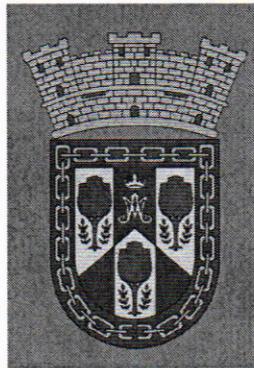
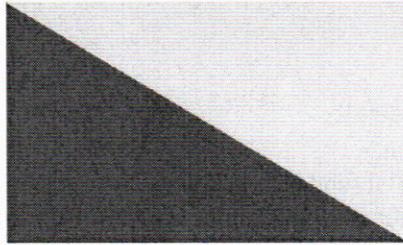


**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS MARIAS**

**FINANCIAL STATEMENTS
AND REPORTS REQUIRED UNDER CIRCULAR A-133 AUDITORS' REPORT**

YEAR ENDED JUNE 30, 2013



COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF LAS MARIAS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico, Municipality of Las Marías, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Puerto Rico, Municipality of Las Marías's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2014, on our consideration of the Commonwealth of Puerto Rico, Municipality of Las Marías's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Commonwealth of Puerto Rico, Municipality of Las Marías's internal control over financial reporting and compliance.

San Juan, Puerto Rico
March 31, 2014

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COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF LAS MARIAS

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2013

Within this section of the Municipality of Las Marias's financial statements, the Municipality provides a narrative discussion and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2013. The Municipality's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Municipality's primary government.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality of Las Marias exceeded deferred inflows and liabilities, at the close of the most recent fiscal year, by \$12,963,103 (Net position).
- The capital assets decreased by \$540,535 as compared to prior year, mainly due to additions and improvements of municipal properties.
- The Municipality's governmental funds reported total ending fund balance of \$1,882,058 this year. This amount represents a decrease of \$1,549,327 during the current year as compared to the prior year ending fund balance of \$3,431,385. The unassigned fund balance of the General Fund for fiscal year 2013 amounts to (\$158,743), which represents a decrease of \$819,489 as compared to the prior year balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements include: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the users of the financial statements with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Municipality's assets and liabilities, and their difference reported as net position. Fluctuations in net position may serve as a useful indicator on whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net position changed during the most recent fiscal year. All changes in net position are reported when the

underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities. This is intended to summarize and simplify the user's analysis of the cost of various governmental services.

The Municipality's activities are principally supported by taxes and intergovernmental revenues (governmental activities). Such governmental activities are classified as general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare.

Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Municipality are classified in the category of governmental funds.

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, government fund financial statements focus on current sources and uses of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a 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 information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

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

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule between final budgeted amounts and actual amounts for the General fund.

ANALYSIS OF GOVERNMENT WIDE FINANCIAL STATEMENTS

Net Position - The condensed statement of net position of the Municipality as of June 30, 2013 and 2012 is presented below:

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>% Change</u>
Current and other assets, net of accumulated amortization	\$ 3,784,640	\$ 5,145,121	\$(1,360,481)	
Capital assets, net of accumulated depreciation	22,306,100	22,846,635	(540,535)	
Total assets	<u>\$26,090,740</u>	<u>\$27,991,756</u>	<u>\$(1,901,016)</u>	<u>(7.29%)</u>
Long term liabilities	11,669,072	12,205,635	(536,563)	
Other liabilities	1,458,565	1,397,704	60,861	
Total liabilities	<u>\$13,127,637</u>	<u>\$ 13,603,339</u>	<u>\$ (475,702)</u>	<u>(3.62%)</u>
Net position:				
Invested in capital assets, net of related debt	15,940,559	17,453,801	(1,513,242)	
Assigned and restricted	13,121,846	2,770,639	(10,351,207)	
Unassigned	<u>(16,099,302)</u>	<u>(5,836,083)</u>	<u>(10,263,219)</u>	
Total net position	<u>\$ 12,963,103</u>	<u>\$ 14,388,357</u>	<u>\$(1,425,254)</u>	<u>(10.99%)</u>

As noted above, the Municipality total assets decreased by \$1,901,016 while the total liabilities decreased by \$475,702 mainly due by the disbursement of cash that decrease by \$812,235 and the decrease of noncurrent liabilities amount by \$536,563. As a result, the net position decreased by \$1,425,254. Net position may serve over time as a useful indicator of a government's financial position. The Municipality's net position still strong in the amount of \$12,963,103 as of June 30, 2013, as compared to the net position of \$14,388,357 of the previous fiscal year.

The largest portion of the Municipality's net position represents the investment in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service represent another portion of the net position, and these are resources subject to external restrictions for the purposes explained above.

An additional portion of the Municipality's net position is the unrestricted deficit. This is the consequence of previous budgets, which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post-closure care costs, claims and judgments and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operation.

Activities

The condensed statement of activities of the Municipality for the years ended June 30, 2013 and 2012 is presented in the following page. As noted therein, the Municipality's net position decreased by approximately \$1,425,254. Grants and contributions, including federal aid, accounted for approximately 75.63% and 79.54% of the Municipality's total revenue for fiscal years 2013 and 2012, respectively. On the other hand, in fiscal year 2013, approximately 24.11% (18.18% percent in fiscal year 2012) resulted from taxes.

The Municipality's expenses cover a range of services. The largest expenses during fiscal year 2013 were for activities related to urban and economic development \$6,742,503, general government \$3,553,373, and culture, recreation and education \$1,349,911. Total expenses on 2013 increased in comparison with fiscal year 2012 total expenses by 8.70% (1,108,942).

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>% Change</u>
Program revenues:				
Operating grants and contributions	\$ 1,960,451	\$ 1,286,990	\$ 673,461	
Capital grants and contributions	1,465,577	2,274,067	(808,490)	
General revenues:				
Property taxes	898,966	679,196	219,770	
Municipal license taxes	174,904	172,658	2,246	
Construction excise taxes	623,985	943,931	(319,946)	
Sale tax	1,295,535	271,202	1,024,333	
Grants & contributions	5,995,259	5,741,578	253,681	
Miscellaneous	17,325	-	17,325	
Total revenues:	\$ 12,432,002	\$ 11,369,622	\$ 1,062,380	9.34%
Expenses:				
General government	\$ 3,553,373	\$ 5,276,706	\$ (1,723,333)	
Urban and economic development	6,742,503	910,228	5,832,275	
Public safety	625,367	683,043	(57,676)	
Health and sanitation	241,716	1,013,319	(771,603)	
Culture, recreation and education	1,349,911	640,281	709,630	
Public housing and welfare	1,159,750	4,006,078	(2,846,328)	
Interest on long-term obligations	184,636	218,659	(34,023)	
Total expenses:	\$ 13,857,256	\$ 12,748,314	\$ 1,108,942	8.70%
Change in net assets	\$ (1,425,254)	\$ (1,378,692)	\$ (46,562)	
Net assets at beginning of fiscal year	14,388,357	15,767,049	(1,378,692)	
Net assets at end of year	\$ 12,963,103	\$ 14,388,357	\$ (1,425,254)	-9.91%

Total revenues from governmental activities increase by approximately 9.34% (\$1,062,380) as compared to prior year. This increase is mainly the result of an increase on sale tax and miscellaneous revenues.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable 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 the fiscal year.

