

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

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DIV. SERVICIOS GENERALES  
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**BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS AND  
INFORMATION REQUIRED BY THE SINGLE AUDIT ACT**

*FOR THE FISCAL YEAR ENDED JUNE 30, 2013*

**HON. JORGE L. MARQUEZ PEREZ  
MAYOR**

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**Oficina del Comisionado de Asuntos Municipales**  
**Registro de Señalamientos de Auditorías Externas**  
**OMB-133**

Municipio: \_\_\_\_\_

Municipio	Fecha de Radicación del Single Audit al Clearinghouse	Fecha de Entrega del Informe a la OCAM	Fecha Revisión de informe por parte de OCAM	Tiene Señalamientos (SI/NO)	Fecha de Envío de carta solicitando PAC	Fecha en que se espera completar el PAC	Fecha de Cierre del Señalamiento	Fecha de Cierre de la Auditoría
MAUNABO	15/MARZO/14	4/ABRIL/14	16-Sep-14	SI			16-Sep-14	16-Sep-14

ESTADO LIBRE ASOCIADO DE PUERTO RICO



AREA DE ASESORAMIENTO, REGLAMENTACION E  
INTERVENCION FISCAL

REGISTRO DE LLAMADAS

Fecha: 2-Julio-2014 HORA: \_\_\_\_\_

Llamada: Realizada  Recibida

Municipio: Maunabo

Funcionario Municipal y Puesto: \_\_\_\_\_

Teléfono: 787-861-0060

Empleado: Mayline Martinez Morales

ASUNTO:  
Señalamientos Single Audit

ACCION TOMADA:  
\_\_\_\_\_  
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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS  
AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT

FISCAL YEAR ENDED JUNE 30, 2013

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS  
AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT

FISCAL YEAR ENDED JUNE 30, 2013

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**PEDRO C. ORTIZ LEDEE**  
CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of **Maunabo**, Puerto Rico (Municipality), as of and for the fiscal 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**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 risk 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions included in the "Qualified Opinion" paragraph. Because of the matters described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Municipality's governmental activities.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### **Basis for Disclaimer of Opinion on Governmental Activities**

The Municipality did not have a complete, updated and accurate accounting records of the capital assets in order to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying statement of net position for \$24,721,791, net of accumulated depreciation of \$10,858,528. Also, during the fiscal year the Municipality did not recorded certain capital assets additions and did not reclassify the construction in progress in the accounting records. In addition, because of the inadequacy of the accounting records, I was unable to form an opinion regarding the capital assets reported in the accompanying statement of net position.

The Municipality did not comply with the requirements established by Statement No. 16, *Accounting for Compensated Absences*, issued by the Governmental Accounting Standards Board. In addition, the Municipality did not have complete, accurate and updated records of the compensated absences at June 30, 2013. Furthermore, the liability for compensated absences, recorded in the accompanying statement of net assets for \$1,584,041, does not include the accumulated compensatory time of all employees of the Municipality. In addition, because of the inadequacy of the accounting records, I was unable to form an opinion regarding the compensated absences liability reported in the accompanying statement of net position.

### **Disclaimer of Opinion**

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities of the Municipality as of June 30, 2013, or the changes in financial position, thereof for the year then ended. Accordingly, I do not express an opinion on these financial statements.

### **Basis for Qualified Opinion on Government Funds**

The Municipality did not maintain adequate accounting records of the interfund cash transactions and the corresponding due from and due to account balances. I was unable to obtain sufficient evidence to support and satisfy myself about the amounts recorded in the interfund balances in the amount of \$1,805,994, recorded in each major fund and the aggregate remaining fund in the balance sheet of the governmental funds.

### **Qualified Opinion**

In my opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion on Government Funds" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principles**

As discussed in Note 1 (V) to the financial statements, during the fiscal year the Municipality adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. My opinion is not modified with respect to this matter.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Other Matters

#### Required Supplementary Information

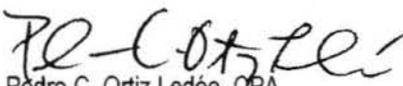
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 54 through 55 be presented to supplement the basic financial statements. Such information, although not a part 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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

My audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. 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 financial statements. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities", it is inappropriate to and I do not express an opinion on the supplementary information referred to above.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 15, 2014, on my consideration of the Municipality's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Municipality's internal control over financial reporting and compliance.

  
Pedro C. Ortiz Ledée, CPA  
License Number 5200

Guayama, Puerto Rico  
March 15, 2014



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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The management of **Municipality of Maunabo**, Puerto Rico (**Municipality**) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2013. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

This MD&A is prepared in order to comply with the reporting model required by Governmental Accounting Standards Board Statement No. 34 and, among other purposes, to provide the financial statements users with the following major information:

- ❖ a broader basis in focusing important issues;
- ❖ acknowledgement of an overview of the Municipality's financial activities;
- ❖ provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
- ❖ identification of uses of funds in the financing of the Municipality's variety of activities and;
- ❖ assess management's ability to handle budgetary functions.

