliance**

We have audited the compliance of **Municipality of Las Marías, Puerto Rico**, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. Municipality of Las Marías, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality of Las Marías, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of Las Marías, Puerto Rico's compliance based on our audit.

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

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE (CONTINUED)

In our opinion, Municipality of Las Marías complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMG Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2-12.

### Internal Control Over Compliance

Management of Municipality of Las Marías, Puerto Rico, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Las Marías, Puerto Rico's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of Las Marías, 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, of material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questions costs as item 2-12. A significant deficiency in internal control over compliance is a deficiency, of a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE (CONTINUED)**

Municipality of Las Marías, Puerto Rico's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality of Las Marías, Puerto Rico's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 24, 2012  
Aguas Buenas, Puerto Rico

License No. 1339  
Expire December 1, 2013



The stamp No. **E40862** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

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

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

**Financial Statements**

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness identified? \_\_\_yes    X no
- Significant deficiency identified that is not considered to be material weaknesses? X yes    \_\_\_no

Noncompliance material to financial statement noted? \_\_\_yes    X no

**Federal Awards**

Internal control over major programs:

- Material weakness identified? \_\_\_yes    X no
- Significant deficiency identified that are not considered to be material weakness? X yes    \_\_\_no

Type of auditor's report issued on compliance for major programs

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 X yes    \_\_\_no

Identification of major programs:

CFDA Number(s)

Name of Federal Program

14.228

Community Development Block Grants

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Audit qualified as low-risk audited? \_\_\_yes    X no

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

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding No. 1-12 - Accounting Records and Financial Statements**

**Requirement:**

Accounting Records and Financial Statements

**Category:**

Internal Control

**Condition:**

During our examination of the accounting cycle, we noted that the Municipality has not established an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles. The accounting records are maintained in the cash and budgetary basis and at the end of year; personnel of the finance department and external consultants, summarized in electronic worksheets, the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long term-debts. These worksheets are used for the preparation of the financial statements.

Also, we noted the following conditions during our evaluation of the accounting cycle:

- a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems do not provide for a self balancing set of accounts for each fund operated by the Municipality. Both systems have significant differences at June 30, 2011, principally those arising of significant amounts of checks issued manually from the General Fund bank account and the special revenue funds bank accounts.
- b. Both accounting systems, does not help management to distinguish between expenditures incurred and encumbrances, does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payable and long-term debts.
- c. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds.
- d. Bank reconciliation are not reconciled with accounting records.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF SALINAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**Finding No. 1-12 - Accounting Records and Financial Statements (Continued)**

**Criteria:**

Article 8.010(b) of State Act Number 81 — "*Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico*" of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). In addition, Article 8.010(c), states that uniform accounting system used by the Municipality must produce reliable reports and financial statements, provide complete information about the results of operations of the Municipality and include the necessary internal controls to account for all funds, capital assets and other assets.

**Cause:**

The Municipality did not establish effective internal control over the preparation of the financial statements and the transactions recorded on its accounting records.

**Recommendation:**

We recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system that provides for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

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

**SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Finding No. 2-12 – Procurement and Suspension and Debarment**

**Federal Program**

CFDA – 14.228 Community Development Block Grant

**Compliance requirement:**

Procurement and Suspension and Debarment

**Category:**

Compliance

**Condition:**

As part of our audit procedures we examined 7 disbursements to test the compliance with the Procurement and Suspension and Debarment requirement for Community Development Block Grant program. In 7 of the 7 disbursements examined amounting \$455,482.86 the Municipality did not verify that the entity is not suspended or debarred or otherwise excluded.

**Criteria:**

**Suspension and Debarment:**

2 CFR part 180 states that non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. CFR Section 180.220 of the government-wide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

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

**SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Finding No. 2-12 – Procurement and Suspension and Debarment (Continued)**

**Effect:**

The Municipality could be exposed to administrative action by the grantor.

**Questioned cost:**

None

**Recommendation:**

We recommend that the Municipality establishes an adequate internal control system to ascertain compliance with the Procurement and Suspension and Debarment requirement.