At the end of the current fiscal year, the Municipality's governmental funds reported ending fund balances of \$1,882,058, which represents a decrease of approximately \$1.5 million in comparison with prior fiscal year balance of \$3,431,385. For the end of fiscal year 2013 the Municipality of Las Marias presents an unassigned fund balance of (\$158,743). The remainder of the fund balance assigned or restricted to indicate that it is not available for new spending because it has already been reserved to: a) capital projects \$246,010; b) debt service \$972,378 and c) other specified purposes \$822,413.

CAPITAL ASSETS

The Municipality's investment in capital assets for its governmental activities as of June 30, 2013 amounted to approximately \$15,940,559 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, vehicles, infrastructure and construction in progress.

The total decrease in the Municipality's investment in capital assets was 8.67% as compared to the last fiscal year. Actual expenditures to purchase or construct capital assets for the fiscal year ended June 30, 2013 was \$943,231 while depreciation charges amounted to \$795,820 for the fiscal year. The ending balance reported on capital assets amounted to \$32,552,292 by the end of year, with depreciation amounting to \$10,246,192.

Cost basis of capital assets and the accumulated depreciation and amortization:

	Cost Basis of Capital Assets at 06/30/2013	Accumulated Depreciation at 06/30/2013
Non-depreciable assets		
Land	\$ 5,416,663	
Construction in progress	-	
Depreciable assets		
Land improvements	13,246,207	2,266,523
Buildings, structures and improvements	3,547,191	945,681
Infrastructure	7,006,061	4,332,672
Machinery and equipment	1,174,955	1,134,756
Licensed vehicles	2,161,215	1,566,560
Total:	\$ 32,552,292	\$ 10,246,192

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which is composed of 12 members, exercises the legislative power.

As previously discussed in this report, the Municipality provides a full range of services to its community in general. The Municipality's principal sources of revenue are property taxes, municipal license taxes, contributions by the state government, and Federal Grants.

The Municipality has a moderate industrial base, which includes factories and industries, wholesalers, retail stores, financial institutions, restaurants, among others. This industrial base has maintained almost the same level during the most recent years.

The Municipality's Budget for the fiscal year 2012-2013 decreased by \$272,752 as compared to the prior fiscal year.

REQUEST FOR INFORMATION

The financial report is designed to provide our 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 this report or need any additional information, contact the Municipal Director of Finance, Attn: Luis R. Pérez Rivera, at P.O. Box, Las Marias, PR 00670 or call (787) 827-3220.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF LAS MARIAS

STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS	Governmental Activities
Account receivables, net:	
Property taxes	141,329
Sales taxes	80,684
Grants and contributions	447,053
Restricted assets:	
Cash and cash equivalents	1,524,196
Cash and cash equivalents with fiscal agent	1,591,378
Capital assets:	
Non-depreciable	5,416,663
Depreciable, net of accumulated depreciation of \$10,246,192.00	<u>16,889,437</u>
Total assets	<u>26,090,740</u>
 LIABILITIES AND NET ASSETS	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 506,477
Due to other agencies	546,303
Unearned revenues - Municipal license tax	223,368
Accrued interest	182,417
Non-current liabilities:	
Due within one year	979,331
Due after one year	<u>10,689,741</u>
Total liabilities	<u>13,127,637</u>
 NET POSITION:	
Investment in capital assets, net of related debt	15,940,559
Assigned for:	
Capital purposes	1,218,388
Restricted for:	
Debt service & other specified purposes	11,903,458
Unassigned	<u>(16,099,302)</u>
Total net position	<u>\$ 12,963,103</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF LAS MARIAS

STATEMENT OF ACTIVITIES
JUNE 30, 2013

Function / Programs	Expenses including depreciation & amortization	Charge for services	Program- specific operation grants & contribution	Program- specific grants and contribution	Net (expenses) revenue and change in net assets
Governmental activities:					
General government	\$ 3,553,373	\$ 17,325	\$ 58,091	\$ -	\$ (3,477,957)
Urban and economic development	6,742,503		1,407,506	1,341,367	(3,993,630)
Public safety	625,367		643		(624,724)
Health and sanitation	241,716				(241,716)
Culture, recreation and education	1,349,911		153,764		(1,196,147)
Public housing and welfare	1,159,750		340,447	124,210	(695,093)
Interes on long-term obligations	184,636				(184,636)
Total governmental activities:	\$ 13,857,256	\$ 17,325	\$ 1,960,451	\$ 1,465,577	\$ (10,413,903)
General revenues					
Taxes:					
Property					\$ 898,966
Municipal license					174,904
Construction					623,985
Sales					1,295,535
Total taxes:					\$ 2,993,390
Grants and contributions, not restricted to specified programs					\$ 5,962,824
Unrestricted interest on deposit					7,038
Miscellaneous					25,397
Total general revenues					\$ 8,988,649
Net change in net assets					\$ (1,425,254)
Net assets, beginning of year					14,388,357
Net assets, end of year					\$ 12,963,103

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF LAS MARIAS

BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2013

	General Fund	Debt Service Fund	Law 52	Other Governmental Funds	Total Governmental Funds
ASSETS					
Taxes:					
Property taxes	14,190	3,273	-	-	17,463
Sales taxes	40,390	40,294	-	-	80,684
Grants and contributions	95,113	-	224,399	67,635	387,147
Due from other funds	328,340	-	-	-	328,340
Restricted assets:					
Cash in commercial banks	356,246	-	455	1,167,495	1,524,196
Cash in fiscal agent	359	1,398,719	-	192,300	1,591,378
Total Assets:	834,638	1,442,286	224,854	1,427,430	3,929,208
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable and accrued liabilities	354,513	-	-	32,153	386,666
Intergovernmental payable	546,303	-	-	-	546,303
Due to other funds	-	-	224,854	103,486	328,340
Unearned revenue	92,565	-	-	223,368	315,933
Matured bonds due and payable	-	469,908	-	-	469,908
Total liabilities:	993,381	469,908	224,854	359,007	2,047,150
FUND BALANCE:					
Unassigned	(158,743)	-	-	-	(158,743)
Assigned to:					
Capital Project	-	-	-	246,010	246,010
Restricted to:					
Debt Service	-	972,378	-	-	972,378
Other Purposes	-	-	-	822,413	822,413
Total fund balances:	(158,743)	972,378	-	1,068,423	1,882,058
TOTAL:	834,638	1,442,286	224,854	1,427,430	3,929,208

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF LAS MARIAS

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION.
JUNE 30, 2013

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 1,882,058

Amounts reported for governmental activities in the statement of net assets are different because:

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 22,306,100
- Deferred (unavailable) inflows in the governmental funds that are recognized as revenues in the statements of activities 92,565
- Intergovernmental receivables related to Christmas bonus and Property Tax that are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. 183,772