**FINANCIAL HIGHLIGHTS**

The following are key financial highlights for the fiscal year:

- ❖ The assets of the Municipality exceeded its liabilities at June 30, 2013 by \$7,412,129, and at June 30, 2012 by \$11,158,249;
- ❖ The Municipality's total net position decrease by \$3,746,120 during fiscal year 2012-2013;
- ❖ As of June 30, 2013, the Municipality's governmental funds reported combined ending fund deficits of \$1,098,092, an increase of \$35,386 from the prior year;
- ❖ At June 30, 2013, the unrestricted deficit was \$10,603,340;
- ❖ Loans principal payments were \$557,000 and \$265,000 in 2013 and 2012, respectively.

**USING THIS ANNUAL REPORT**

This annual report consists of three components: 1) Management Discussion and Analysis (this section), 2) Basic Financial Statements, and 3) Required Supplementary Information.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are composed of: (1) the statement of net positions and (2) the statement of activities. These financial statements can be found immediately following this MD&A. The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)**

The purpose of the statement of net positions is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

The difference between the Municipality's total assets and total liabilities reported in the statement of net positions is presented as net positions, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net positions, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

The statement of activities presents information showing how the Municipality's net positions changed during the fiscal year ended June 30, 2013, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although the statement of activities looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as net change in net positions, which is essentially the same concept.

The focus of the statement of activities is on the net cost of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include; mayor and municipal legislature, general government, public safety, public works, culture and recreation, health and sanitation, human services and welfare, urban development, education and interests. Property taxes, volume of business taxes, sales taxes, and state and federal grants finance most of these activities.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**FUND FINANCIAL STATEMENTS**

The Municipality's fund financial statements consist of: (1) the balance sheet and (2) the statement of revenues, expenditures and changes in fund balances. These financial statements report the financial position and the results of operations of the Municipality's governmental funds, with an emphasis on the Municipality's major governmental funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

**GOVERNMENTAL FUNDS**

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government'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, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**NOTES TO THE BASIC 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.

**OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**GOVERNMENTAL NET POSITION**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The net position of the Municipality decreased by \$3,746,120 during the current fiscal year. The Municipality's net position include investments in Capital Assets for \$24,721,791, net of related debt, and over \$3,435,678 restricted for future expenses. The Municipality's net position at the end of the fiscal year ended on June 30, 2013 was \$7,412,129, as detailed on **Table 1**.

<b>Table 1</b>			
<b>Statement of Net Position</b>	<b>2013</b>	<b>2012</b>	
Current and non-current assets	\$ 4,307,020	\$ 3,567,900	
Capital assets	<u>24,721,791</u>	<u>25,701,271</u>	
<b>Total Assets</b>	<b><u>29,028,811</u></b>	<b><u>29,269,171</u></b>	
Current liabilities	4,384,039	3,423,921	
Long-term liabilities	<u>17,232,643</u>	<u>14,687,001</u>	
<b>Total Liabilities</b>	<b><u>21,616,682</u></b>	<b><u>18,110,922</u></b>	
<b>Deferred Inflows of Resources</b>	<u>-</u>	<u>-</u>	
Net position:			
Investment in capital assets, net of related debt	14,579,791	16,447,271	
Restricted	3,435,678	3,052,983	
Unrestricted deficit	<u>(10,603,340)</u>	<u>(8,342,005)</u>	
<b>Total Net Position</b>	<b><u>\$ 7,412,129</u></b>	<b><u>\$ 11,158,249</u></b>	

The largest portion of the Municipality's net positions reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Municipality's net positions represents resources that are subject to external restrictions on how they may be used.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**GOVERNMENTAL ACTIVITIES**

Governmental activities decreased the Municipality's net positions. Key elements of this decrease are as follows: the Municipality's governmental activities had net expenses of \$12,521,706. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues did not exceed net expenses by \$3,746,120.

The following schedule (as detailed on **Table 2**) presents the revenues and expenses for the current fiscal year:

<b>Table 2</b>			
<b>Statement of Activities (in thousands)</b>	<b>2013</b>	<b>2012</b>	
Revenues			
Operating grants and contributions	\$ 2,873,092	\$ 1,960,875	
Capital grants and contributions	2,080,396	2,191,828	
General revenues:			
Property taxes	1,070,987	1,158,698	
Volume of business taxes	129,975	157,768	
Sales taxes	940,091	662,321	
Licenses and permits	172,456	282,451	
Intergovernmental	6,254,021	6,011,454	
Charges for services	605,583	733,091	
Other General revenues	208,056	227,145	
Total revenues	<u>14,334,657</u>	<u>13,385,631</u>	
Expenses			
Mayor and Municipal Legislature	293,320	284,879	
General Government	3,785,385	3,309,305	
Public safety	586,390	576,821	
Public works	3,886,251	3,243,325	
Health and sanitation	2,393,206	2,435,782	
Culture and recreation	611,713	1,305,917	
Human services and welfare	2,212,377	1,529,317	
Urban development	2,929,788	1,200,075	
Education	837,282	143,152	
Interest on long-term debts	545,065	276,661	
Total expenses	<u>18,080,777</u>	<u>14,305,234</u>	
Changes in net position	(3,746,120)	(919,603)	
Net position – beginning	<u>11,158,249</u>	<u>12,077,852</u>	
<b>Net position – ending</b>	<b><u>\$ 7,412,129</u></b>	<b><u>\$ 11,158,249</u></b>	

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

The Municipality uses fund accounting to ensure and demonstrate compliance with related legal and contractual requirements.