The following liabilities are not due (mature) in the current fiscal year, therefore are not reported in the governmental funds:

- Accrued employees' Christmas bonus (119,811)
- Bonds payable (7,241,092)
- Accrued interest payable (182,417)
- Notes payable (2,916,281)
- Compensated absences (1,041,791)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 12,963,103

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF LAS MARIAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS JUNE 30, 2013

	General Fund	Debt Service Fund	Law 52	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property taxes	650,797	124,303	-	-	775,100
Municipal license tax	123,449	-	-	-	123,449
Construction excise tax	113,806	510,179	-	-	623,985
Sales tax	1,295,535	-	-	-	1,295,535
Charges for services	17,325	-	-	-	17,325
Grants and contributions	5,785,831	-	961,132	2,581,983	9,328,946
Interes on deposits	1,516	-	-	5,522	7,038
Miscellaneous	25,397	-	-	-	25,397
Total revenues:	8,013,656	634,482	961,132	2,587,505	12,196,775
EXPENDITURES:					
Current:					
General Government	3,212,113	-	-	81,972	3,294,085
Urban and economic development	3,318,341	-	961,132	2,061,697	6,341,170
Public safety	600,206	-	-	12,575	612,781
Health and sanitation	228,679	-	-	-	228,679
Culture, recreation and education	465,254	-	-	158,347	623,601
Public housing and welfare	509,181	-	-	587,544	1,096,725
Debt service:					
Principal	-	415,000	-	-	415,000
Interest	-	190,830	-	-	190,830
Capital outlays	311,850	-	-	631,381	943,231
Total Expenditures:	8,645,624	605,830	961,132	3,533,516	13,746,102
Excess (deficiency) of revenues over (under) expenditures:	(631,968)	28,652	-	(946,011)	(1,549,327)
Other financing sources (uses):					
Transfer-in from other funds	5,522	193,043	-	-	198,565
Transfer-out from other funds	(193,043)	-	-	(5,522)	(198,565)
Proceeds from issuance of bonds	-	-	-	-	-
Total other Financing sources (uses), net	(187,521)	193,043	-	(5,522)	-
Net change in fund balance:	(819,489)	221,695	-	(951,533)	(1,549,327)
Fund balance (deficit) at beginning of fiscal year	660,746	750,683	-	2,019,956	3,431,385
Fund balance (deficit) at end of fiscal year:	(158,743)	972,378	-	1,068,423	1,882,058

See notes to the basic financial statements

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF LAS MARIAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2013

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ (1,549,327)

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 the costs of those assets are allocated over their estimated useful lives as amortization expense. This is the amount by which depreciation and amortization exceeded capital outlays (540,535)

Repayment of principal of long term obligation is expenditure in the governmental funds but the repayment reduces long term liabilities in the statement of net assets 455,033

Certain adjustments on interest reported in the statement of activities are not considered to affect current financial resources, therefore are not presented in the governmental funds 6,194

Some revenues recorded in the statement of activities do not provide current financial resources; therefore, they are not presented in governmental funds statements. This revenue is measurable but not available at end of fiscal year.

Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the statement of governmental funds – Decrease in Christmas bonus payable, compensated absences, and intergovernmental payable 235,227

(31,846)

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ (1,425,254)

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF LAS MARIAS

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Municipality of Las Marias (“the Municipality”) was constituted on 1872 in the Commonwealth of Puerto Rico (the Commonwealth). **The Municipality** has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act no. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (the Act). **The Municipality** is one of seventy-eight municipalities legally separated from the Commonwealth’s government.

The Commonwealth’s Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, **the Municipality’s** governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of **the Municipality**. The legislative power of **the Municipality** is exercised by the Municipal Legislature, whose members are also elected every four years. The judiciary power is exercised by the General Justice Court System of the Commonwealth, which has jurisdiction over **the Municipality**.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, education, urban development, economic development, and many other fiscal, general and administrative services.

Reporting model

The accompanying basic financial statements present the financial position and the results of operations of **the Municipality** as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2013, in conformity with accounting principles generally accepted in the United States of America (“GAAP”), as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 34: *“Basic Financial Statements - and Management’s Discussion and Analysis – for State and Local Governments”*, (“GASB No. 34”). GASB No. 34, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way **the Municipality** prepares and presents financial information. The Statement was adopted as of July 1, 2003.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

According to the financial reporting model established by GASB No. 34, the required basic financial statements presentation applicable to **the Municipality** is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI). RSI consists of: (1) Management's Discussion and Analysis (MD&A) and (2) budgetary comparison schedule – general fund. RSI is information presented along with, but separate from, **the Municipality's** basic financial statements.

1. MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of **the Municipality's** financial activities for the fiscal year ended June 30, 2013, based on **the Municipality's** knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control **the Municipality's** operations.
2. Budgetary comparison schedule – general fund is a companion of the actual results (using the budgetary basis of accounting, which differs from GAAP) with the original budget and the final amended budget for the general fund. A budget to GAAP reconciliation is presented providing information of differences between the budgetary basis of accounting and GAAP.

Reporting entity

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of **the Municipality's** Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality** may be such that exclusion of their basic financial statements from those of **the Municipality** would cause **the Municipality's** basic financial statements to be misleading or incomplete.

As defined by GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, component units are entities that are legally separate organizations that should be included in **the Municipality's** reporting entity because of the significance of their operating of financial relationship with **the Municipality**. By nature and significance of the relationship between the entity and a primary government.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units in the basic financial statements of **the Municipality** for the fiscal year ended June 30, 2013.

Government-wide financial statements

The governmental-wide financial statements ("GWFS") are composed of the statement of net position and, the statement of activities. These financial statements report information of all governmental activities of **the Municipality** as a whole. These statements are aimed at presenting a broad overview of **the Municipality's** finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of **the Municipality** as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is **the Municipality's** responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on **the Municipality's** principal operating objective, which is to provide services to its citizens.

The accompanying statement of net position provides short-term and long-term information about **the Municipality's** financial position by presenting all of **the Municipality's** assets and liabilities, with the difference between these two items reported as "net position" (equity) and/or accumulated deficit. This statement assists management in assessing the level of services that can be provided by **the Municipality** in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which **the Municipality** has invested in capital assets and discloses legal and contractual restrictions on resources.

Net assets are reported in the accompanying statement of net position within the following three categories:

- Invested in capital assets, net of related debt – these consist of capital assets, net of accumulated depreciation and amortization and, reduced by the outstanding debts that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets – these represents the net assets of **the Municipality**, which are restricted by external parties (creditors, grantors, contributors or laws and regulations).
- Unassigned net assets – these consist of net assets, which do not meet the definition of the two preceding categories.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

Unassigned net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The accompanying statement of activities presents **the Municipality's** results of operations by showing, how **the Municipality's** assets and/or liabilities changed during the fiscal year ended June 30, 2013, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of **the Municipality's** functions, programs or other services either contributes to or draws from **the Municipality's** general revenues (property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education and (6) public housing and welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

- Municipal legislature
- Mayor's office
- Department of finance and budget
- Department of human resources
- Department of municipal secretary
- Department of internal audit

Urban and economic development:

- Department of public works
- Department of tourism

Public safety:

- Department of municipal police
- Department of emergency management

Health and sanitation:

- Department of health
- Department of sanitation

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Continue

Culture, recreation and education

- Department of recreation and sports

Public housing and welfare:

- Department of elderly affairs
- Department of federal programs

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories; program revenues, general revenues and special items.

Program revenues are generated directly from a program itself or may come from parties outside **the Municipality's** taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at; the net cost of the function/program that must be financed from **the Municipality's** general revenues or, the net program revenue that contributes to **the Municipality's** general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- Charges for services – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. Also, include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.
- Program-specific operating and capital grants and contributions – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular 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. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to **the Municipality**. They are reported net of estimated uncollectible amounts.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Continue

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property, municipal license and construction excise taxes are reported as general revenues. All other nontax revenues (unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by **the Municipality** are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of **the Municipality**. Even though some of these costs have been charged to certain funds in the governmental funds financial statements as indirect cost allocations permitted under some federal programs, **the Municipality** has reported these indirect costs as direct expenses of the general government function. Accordingly, **the Municipality** generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities.

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support **the Municipality's** programs or services. These governmental activities are also generally reported in the governmental funds financial statements.

The Municipality has no fiduciary activities, which are those in which it would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, **the Municipality** has no operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

Governmental fund financial statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying governmental fund financial statements ("GFFS") are composed of; the balance sheet - governmental funds, and, the statement of revenues, expenditures and changes in fund balances - governmental funds.

These financial statements report the financial position and results operations of **the Municipality's** governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on; **the Municipality's** major governmental funds, as defined below, the fiscal accountability and, the individual parts of **the Municipality's** government. Fiscal accountability represents **the Municipality's** responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by **the Municipality**. For financial reporting purposes, **the Municipality** reports its governmental funds within the following categories:

- General fund – The general fund is **the Municipality's** main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that **the Municipality's** governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund; legal requirements, GAAP requirements or, the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- Special revenue funds - The special revenue funds are non-major governmental funds, as defined below, used by **the Municipality** to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by **the Municipality** or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital project funds).

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**
Continue

The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in **the Municipality's** general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

- Debt service fund – The debt service fund is a major governmental fund, as defined below, used by **the Municipality** to account for the accumulation of resources for, and the payment of, principal and interest for; bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or, bonds payable or any general long-term debt for which **the Municipality** is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. Principal and accrued interest due on July 1 of the following fiscal year related to long-term debt for which debt service payments are accounted for in the debt service fund are recorded as debt service fund's liabilities at June 30, if resources are available at June 30 for its payment.

General long-term debts for which debt service payments do not involve the advance accumulation of resources (such as compensated absences, claims and judgments, and notes payable, among others) are accounted for the accompanying statement of net assets. The debt service payments of such debts are generally accounted for as debt service – principal and debt service - interest expenditures in the general fund.

The focus of the GFFS is on major governmental funds, which generally represent **the Municipality's** most important funds. Accordingly, **the Municipality** is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, **the Municipality's** general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is reported as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

Based on the aforementioned criteria, **the Municipality's** major governmental funds reported in the accompanying GFFS are; general fund, debt service fund, law 52 and, other governmental funds.

The accompanying GFFS are integrated by other statements and schedules required by GAAP; schedule of revenues and expenditures - budget and actual – budgetary basis – general fund, reconciliation of the balance sheet – governmental funds to the statement of net position, and, reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

Measurement focus, basis of accounting and financial statements presentation

The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include fees for licenses and permits, charges for services, and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, **the Municipality** groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Continue

In the case of derived tax revenue transactions, which result from assessments **the Municipality** places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred (that generally is when the taxpayers' net sales or revenues subject to tax take place).

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by **the Municipality** on non-governmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Meanwhile, and in accordance with GASB Statement 65, amount received in advance are recorded as deferred inflows of resources in the governmental funds balance sheet.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires **the Municipality** to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, deferred outflows of resources and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, **the Municipality** must expend resources on the specific purpose or project before the provider reimburses any amounts.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

According to GASB No. 34, all general capital assets and the long-term liabilities are recorded only in the accompanying statement of net position. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Continue

The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, **the Municipality** generally considers most revenues to be available if collected within 90 days after June 30, 2013, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred inflows of resources at June 30, 2013.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits, and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred inflows of resources.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Deferred outflows of resources and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

Interest income is recorded when earned only if collected within 90 days after year-end since these revenues are considered both measurable and available at June 30, 2012.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

As previously discussed, **the Municipality** adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASB No. 6), which modifies the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting and clarifies a number of situations in which **the Municipality** should distinguish between governmental fund liabilities and general long-term liabilities.

Pursuant to the provisions of GASB No. 6, expenditures and related liabilities are generally recorded in the accompanying GFFS in the accounting period in which the liability is incurred, as under the accrual basis of accounting, but only to the extent that they are normally expected to be liquidated with expendable financial resources.

Modifications to the accrual basis of accounting in accordance with GASB No. 6 include:

- Employees' accumulated vacation, sick leave and compensatory time (compensated absences) is recorded as expenditure when consumed. The amount of the unpaid compensated absences has been reported only in the accompanying statements of net assets.
- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1 which are recorded as governmental fund liabilities at June 30 which is the date when resources were available in the debt service fund.
- Obligations under capital leases, compensated absences, and the reserve for federal cost disallowances are recorded only when they mature (when payment is due).
- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.
- Validated purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.) since these liabilities normally are paid in a timely manner and full from current financial resources.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

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

Under the financial reporting model established by GASB No. 34, all general capital assets and unmatured long-term liabilities (determined using the modified accrual basis of accounting) are no longer reported in account groups within the governmental fund balance sheet but are incorporated into the accompanying state of net position.

Stewardship, compliance and accountability

Budgetary control

According to the Autonomous Municipalities Act of the Commonwealth of Puerto Rico, the Mayor and its Administrative Cabinet prepare each fiscal year an annual budget for **the Municipality's** general fund and debt service fund. Such legally adopted budget is based on expected expenditures by program and estimated resources by source for both funds. The annual budget is developed using elements of performance-based program budgeting and zero-based budgeting, and includes an estimate of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

The Mayor must submit an annual budgetary resolution project (the project) to the Commissioner of Municipal Affairs of Puerto Rico (the Commissioner) and the Municipal Legislature no later than each May 10 and May 15, respectively. The Commissioner preliminarily verifies that the project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before each June 13.

The Municipal Legislature has 10 business days up to no later than June 13 to discuss and approve the project with modifications. The Municipal Legislature may amend the budget submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approve the project, the modified project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections. If the project is rejected by the Mayor, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved project is sent again to the Mayor, which then would have 3 days to sign and approve it.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

If a budget is not adopted prior to the end of the deadlines referred to above, the annual budget for the preceding fiscal year, as approved by the Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve a new budget. This permits **the Municipality** to continue making payments for its operations and other purposes until the new budget is approved.