<b>Table 3</b>			
<b>Balance Sheet (in thousands)</b>	<b>2013</b>	<b>2012</b>	
<b>Assets:</b>			
Total assets – Major Funds	\$ 2,930,332	\$ 2,790,373	
Total assets – Other Funds	2,195,532	1,607,872	
Combined total assets	<u>5,125,864</u>	<u>4,398,245</u>	
<b>Liabilities:</b>			
Total liabilities – Major Funds	4,688,911	4,527,721	
Total liabilities – Other Funds	1,501,122	887,237	
Combined total liabilities	<u>6,190,033</u>	<u>5,414,958</u>	
<b>Deferred Inflows of Resources:</b>			
Total Inflows – Major Funds	33,923	116,765	
<b>Fund Balances (As Restated):</b>			
Restricted	2,347,660	1,987,831	
Committed	100,868	132,298	
Unassigned	(3,546,620)	(3,253,607)	
Combined total fund balances	<u>(1,098,092)</u>	<u>(1,133,478)</u>	
<b>Total liabilities and fund balances</b>	<b>\$ 5,125,864</b>	<b>\$ 4,398,245</b>	

<b>Table 4</b>			
<b>Changes in Fund Balances (in thousands)</b>	<b>2013</b>	<b>2012</b>	
<b>Revenues:</b>			
Total revenues – Major Funds	\$ 10,557,564	\$ 11,038,734	
Total revenues – Other Funds	3,859,935	2,247,607	
Combined total revenues	<u>14,417,499</u>	<u>13,286,341</u>	
<b>Expenditures:</b>			
Total expenditures – Major Funds	11,933,335	12,782,577	
Total expenditures – Other Funds	5,768,778	2,171,001	
Combined total expenditures	<u>17,702,113</u>	<u>14,953,578</u>	
<b>Other financing sources (uses):</b>			
Proceed from issuance of bonds	3,320,000	860,000	
Transfer – In	2,518,809	401,232	
Transfer – Out	(2,518,809)	(401,232)	
Combined other financing sources (uses), net	<u>3,320,000</u>	<u>860,000</u>	
Net changes in fund balance	35,386	(807,237)	
Fund Balance – beginning, as restated	(1,133,478)	(326,241)	
<b>Fund Balance – ending</b>	<b>\$ (1,098,092)</b>	<b>\$ (1,133,478)</b>	

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**GOVERNMENT FUNDS**

The Municipality's Governmental Funds information is useful in assessing the Municipality's financial requirements. At the end of the fiscal year any resource available for spending should be measured by the unassigned fund balance. In the current fiscal year, the Municipality's Governmental Funds reported an ending deficit of \$1,098,092.

Restricted and committed fund balance is to cover balances show as follows:

- \$598,525 are restricted to indicate that it is not available for new spending because it has already been segregated;
- \$1,749,135 are restricted to pay debt services;
- \$100,868 are committed for other governmental purpose.

The Municipality's Governmental Funds include the General Fund, which is the major operation fund of the Municipality and as of June 30, 2013, it showed an unassigned deficit of \$3,546,620. This deficit was caused by the excess of expenditures over revenues during the past years.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**INVESTMENT IN CAPITAL ASSETS**

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2013 amounted to \$24,721,791 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, and bridges. **Table 5** present the major classes of capital assets (net of accumulated depreciation):

<b>Capital Assets</b>	<b>Amount</b>
Construction in progress	\$ 12,820,950
Works of art	90,000
Land	952,313
Depreciable capital assets	<u>10,858,528</u>
<b>Total Assets</b>	<b><u>\$ 24,721,791</u></b>

**REAL ESTATE HELD FOR SALE**

On July 6, 2009, the Municipality enter into an agreement with the Commissioner of Municipal Affairs to participated in a construction of a eight apartments building, for low and very low income families, financed with funds provided by the Federal program CDBG- Neighborhood Stabilization Program. At June 30, 2013, real estate held for sale presented in the governmental wide statement of net position, related to these constructions, amounted \$987,150.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

LONG-TERM DEBT

At June 30, 2013 the Municipality had a total of \$17,232,643 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$11,265,000 comprises debt backed by the full faith and credit of the government and \$5,967,643 are other obligations.

<b>Long Term Debts</b>	<b>Amount</b>
General obligations	\$ 11,265,000
Section 108 Guaranteed Loan	2,332,000
Others	<u>3,635,643</u>
<b>Total Long Term Debts</b>	<b><u>\$ 17,232,643</u></b>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave, debt agreements, advances of property taxes and others. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

The Budgetary Comparison Schedule - General Fund shows the original adopted budget, the final revised budget, actual results, and variances between final and actual budgeted amounts for the General Fund. An original budget is presented by the Mayor and approved by the Municipality's Legislative Body in an ordinary session, but it may be revised for various reasons and circumstances, or due to unanticipated budgeted issues that arise during the normal course of the fiscal year.