The annual budget may be updated for any estimate revisions as well as year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budget, which is subject to the approval of the Municipal Legislature

For day to day management control, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. Appropriation control is by program within a fund. The Municipal Legislature may transfer amounts among programs within and between funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The accompanying statement of revenues and expenditures - budget and actual - budgetary basis - general fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2013. Further details of **the Municipality's** budgetary control at the legal level may be obtained from the budgetary liquidation report for the fiscal year ended June 30, 2013, which is prepared by **the**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Continue

Municipality's Department of Finance and Budget. Copies of that report may be obtained by writing to **the Municipality's** Director of Finance and Budget.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP. Accordingly, the accompanying budgetary comparison schedule is accompanied by a reconciliation of the differences between the budgetary basis and GAAP actual amounts.

The Municipality does not legally adopt budgets for the state legislative joint resolutions capital fund. The financial resources received by these funds are not subject to budgeting by **the Municipality** since the resources received each year from the respective grantors varies from year to year, and the respective amounts are granted at their discretion.

Unrestricted and restricted deposits

The Municipality's deposits are composed of; demand deposits in commercial banks, demand deposits in the Government Development Bank for Puerto Rico (GDB, fiscal agent) and, Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms) a governmental entity responsible for the imposition and collection of property taxes on behalf of all municipalities of Puerto Rico.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements. Under the laws and regulations of the Commonwealth, public funds deposited by **the Municipality** in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in **the Municipality's** name.

Cash in fiscal agent in the debt service funds consists principally of property and sales tax collections amounting to \$1,398,719 which are restricted for the payment of **the Municipality's** debt service, as required by law. Cash with fiscal agent recorded in the non-major governmental funds amounting to \$192,300 which is restricted for; the acquisition, construction or improvements of major capital assets.

Restricted cash in commercial banks for other governmental funds, amounting to \$1,167,495, are restricted to finance the acquisition, construction and improvement of major capital assets.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

Unassigned and committed accounts and notes receivable

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2013. Major receivable balances for the governmental activities include municipal license taxes, property taxes and intergovernmental receivables.

Tax receivables in the general fund represent uncollected property taxes and municipal license taxes. Restricted tax receivables in the debt service fund consist of uncollected property taxes, which are restricted for the payment of **the Municipality's** debt service, as established by law.

Intergovernmental receivables are mainly composed of: amounts owed to **the Municipality** for reimbursement of expenditures incurred pursuant to state and federally funded programs (recorded in the general fund, special revenue fund and capital project funds as deferred outflows of resources).

These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

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). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the GFFS, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, **the Municipality** defines capital assets as assets with an individual cost of \$500 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Continue

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net position as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term.

The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Land improvements	25
Buildings, structures and building improvements	40
Infrastructure	50
Machinery and equipment	10
Licensed vehicles	7

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Continue

Deferred inflows of resources

The Municipality reports deferred inflows or resources on its GFFS and GWFS. In the GFFS, deferred inflows of resources arises when:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period. As previously discussed, available is defined as due (or past due) at June 30, and collected within 90 days thereafter to pay obligations due at June 30, or;
- The resources are received by the **Municipality** before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when **the Municipality** has a legal claim to the resources, the deferred inflow of resources is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when **the Municipality** receives resources before it has a legal claim to them.

Compensated absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the government-wide statement of net assets is limited to leave that; is attributable to services already rendered on or before June 30, 2013 and, is not contingent on a specific event (such as illness) that is outside the control of **the Municipality** and the employee. The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer’s share of Social Security taxes, Medicare taxes, employer contributions to the employees’ retirement systems and others).

The vacation policy of **the Municipality** provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year). Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Compensatory time is accumulated by employees at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Continue

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment with **the Municipality** before reaching 10 years of services, such regular sick leave days is not paid to the employee. Upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employees at any time.

The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the GFFS only if they have matured, for example, as a result of employee resignations and retirements.

Long-term debt

The long-term liabilities reported in the accompanying statements of net position include **the Municipality's** bonds payable, notes payable, accrued compensated absences, and legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, are recorded as governmental fund liabilities in the GFFS when resources are available in the debt service fund (June 30,).

Accounting for pension costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of **the Municipality** participate. **The Municipality** is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to **the Municipality** in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to **the Municipality**.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Continue

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

Risk management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of **the Municipality** and then is reimbursed each year through monthly equal payments deducted from **the Municipality's** gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico (see note 4).

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from **the Municipality's** gross property tax collections.

Risk management

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Continue

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by **the Municipality** on behalf of its employees. The current insurance policies have not been canceled or terminated at June 30, 2013. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, **the Municipality** has not settled claims that exceeded insurance coverage.

Reservations of fund balances

Reservations of fund balances represent portions of fund balances that are legally segregated for specific future uses or are not appropriated for expenditure. **The Municipality** has the following types of reservations of fund balances:

- Restricted – Represent amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- Assigned – Represent amounts that are intended to be used by **The Municipality** for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- Unassigned – Represents the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications.

Interfund transactions

Permanent reallocations of resources among **the Municipality’s** funds are classified as interfund transfers. **The Municipality** has the following types of reciprocal and non-reciprocal interfund activities recorded among governmental funds in the accompanying GFFS:

- Operating transfers – Represent legally required transfers that are reported when incurred as “operating transfers-in” by the recipient fund and as “operating transfer-out” by the disbursing fund.
- Intra-entity activities – Represent transfers among funds that are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
- Advances – represent amounts advanced among funds, which are not considered to be currently available financial resources.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

Use of estimates

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

Recent adoption of accounting pronouncements

The Municipality adopted the following statements during year ended June 30, 2013:

- GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structure fund balance classifications, and by clarifying the definitions of existing governmental fund types. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. This new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints.
- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial report.
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. GASB 63 also amends certain provisions of Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Continue

The Government Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. However, **The Municipality** has not currently determined what, if any, impact implementation of this statements may have on the financial statements.

Future adoption of accounting pronouncements

Statement number	Statement name	Adoption required fiscal year
65	Items Previously Reported as Assets and Liabilities	2013-14
66	Technical Corrections -2012- an Amendment of GASB Statements No. 10 and No. 62	2013-14

2. DEPOSITS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and the Government Development Bank for Puerto Rico (GDB). Proceeds from all bonds and the funds related to certain federal grant awards are required by law to be held with GDB.

On July 1, 2004, **the Municipality** adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas; credit risk, interest rate risk, custodial credit risk, foreign exchange exposure.

- Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, **the Municipality** has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, **the Municipality** is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, **the Municipality** is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, **the Municipality's** management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on **the Municipality's** deposits is considered low at June 30, 2013.
- Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. **The Municipality** manages its exposure to declines in fair values by; not including debt investments in its investments portfolio at June 30, 2013, limiting the weighted average maturity of its investments to periods of three months or less and keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2013, the interest rate risk associated with **the Municipality's** cash is considered low.
- Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, **the Municipality's** deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by

Municipalities are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by **the Municipality** are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in **the Municipality's** name by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and unsecured. However, no losses related to defaults by GDB on deposit transactions have been incurred by **the**

2. Deposits

Continue

Municipality through June 30, 2013. **The Municipality's** management has concluded that at June 30, 2013, the custodial credit risk associated with **the Municipality's** cash is considered low.

- Foreign exchange risk – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2013.

Pursuant to the statement of investment guidelines for the government of the Commonwealth of Puerto Rico, **the Municipality** may invest in obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

3. MUNICIPAL LICENSE TAXES

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Las Marias. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. **The Municipality** establishes the applicable tax rates. At June 30, 2013 the municipal license tax rates imposed by **the Municipality** were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with the tax return filed. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax due.

Municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$174,904 at June 30, 2013.

4. PROPERTY TAXES

The Municipality is authorized by law No.83 of August 30, 1991 as amended to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force was 6.68% (of which taxpayers pay 6.48% and 0.20% is reimbursed by the Department of Treasury) at June 30, 2013. Real property taxes are assessed by The Municipal Revenue Collection Center ("CRIM"). The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. The total real property tax rate in force was 8.68% (of which 8.48% is paid by taxpayers and 0.20% is also reimbursed by the Department of Treasury) at June 30, 2013.

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury assumes payment of the basic tax (4% and 6% for personal and real property, respectively) to **the Municipality**, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made.

CRIM is responsible for the billing and collections of real and personal property taxes on behalf of **the Municipality**. Prior to the beginning of each fiscal year, CRIM informs **the Municipality** of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, CRIM advances funds to **the Municipality** based on the initial estimated collections. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than December 31. If CRIM remits to **the Municipality** property tax advances, which are less than the tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Law No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied by the Commonwealth but is collected by CRIM. Collections of this special tax are remitted to the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth.

4. **PROPERTY TAXES**
Continue

In addition, 1.25% of the total personal and real property taxes collected by CRIM is restricted for **the Municipality's** debt service requirements and is retained by GDB for such purposes.

The Additional Lottery System of the Commonwealth ("Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35% corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

Total property tax receivable, net of an allowance for uncollectible accounts of \$3,048,379 amounted to \$17,463 at June 30, 2013. The composition of property taxes receivable and the related deferred inflows or resources at June 30, 2013 is as follows:

	General fund	Debt service fund	Total
Gross property taxes receivable	\$ 2,293,129	\$ 954,148	\$ 3,247,277
Less allowance for uncollectible Accounts	2,151,800	896,568	3,048,379
Net property tax receivable	<u>\$ 141,329</u>	<u>\$ 57,580</u>	<u>\$ 198,909</u>
Deferred (earned but unavailable) property tax revenues in GFFS	<u>\$ 14,190</u>	<u>\$ 3,273</u>	<u>\$ 17,463</u>

5. MUNICIPAL SALES AND USE TAX

On October 25, 2006, the Municipal Legislature of Las Marias approved the Ordinance no. 19, series 2005-06 based on State Public Law No. 117 of July 4, 2006 establishing a local sales and use tax of 1.5%, over the sales of goods and services made within the Municipalities boundaries. The Ordinance, was effective ten days after public notice, and under this Ordinance, every business doing retail sales is required to register in **the Municipality** to obtain a Retailer's Registration Certificate. The retailers are required to file monthly sales tax returns by the 20th day following the month in which the tax was collected.

On July 29, 2007, the State Public Law No. 80 establishes that the municipalities may collect only 1.0% of its sales and use tax and the Puerto Rico Treasury Department (PRTD) the other 0.5%. Resources collected would be use for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs by **the Municipality**.

6. INTERFUND BALANCES

On July 1, 2001, the **Municipality** adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures*, issued by the Governmental Accounting Standards Board. This statement requires the disclosure of the flow of resources between funds and to assess the collectibility of interfund balances. Interfund balances at June 30, 2013 consisted of the following:

	Transfers from			Total governmental funds
	Major funds		Other governmental funds	
	General fund	Debt service fund		
Transfers to:				
Major funds:				
<i>General fund</i>			5,522.00	5,522.00
<i>Debt service fund</i>	193,043.00			193,043.00
Nonmajor funds:				-
<i>Other governmental funds</i>				-
Total:	\$ 193,043.00	-	5,522.00	\$ 198,565.00

	Due from			Total governmental funds
	Major funds		Other governmental funds	
	General fund	Debt service fund		
Due to:				
Major funds:				
<i>General fund</i>				
<i>Law 52</i>	224,854.00			224,854.00
Nonmajor funds:				-
<i>Other governmental funds</i>	103,486.00			103,486.00
Total:	\$ 328,340.00	-	-	\$ 328,340.00

At June 30, 2013, all amounts due to among funds are considered collectible by the **Municipality's** management.

7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Reclassification</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:					
Land	\$ 5,416,663	\$ -	\$ -	\$ -	\$ 5,416,663
Construction in progress	9,526,359	-	(687,947)	(8,838,412)	-
Total capital assets, not being depreciated	14,943,022	-	(687,947)	(8,838,412)	5,416,663
Capital assets, being depreciated:					
Land improvements	4,226,092	181,703	-	8,838,412	13,246,207
Building, structure, improvements	3,215,510	331,681	-	-	3,547,191
Infrastructure	6,686,104	319,957	-	-	7,006,061
Machinery and equipment	1,125,392	49,563	-	-	1,174,955
Licenses vehicle	2,100,888	60,327	-	-	2,161,215
Total capital assets, being depreciated	17,353,986	943,231	-	8,838,412	27,135,629
Total cost basis of capital assets:	32,297,008	943,231	(687,947)	-	32,552,292
<u>Accumulated Depreciation and Amortization</u>					
Land improvements	2,097,479	169,044	-	-	2,266,523
Building, structure, improvements	865,293	80,388	-	-	945,681
Infrastructure	4,198,950	133,722	-	-	4,332,672
Machinery and equipment	1,022,217	112,539	-	-	1,134,756
Licenses vehicles	1,266,433	300,127	-	-	1,566,560
Total accumulated depreciation and amortization:	9,450,372	795,820	-	-	10,246,192
Capital Assets, Net	\$ 22,846,636	\$ 147,411	\$ (687,947)	\$ -	\$ 22,306,100

Depreciation and amortization expenses by function / programs:

Governmental activities:	
General government	215,158
Public safety	40,025
Urban and economic development	413,335
Health and sanitation	14,937
Public housing and welfare	71,634
Culture, recreation and education	40,731
\$	795,820

8. EMPLOYEES' RETIREMENT SYSTEMS

Plan description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular full time employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, and Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000).

8. EMPLOYEES' RETIREMENT SYSTEMS

Continue

Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining **the Municipality** on or after January 2000 will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Contribution requirements

Commonwealth legislation requires employees to contribute, under a coordination plan, 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 and under a supplementation plan, only available to Police, Firefighters and Mayors, 8.275% of gross salary. **The Municipality's** contributions are 9.275% of gross salary. Law establishes contributions' requirements. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2008 was approximately \$2.8 millions. **The Municipality** total payroll for all regular employees was approximately \$2.95 millions. For the year ended June 30, 2013, **the Municipality** contributed approximately \$170,000, which represents 100% of required contributions.