**ECONOMIC FACTOR AND NEXT YEAR'S BUDGETS**

The Municipality relies primarily on Intergovernmental Revenues as well as Federal Financial Assistance to carry out the Governmental Activities. Historically, these amounts have been predictable for every fiscal year, providing the Municipality with yearly increases. Federal Financial Assistance may vary if new grants are available, but revenue is also predictable.

Local, national and international economics factors may influence the Municipality's revenues, positively or negatively. Positive economic growth is correlated with increased revenues from property taxes, volume of business tax, charges for services, as well as State and Federal Grants. In a local economy, the growth may be monitored by a variety of indicators such as employment growth, unemployment, new constructions, assessed valuation, and other revenues.

All these factors will be considered when preparing the budget for the year ending on June 30, 2013, as well as the increases in property and volume of business tax rates that will be in effect for that fiscal year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**FINAL COMMENTS**

The Municipality's executive branch approved Resolution No. 42, Series 2012-2013, authorizing the issuance of a General Obligation Note in the amount of \$410,000. This note is payable with resources collected through the Sales Tax Municipal Redemption Fund, and were disbursed by the Governmental Development Bank (GDB) during July 2013.

Also, the Municipality's executive branch approved Ordinance No. 1, Series 2013-2014, authorizing the issuance of a General Obligation Bond in the amount of \$2,410,000. This bonds are payable with resources collected through the operational resources Municipal Redemption Fund, and were disbursed by the Governmental Development Bank (GDB) during August 2013.

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's general fund.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended various Acts, Regulations and Codes. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions and other procedural changes.

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund, which authorize municipalities to pledge the funds deposited on the Municipal Administration Fund to secure the repayment of any loan, bond, promissory note or other evidence of debt, whose source of repayment are the funds deposited into the Special Fund and to meet any budgeted expenditure of the municipalities and any activity or project of the municipalities; authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in the approved Law; amend paragraph (b) of section 4020.01; amended paragraph (b) of section 4020.02, and amend paragraph (a) and repealing paragraph (e) of section 6080.14 of the law No. 1 - 2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico", for the purposes of restructuring the sales and use tax so that tax rate is six (6) percent statewide and one (1) percent at municipal level; to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico"; in order to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**CONTACTING THE MUNICIPALITY'S OFFICE OF FINANACIAL MANAGEMENT**

This report is designed to provide a general overview of the Municipality's finances and to demonstrate the accountability for the money it receives. If you have any questions about this report or need additional information, contact the Municipality's Finances Department at (787) 861-0825.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

STATEMENT OF NET POSITION  
June 30, 2013

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 41,935
Cash with Fiscal Agent	2,396,026
Receivables (net):	
Property Tax	38,511
Sales Tax	76,540
Intergovernmental	261,728
Federal Grants	496,149
Others	8,981
	<u>3,319,870</u>
Real Estate Held for Sale	<u>987,150</u>
Capital Assets:	
Land, Work of Arts, and Construction in Progress	13,863,263
Other Capital Assets, Net of Depreciation	<u>10,858,528</u>
Total Capital Assets	<u>24,721,791</u>
<b>TOTAL ASSETS</b>	<b><u>29,028,811</u></b>
<b>LIABILITIES</b>	
Bank Overdraft	165,046
Accounts Payable and Accrued Expenses	2,284,204
Bonds Payable	390,000
Accrued Interest	214,845
Due to Governmental Units	778,040
Unearned Revenues	551,904
Long-Term Liabilities:	
Due within One Year	1,213,226
Due in More than One Year	<u>16,019,417</u>
<b>TOTAL LIABILITIES</b>	<b><u>21,616,682</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>
<b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	14,579,791
Restricted for:	
Debt Service	1,749,135
Others Purposes	1,686,543
Unrestricted	<u>(10,603,340)</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 7,412,129</u></b>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature	\$ 293,320	\$ -	\$ -	\$ -	\$ (293,320)
General Government	3,785,385	-	-	-	(3,785,385)
Public Safety	586,390	-	98,696	-	(487,694)
Public Works	3,886,251	-	51,570	-	(3,834,681)
Culture and Recreation	611,713	-	-	-	(611,713)
Health and Sanitation	2,393,206	605,583	625,100	-	(1,162,523)
Human Services and Welfare	2,212,377	-	1,491,559	-	(720,818)
Urban Development	2,929,788	-	-	2,080,396	(849,392)
Education	837,282	-	606,167	-	(231,115)
Interest on Long-Term Debt	545,065	-	-	-	(545,065)
<b>Total Governmental Activities</b>	<b>\$ 18,080,777</b>	<b>\$ 605,583</b>	<b>\$ 2,873,092</b>	<b>\$ 2,080,396</b>	<b>(12,521,706)</b>
<b>General Revenues:</b>					
Taxes:					
Property, levied for General Purposes					778,050
Property, levied for Debt Services					292,937
Volume of Business					129,975
Sales, levied for Special Purposes					88,660
Sales, levied for Debt Services					851,431
Intergovernmental					6,254,021
Rent					39,037
Licences and Permits					172,456
Miscellaneous					169,019
Total General Revenues					8,775,586
<b>CHANGE IN NET POSITION</b>					<b>(3,746,120)</b>
Net Position - Beginning of Year					11,158,249
<b>NET POSITION - END OF YEAR</b>					<b>\$ 7,412,129</b>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2013

	General Fund	Debt Service Fund	CDBG Grants Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ -	\$ -	\$ 3,189	\$ 38,746	\$ 41,935
Cash with Fiscal Agent	4,983	2,280,020	-	111,023	2,396,026
Receivables:					
Property Tax	33,923	4,588	-	-	38,511
Sales Tax	7,168	69,372	-	-	76,540
Intergovernmental	-	-	-	261,728	261,728
Federal Grants	-	-	100,136	396,013	496,149
Due from Other Funds	370,438	-	50,333	1,385,223	1,805,994
Others	6,182	-	-	2,799	8,981
<b>Total Assets</b>	<b>\$ 422,694</b>	<b>\$ 2,353,980</b>	<b>\$ 153,658</b>	<b>\$ 2,195,532</b>	<b>\$ 5,125,864</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities					
Bank Overdraft	\$ 108,608	\$ -	\$ -	\$ 56,438	\$ 165,046
Accounts Payable and Accrued Liabilities	1,641,890	-	50,028	592,286	2,284,204
Bonds and Notes Payable	-	390,000	-	-	390,000
Accrued Interest	-	214,845	-	-	214,845
Due to Governmental Units	778,040	-	-	-	778,040
Due to Other Funds	1,266,376	-	78,215	461,403	1,805,994
Unearned Revenues	135,494	-	25,415	390,995	551,904
<b>Total Liabilities</b>	<b>3,930,408</b>	<b>604,845</b>	<b>153,658</b>	<b>1,501,122</b>	<b>6,190,033</b>
Deferred Inflows of Resources					
Unavailable Revenues:					
Property Taxes	33,923	-	-	-	33,923
<b>Total Deferred Inflows of Resources</b>	<b>33,923</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,923</b>
Fund Balances					
Restricted	-	1,749,135	-	598,525	2,347,660
Committed	4,983	-	-	95,885	100,868
Unassigned	(3,546,620)	-	-	-	(3,546,620)
<b>Total Fund Balances</b>	<b>(3,541,637)</b>	<b>1,749,135</b>	<b>-</b>	<b>694,410</b>	<b>(1,098,092)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 422,694</b>	<b>\$ 2,353,980</b>	<b>\$ 153,658</b>	<b>\$ 2,195,532</b>	<b>\$ 5,125,864</b>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	Debt Service Fund	CDBG Grants Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property Taxes	\$ 778,050	\$ 292,937	\$ -	\$ -	\$ 1,070,987
Sales Tax	88,660	851,431	-	-	940,091
Volume of Business Taxes	129,975	-	-	-	129,975
Federal Assistances	-	-	1,699,136	2,119,575	3,818,711
Intergovernmental	6,254,021	-	-	1,126,460	7,380,481
Charges for Services	-	-	-	605,583	605,583
Licenses and Permits	172,456	-	-	-	172,456
Rent	39,037	-	-	-	39,037
Miscellaneous	251,861	-	-	8,317	260,178
<b>Total Revenues</b>	<b>7,714,060</b>	<b>1,144,368</b>	<b>1,699,136</b>	<b>3,859,935</b>	<b>14,417,499</b>
<b>EXPENDITURES</b>					
Current:					
Mayor and Municipal Legislature	133,342	-	-	-	133,342
General Government	3,514,581	-	-	20,727	3,535,308
Public Safety	414,940	-	-	98,696	513,636
Public Works	3,463,885	-	-	-	3,463,885
Culture and Recreation	555,073	-	-	-	555,073
Health and Sanitation	621,681	-	-	1,700,813	2,322,494
Human Services and Welfare	583,585	-	23,810	1,536,184	2,143,579
Urban Development	-	-	1,377,518	1,717,931	3,095,449
Education	142,855	-	-	694,427	837,282
Debt Service:					
Principal	-	390,000	167,000	-	557,000
Interest and Other Charges	-	414,257	130,808	-	545,065
<b>Total Expenditures</b>	<b>9,429,942</b>	<b>804,257</b>	<b>1,699,136</b>	<b>5,768,778</b>	<b>17,702,113</b>
Excess (deficiency) of revenues over (under) expenditures	(1,715,882)	340,111	-	(1,908,843)	(3,284,614)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceed of Bonds	-	-	-	3,320,000	3,320,000
Transfers - In	1,922,413	-	-	596,396	2,518,809
Transfers - Out	(596,396)	-	-	(1,922,413)	(2,518,809)
<b>Total Other Financing Sources and Uses</b>	<b>1,326,017</b>	<b>-</b>	<b>-</b>	<b>1,993,983</b>	<b>3,320,000</b>
Net Change in Fund Balances	(389,865)	340,111	-	85,140	35,386
Fund Balance - Beginning as Restated	(3,151,772)	1,409,024	-	609,270	(1,133,478)
<b>Fund Balances - Ending</b>	<b>\$ (3,541,637)</b>	<b>\$ 1,749,135</b>	<b>\$ -</b>	<b>\$ 694,410</b>	<b>\$ (1,098,092)</b>

*Original  
07/29/2013*

See accompanying Notes to Basic Financial Statements.