Additional information of ERS is presented in the most recent actuarial valuation report for the year ended June 30, 2007, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

9. LONG-TERM DEBT

The Municipal Legislature is legally authorized to approve the contracting of debts of **the Municipality**. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

- Direct obligations of **the Municipality** (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of **the Municipality**; and
- Direct obligations are not to be issued by **the Municipality** if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all 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 bond anticipation 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 and bond anticipation notes 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, 2013, **the Municipality** is in compliance with the debt limitation requirements. The general long-term debt activity for the year ended June 30, 2013 was as follows:

	Balance at June 30,2012	Borrowing or additions	Payments or deductions	Balance at June 30,2013	Balance due within one year
Bonds payable					
General obligation bonds	\$ 3,103,000	\$ 125,000	\$ 209,000	\$ 3,019,000	\$ 221,000
Special obligation bonds IVU	4,878,000	-	186,000	4,692,000	195,000
	<u>7,981,000</u>	<u>125,000</u>	<u>395,000</u>	<u>7,711,000</u>	<u>416,000</u>
Notes payable:					
CRIM:					
Law 42	2,911,793	90,084	127,887	2,873,990	79,152
Law 146	44,521	557.00	2,783.00	42,295	2,226
Compensated absences	1,268,321	-	226,530	1,041,791	481,953
Total:	<u>\$ 12,205,635</u>	<u>\$ 215,641</u>	<u>\$ 752,200</u>	<u>\$ 11,669,076</u>	<u>979,331</u>

9. LONG-TERM DEBT

Continue

Bonds payable

The Municipality issues general obligation, special (public improvement) obligations bonds, and notes to provide for the acquisition, construction of major capital facilities and equipment, as well as, to over certain operating needs. Bonds payable at June 30, 2012 is composed of the following debts:

General obligation bonds

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	82,000
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	24,000
1999 serial bonds face amount of \$330,000 due in annual principal installments ranging from \$15,000 to \$35,000; plus interest due in annual installments at variable rates (2.70% to 7.81%) through July 1, 2020	190,000
2006 serial bonds face amount of \$155,000 due in annual principal installments ranging from \$4,000 to \$10,000; plus interest due in annual installments at 4.25% through January 1, 2033	135,000
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 rates (4.75% to 7.50%) through July 1, 2018	45,000
2012 serial bonds face amount of \$200,000 due in annual principal installments ranging from \$5,000 to \$12,000; plus interest due in annual installments at 3.70% through January 1, 2036	190,000
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 rates (6.62% to 7.00%) through July 1, 2013	20,000
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 rates (3.93% to 7.25%) through July 1, 2014	35,000
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

9. LONG-TERM DEBT

Continue

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 5.00% 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 \$303,000 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
	<u>\$ 3,019,000</u>

Special obligation bonds/IVU

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	210,000
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	665,000
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	795,000
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	2,439,000
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	93,000
2009 serial bonds face amount of \$505,000 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	490,000
	<u>\$ 4,692,000</u>
Total outstanding bonds payable	<u><u>\$ 7,711,000</u></u>

9. LONG-TERM DEBT

Continue

The general obligation bonds and the public improvements bonds are payable from the ad valorem property tax of 1.25% which is restricted for debt service and retained by GDB for such purposes.

The laws and regulations of the Commonwealth provide that public debt of **the Municipality** will constitute a first claim on the available revenue of **the Municipality**. Public debt includes bonds and notes payable. The good faith, credit and taxing power of **the Municipality** are irrevocably pledged for the prompt payment of the principal and interest of the bonds and notes payable.

The Municipality levies an annual additional special tax of 1.25% of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds must be set aside to redeem the bonds in minimum annual or biannual principal and interest payments. The proceeds of this special tax are recorded in the debt service fund.

Interest rates on serial bonds subject to variable rates are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program, not to exceed 8%. Under this program, GDB issues commercial paper in the U.S. taxable and tax-exempt markets, in the Eurodollar market and to corporations that have tax exemption.

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

Year ending June 30,	Principal	Interest	Total
2014	\$ 416,000	\$ 223,842	\$ 639,842
2015	427,000	449,955	876,955
2016	325,000	436,240	761,240
2017	353,000	424,228	777,228
2018	342,000	391,395	733,395
2019-2023	1,900,000	1,902,376	3,802,376
2024-2028	1,897,000	1,003,618	2,900,618
2029-2033	1,888,000	394,948	2,282,948
2034-2038	163,000	17,192	180,192
Total	\$ 7,711,000	\$ 5,243,794	\$ 12,954,794

9. LONG-TERM DEBT

Continue

Notes payable to CRIM

Law 146 – On 2001, a resolution was enacted to authorize **the Municipality** to obtain up to \$55,653, for a term not exceeding 30 years, for repayment of bonds issued for the sale of delinquent accounts. A repayment agreement that bears interest at 6.22% beginning July 1, 2007 was settled with the CRIM. The outstanding principal balance of the note payable to CRIM amounted to \$42,291, at June 30, 2013. The principal and interest maturities are as follows:

Delinquent accounts Law 146			
Year ending June 30,	Principal amortization	Discount amortization	Total
2014	\$ 2,226	\$ 1,059	\$ 3,285
2015	2,226	1,003	3,229
2016	2,226	948	3,174
2017	2,226	892	3,118
2018	2,226	836	3,062
2019-2023	11,129	3,344	14,473
2024-2028	11,129	1,951	13,080
2029-2033	8,903	557	9,460
Total	\$ 42,291	\$ 10,590	\$ 52,881

Law 42 – On 2002 the municipality obtain an operating loan to obtain \$3,469,372 that is payable in quarterly installments of \$127,887, including interest at 6.175% through July 2032. The outstanding Principal balance amounted to \$2,873,990 at June 30, 2013.

Loan Payable Law 42			
Year ending June 30,	Principal amortization	Discount amortization	Total
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	101,000	154,775	255,775
2019-2023	608,551	670,322	1,278,873
2024-2028	825,316	953,557	1,778,873
2029-2033	991,406	159,581	1,150,987
Total	\$ 2,873,990	\$ 2,613,614	\$ 5,487,604

9. LONG-TERM DEBT

Continue

Compensated absences: At June 30, 2013, the liability for compensated absences is composed as follows:

	<u>Due within one year</u>	<u>Due after one year</u>	<u>Total</u>
Accrued vacations	\$ 266,001	\$ 111,444	\$ 488,889
Accrued sick leave	188,301	448,394	636,695
Accrued compensatory time	27,651		27,651
Total compensated absences	<u>\$ 481,953</u>	<u>\$ 559,838</u>	<u>\$ 1,041,791</u>

10. COMMITMENTS AND CONTINGENCIES

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1995, as amended, persons are authorized to sue **the Municipality** only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of actions. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, **the Municipality** may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

Which respects to pending or threatened litigation, **the Municipality** do not have or anticipate unfavorable judgments as of June 30, 2013. Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significant.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF LAS MARIAS