*( 227,838 )*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**Total Fund Balances – Governmental Funds** ..... **\$ (1,098,092)**

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets .....	\$ 13,863,263	
Depreciable Capital Assets .....	12,902,846	
Infrastructure Assets .....	8,238,091	
Accumulated Depreciation .....	<u>(10,282,409)</u>	
Total Capital Assets.....		24,721,791

Real Estate Held for Sale is not a current financial resource and  
Therefore, is not reported in the funds..... 987,150

The Municipal Revenue Collection Center revenues will be collected  
Year end, but are not available soon enough to pay for the current period's  
Expenditure and therefore, are deferred in the funds ..... 33,923

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

General Bonds and Notes Payable.....	11,265,000	
Compensated Absences.....	1,584,041	
Property Tax Debt – Law 42.....	1,193,239	
Section 108 Guaranteed Loan .....	2,332,000	
State Aqueduct and Sewer Authority – debt agreement .....	75,000	
State Department of Labor- debt agreement.....	19,218	
State Retirement System Administration- debt agreement .....	289,145	
Claims & Judgments .....	<u>475,000</u>	
Total Long-Term Liabilities .....		<u>(17,232,643)</u>

**Total Net Position of Governmental Activities** ..... **\$ 7,412,129**

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO  
STATEMENT OF ACTIVITIES**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<b>Net Change in Fund Balances – Total Governmental Funds.....</b>		<b>\$ 35,386</b>
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 cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Urban Development and Capital Outlay .....	\$ -	
Depreciation Expense .....	(979,480)	
Excess of Capital Outlay over Depreciation Expense .....		(979,480)
Governmental Funds reports capital outlay of real property held for sale as expenditure. However, in the Statement of Activities, the cost of those assets is capitalized .....		
		165,661
Revenues in the Statement of Activities that not provide current financial resources are not Reported as revenues in the funds .....		
		33,923
Revenues in the Statement of Revenues that correspond to prior year resources are Recorded as revenue in the Statement of Activities .....		
		(116,765)
Repayment of debt proceeds principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. In the current year the repayments were.....		
		390,000
Bonds proceeds provide current financial resources to governmental funds, but issuing debt Increase long-term liabilities in the Statement of Net Position, in the current period, Proceed received was.....		
		(3,320,000)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in Compensated Absences .....	(25,555)	
Decrease in State Aqueduct and Sewer Authority – Debt Agreement .....	180,000	
Decrease in Property Tax Debt – Law 42.....	30,920	
Decrease in Section 108 Guaranteed Loan .....	167,000	
Decrease in State Department of Labor- Debt Agreement.....	2,562	
Decrease in Retirement System Administration – Debt Agreement .....	165,228	
Increase in Claims & Judgments .....	(475,000)	
Total Additional Expenditures .....		45,155
<b>Change in Net Position of Governmental Activities.....</b>		<b><u>\$ (3,746,120)</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTE TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of **Maunabo**, Puerto Rico (Municipality) was founded in the year 1799, and operates as a local governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 12 Legislators also elected in the general elections of Puerto Rico for a four-year period. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

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

The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

**A. Financial Reporting Model**

The accompanying basic financial statements present the financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Municipality at June 30, 2013, in conformity with *Accounting Principles Generally Accepted in the United States of America* (GAAP), as prescribed by the *Governmental Accounting Standards Board* (GASB). In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2013 in conformity with GAAP.

According to the financial reporting model established by GASB No. 34, the minimum required financial statement 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 a (1) Management Discussion and Analysis (MD&A) and a Budgetary Comparison Schedule – General Fund, this is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements.

The 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 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.

The Budgetary Comparison Schedule - General Fund is a comparison 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Financial Reporting Entity**

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality. In accordance with GASB No. 14 and GASB No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow: (1) The organization is legally separate entity; (2) The Municipality appoints a voting majority of the organization's board; (3) There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

Organizations meeting the above criteria are included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are considered to be blended component units of the Municipality: (1) The organization's governing body is substantively the same as the Municipality's governing body and (a) there is a financial benefit or burden relationship between the Municipality and the organization, or (b) management of the Municipality has operational responsibility for the organization; (2) The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it; (3) The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is bases on the nature and significance of the organization's relationship with the Municipality.

Based on the application of the criteria outlined above, the Municipality's management has concluded that there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2013.

**C. Financial Statement Presentation**

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

**Government-Wide Financial Statements (GWFS)**

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

The focus of the Statement of Net Position is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets and long-term obligations.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

The Statement of Net Position presents the reporting entities' assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Net Position are reported in three categories:

- ❖ **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ❖ **Restricted Net Position** – These results when constraints are placed on net position use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ❖ **Unrestricted Net Position** – These consists of net position which do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources that are imposed by management, but can be removed or modified.

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position 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 (such as property taxes, volume of business taxes, sales 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) mayor and municipal legislature, (2) general government, (3) public safety, (4) public works, (5) culture and recreation, (6) health and sanitation, (7) human services and welfare, (8) urban development and, (9) education. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

**Mayor and municipal legislature:**

Municipal legislature  
Mayor's office

**General government:**

Department of finance  
Department of human resources  
Department of municipal secretary  
Department of internal audit  
Administration

**Public safety:**

Department of emergency management – civil defense

**Public works:**

Department of public works

**Culture and recreation:**

Department of sports and recreation  
Department tourism and promotion

**Health and sanitation:**

Department of recycling services  
Department of health  
Municipal hospital

**Human service and welfare:**

Youth services  
Municipal service center  
Multiple services  
Public housing

**Urban development:**

Federal programs office

**Education:**

Educational services  
Child Care Program

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: (1) program revenues, (2) general revenues and, (3) special items.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

**Program revenues** – These 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: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) 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. These revenues include fees charged for specific services, rent, 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.

**General revenues** – These revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes, construction excise taxes and sales and use taxes are reported as general revenues. All other nontax revenues (including 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.

**Special items** – These items consist of revenues arising from significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Extraordinary items consist of revenues arising from significant transactions or other events that are both unusual in nature and infrequent in occurrence.

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 FFS 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**C. Financial Statement Presentation (Continued)**

The Municipality classifies the most significant portion 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 FFS.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net position for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements.

The Municipality has operations and 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; and 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.

**Governmental Fund Financial Statements (FFS)**

The accompanying FFS are composed of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds.

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, deferred outflow of resources, liabilities, deferred inflow of resources 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. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

As defined in the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), fund types are as follows:

**General Fund** – is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those 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: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

**Special Revenue Fund** – is a governmental fund used to account for and report the proceeds of specific revenue sources that are legally restricted, committed or assigned to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Financial Statement Presentation (Continued)**

**Debt Service Fund** – is a governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years.

**Capital Projects Fund** – is a governmental fund used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

The model as defined in GASBS No. 34 established criteria (percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The Municipality reports the following major funds:

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

**Debt Service Fund** – This is the fund used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

**CDBG Grant Funds** – is used to account for revenues derived from the Department of Housing and Urban Development grants, related to Community Development Block Grants. During the current fiscal year the CDBG funds included in this major fund are CDBG State, Neighborhood Stabilization Program (NSP) and Disaster Recovery.

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

**Government-Wide Financial Statements**

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Measurement Focus and Basis of Accounting (Continued)**

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.

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.

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.

In the case of imposed non-exchange revenue transactions, which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen.

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, receivables 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. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

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. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred inflow of resources.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Measurement Focus and Basis of Accounting (Continued)**

According to GASB No. 34, all general capital assets and the unmatured 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 governmental fund financial statements. Therefore, the accompanying governmental fund financial statements include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the governmental fund financial statements.

**Governmental Fund Financial Statements**

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Revenue sources not meeting this availability criterion or collected in advance are recorded as unearned revenues or deferred inflow of resources at June 30, 2013.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- ❖ Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2013, has been reported only in the government-wide financial statements.

Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities and the statement of revenues, expenses and changes in fund balances, but are not recorded in the accompanying governmental fund financial statements.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the Municipality may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as assets by the provider and a liability by the recipient.

There are essentially two types of revenue. For some grants, funds must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

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

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Balances

According to the provisions of GASB No. 54, the fund balances are reported in five categories:

- ❖ **Nonspendable** – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- ❖ **Restricted** – Amounts are restricted by external parties (creditors, grantors, contributors or law/ regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- ❖ **Committed** – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.
- ❖ **Assigned** – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.
- ❖ **Unassigned** – Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely.

However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2013.

When an expenditure is incurred for purposes for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

At June 30, 2013, the accompanying fund financial statements reported fund balances as restricted, committed and unassigned.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Budgetary Data**

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

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message;
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature;
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law;
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Budgetary Data (Continued)**

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Major and Non Major Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

**G. Cash, Cash Equivalent and Investment**

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 Deposit 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 with fiscal agent represents property and sales tax collections retained by the Municipal Revenues Collection Center and the Government Development Bank of the Commonwealth of Puerto Rico, respectively. Cash with fiscal agent, also represent undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. The sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Receivables**

Receivable are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

**I. Inventories**

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

**J. Real Estate Held for Sale**

Real estate held for sale is a construction project, which consist of nine (9) apartments that are for sale for qualified low and very low income families. This project is subsidized by the federal funds Community Development Block Grant- Neighborhood Stabilization Program. This real estate is carried at cost.

**K. Deferred Outflows/ Inflows of Resources**

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no deferred outflows of resources .In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period (s) an so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2013 the Municipality presented deferred inflows of resources in the balance sheet.

**L. Capital Assets**

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$50 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<b>Capital Assets</b>	<b>Years</b>
Buildings and site improvements	40
Infrastructure	40
Vehicles	5
Furniture and fixtures	5
Machinery and equipment	3 to 5

**COMMONWEALTH OF PUERTO RICO  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Capital Assets (Continued)**

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.

**M. Long-Term Obligations**

The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**N. Compensated Absences**

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2013.

<u>BALANCE</u> <u>JULY 1, 2012</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2013</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$ 1,558,486	\$ 25,555	\$ -	\$ 1,584,041	\$ 210,000	\$ 1,374,041

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**O. Insurance**

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. Corresponding premiums payable monthly are paid directly by the Municipality. Also, there is an additional insurance cost that is withheld by the Municipal Revenue Collection Center from the monthly advances of annual property tax and subsidy sent to the Municipality.