SUPPLEMENTARY INFORMATION
STATEMENT OF BUDGET AND ACTUAL – GENERAL FUND
JUNE 30, 2013

	Budgeted amounts		Actual amounts (budgetary basis)	Variance
	Original	Final		
Revenues:				
Taxes:				
Property	\$ 444,843.00	\$ 444,843.00	\$ 652,480.00	\$ 207,637.00
Municipal license	130,875.00	130,875.00	123,449.00	(7,426.00)
Sales	-	-	-	-
Construction excise	469,729.00	469,729.00	113,806.00	(355,923.00)
Charges for services	17,600.00	17,600.00	17,325.00	(275.00)
Intergovernmental	5,702,410.00	5,702,410.00	5,766,320.00	63,910.00
Interest on deposits	1,000.00	1,000.00	7,038.00	6,038.00
Miscellaneous	50,250.00	50,250.00	1,125.00	(49,125.00)
Total revenues:	6,816,707.00	6,816,707.00	6,681,543.00	(135,164.00)
Expenditures:				
Current:				
General government	3,730,266.00	3,622,756.00	3,450,429.00	(172,327.00)
Public safety	622,619.00	572,684.00	550,206.00	(22,478.00)
Urban and economic development	1,493,471.00	1,618,061.00	693,941.00	(924,120.00)
Health and sanitation	257,592.00	244,125.00	221,550.00	(22,575.00)
Culture, recreation and education	206,115.00	223,407.00	217,343.00	(6,064.00)
Public housing and welfare	506,644.00	535,674.00	509,181.00	(26,493.00)
Total expenditures:	6,816,707.00	6,816,707.00	5,642,650.00	(1,174,057.00)
<i>Excess of revenues (expenditures)</i>				
<i>over expenditures (revenues):</i>	-	-	1,038,893.00	1,038,893.00
Other financing sources (uses):				
Transfers in from other funds			5,522.00	
Transfers out from other funds			(193,043.00)	
Total other financing sources (uses)	-	-	(187,521.00)	-
Excess of revenues and other financing sources over expenditures and other financing uses:	\$ -	\$ -	\$ 851,372.00	\$ 1,038,893.00
Explanation of differences:				
Sources / inflows of resources:				
Actual amounts (budgetary basis) from budgetary comparison schedule				\$ 6,687,065.00
Differences - budget basis to GAAP:				
Net increase (decrease) in receivables				22,589.00
Resources considered revenues for financial reporting but not for budgetary purposes				1,341,609.00
Resources considered revenues for budgetary but not for financial reporting purposes				(37,607.00)
Total revenues reported on statement of revenues, expenditures and changes in fund balance				\$ 8,013,656.00
Uses / outflows of financial resources:				
Actual amounts (budgetary basis) from budgetary comparison schedule				\$ 5,835,693.00
Net increase (decrease) in payables				(52,315.00)
Resources considered expenditures for GAAP but not expenses for budgetary				2,868,611.00
Resources considered expenditures for budgetary but not expenses for GAAP				(6,365.00)
Total expenditures reported on statement of revenues, expenditures and changes in fund balance				\$ 8,645,624.00

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS MARIAS
SCHEDULE OF EXPENDITURES OF FEDERAL
JUNE 30, 2013**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Direct programs:		
Rural Development Grant	10.769	\$ 33,213
Subtotal U.S. Department of Agriculture		<u>33,213</u>
<u>U.S. Department of Housing and Urban Development</u>		
Direct programs:		
Section 8 Housing Choice Vouchers Program	14.871	203,415
Passed-through programs from:		
<u>Office of Commissioner of Municipal Affairs:</u>		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	961,534
Subtotal U.S. Department of Housing and Urban Development		<u>1,164,949</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through programs from:		
<u>Elderly Commission Office:</u>		
Special Programs for the Aging_Tittle III Part B_ Grants for Supportive Services and Senior Centers	93.044	117,997
<u>P.R. Department of Family - ACUDEN</u>		
Child Care and Development Block Grant	93.575	69,012
Subtotal U.S. Department of Health and Human Services:		<u>187,009</u>
Total federal awards expenditures:		<u>\$ 1,385,171</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS MARÍAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the modified accrual basis of accounting for the year ended June 30, 2013. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Commonwealth of Puerto Rico, Municipality of Las Marías, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Commonwealth of Puerto Rico, Municipality of Las Marías basic financial statements, and have issued our report thereon dated March 31, 2014.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated March 24, 2014.

Purpose of this Report

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

San Juan, Puerto Rico
March 31, 2014

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Gonzalez Torres
GONZALEZ TORRES, CO., CPA, PSC
License #96
Expires December 1, 2014



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

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

Report on Compliance for Each Major Federal Program

We have audited Commonwealth of Puerto Rico, Municipality of Las Marias's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Commonwealth of Puerto Rico, Municipality of Las Marias's major federal programs for the year ended June 30, 2013. Commonwealth of Puerto Rico, Municipality of Las Marias's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Commonwealth of Puerto Rico, Municipality of Las Marias's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Commonwealth of Puerto Rico, Municipality of Las Marias's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Commonwealth of Puerto Rico, Municipality of Las Marías's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

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

San Juan, Puerto Rico
March 31, 2014

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COMMONWEALTH OF PUERTO RICO
MUNICIPALTY OF LAS MARIAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013

Section I. Summary of Auditors' Results:

Part I Financial Statements

1. Type of audit report:
 Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
2. Reportable conditions reported
 Yes No
3. Reportable condition reported as a major weakness and/or significant deficiency:
 Yes No
4. Material noncompliance disclosed:
 Yes No

Part II Federal Awards

1. Type of report: on compliance for major programs:
 Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
2. Reportable condition reported as a major weakness and/or significant deficiency:
 Yes No
3. Material noncompliance disclosed:
 Yes No

COMMONWEALTH OF PUERTO RICO
MUNICIPALTY OF LAS MARIAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2013

Section I. Summary of Auditors' Results (continued):

Part II Federal Awards (continued):

4. Audit findings required to be reported under Section 510 (a) of Circular A-133:

Yes No

5. Major Programs:

CFDA Number (s) Federal Program Grantor / Program Name

14.228 US Department of Housing and Urban Development: Community
Development Block Grants/State Grants

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

7. Low-risk auditee

Yes No

8. Waive risk criteria under 520 (i) of Circular A -133

Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALTY OF LAS MARIAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2013**

Section II. Financial Statements Findings

None.

Section III. Federal Awards Findings and Questioned Costs

None.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALTY OF LAS MARIAS**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013**

The following schedule contains the finding number, CFDA Number, and title of each of the findings included in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2011. Under the heading Corrective Action Taken there will be the following:

FR – Fully Resolved (indicating the corrective action plan was fully implemented)

PR – Partially Resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2012-2013)

NR – Not Resolved Yet. (Finding repeated in fiscal year 2012-2013)

Original Finding Number	CFDA No.	Finding / Noncompliance	Action
12-01	N/A	Accounting Records and Financial Statements	FR
12-02	14.228	Procurement Suspension and Debarment	FR