**P. Interfund Transactions**

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

- ❖ **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- ❖ **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ❖ **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

**Q. Claims and Judgments**

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

**R. Use of Estimates**

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

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**S. 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.

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.

**T. Risk Financing**

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated directly by the Municipality.

Insurance cost paid by the Municipality during fiscal year 2012-2013 amounted \$126,598. In addition, cost of the workers compensation insurance that covers all municipal employees and is deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2013 amounted to \$193,914.

**U. Future Adoption of Accounting Pronouncements**

The GASB has issued the following accounting standards that have effective dates after June 30, 2013:

- ❖ GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This statement is effective for periods beginning after December 15, 2012.
- ❖ GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*.
- ❖ GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement is effective for periods beginning after June 15, 2014.
- ❖ GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- ❖ GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for periods beginning after June 15, 2013.
- ❖ GASB Statement No. 71 *Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB 68*. This statement is effective for periods beginning after June 15, 2014.

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

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**V. Adoption of New Accounting Pronouncements**

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

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Municipality has implemented this Statement in fiscal year 2012-2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Municipality has implemented this Statement in fiscal year 2012-2013.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

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

Custodial credit 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 the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully secured by 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 uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013. Therefore, the Municipality's management has concluded that at June 30, 2013 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

The Municipality's bank balances in commercial banks of \$3,189 in the Community Development Block Grant Funds and the \$38,746 in Other Governmental Funds were fully collateralized at June 30, 2013.

The deposits at GDB of \$4,983 in the General Fund, the \$2,280,020 in the Debt Service Fund, and the \$111,023 in Other Governmental Funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**NOTE 3 – RECEIVABLES**

**A. Property Taxes Receivables**

Property taxes receivable of \$33,923 and \$4,588 in the General Fund and Debt Service Fund, respectively, represents advances from fiscal year 2012-2013, not collected by the Municipality at June 30, 2013.

**COMMONWEALTH OF PUERTO RICO  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 3 – RECEIVABLES (CONTINUED)**

**B. Sales Tax Receivables**

As described below in Note 15, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20<sup>th</sup> day of each month based on tax collected in the preceding month. Therefore sales tax receivable of \$7,168 and \$69,372 in Debt Service Fund and Other Governmental Funds, respectively, represents the amounts due by the taxpayers at June 30, 2013.

**C. Intergovernmental Receivables**

Receivables in the Other Governmental Funds represent expenditures incurred not yet reimbursed by the state agencies. Following is a detail of the state government receivables:

Description	Amount
State Department of Labor – Law 52	\$ 168,708
State Health Insurance Administration	47,842
Others	<u>45,178</u>
<b>Total</b>	<b><u>\$ 261,728</u></b>

**D. Federal Grants Receivable**

Federal grants receivable amounting to \$100,136 in the CDBG Grants Funds represents expenditures incurred not yet reimbursed by OCAM, the pass-through agency. Also, receivables in Other Governmental Funds represent expenditures incurred not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the federal grants receivable:

Description	Amount
Twenty-First Century Community Learning Centers	\$ 104,279
Child Care and Development Block Grant	126,340
State Administration of Public Housing	49,065
Community Service Block Grant	35,000
Homeland Security Grant	35,000
Puerto Rico Rural Development Corporation	19,000
Puerto Rico Regional Elderly Office	18,086
Emergency Solution Grant	5,845
Child and Adult Care Food Program	<u>3,398</u>
<b>Total</b>	<b><u>\$ 396,013</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 3 – RECEIVABLES (CONTINUED)**

**E. Other Receivables**

Other receivable in the General Fund, for the amount of \$6,182 represents rental income, solid waste disposal services income and other miscellaneous income due at June 30, 2013.

**F. Due From Other Funds**

Interfund receivables and payables at June 30, 2013 are summarized as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Other Governmental Funds	Payroll and reimbursable expenditures	\$ 297,123
General Fund	CDBG Funds	Payroll and reimbursable expenditures	73,315
CDBG Grant Funds	General Fund	Interfund Loans	50,333
Other Governmental Funds	General Fund	Interfund Loans	1,216,043
Other Governmental Funds	Other Governmental Funds	Interfund Loans	164,280
Other Governmental Funds	CDBG Funds	Interfund Loans	<u>4,900</u>
<b>Total</b>			<b><u>\$ 1,805,994</u></b>

**NOTE 4 – CAPITAL ASSETS AND REAL ESTATE HELD FOR SALE**

**REAL ESTATE HELD FOR SALE**

On July 6, 2009, the Municipality enter into an agreement with the Commissioner of Municipal Affairs to participated in a construction of a nine (9) apartments building, for low and very low income families, financed with funds provided by the Federal program CDBG- Neighborhood Stabilization Program. At June 30, 2013, real estate held for sale presented in the governmental wide statement of net position, related to these constructions, amounted \$987,150.

**CAPITAL ASSETS**

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$50 or more, are primarily funded through the issuance of long-term bonds and loans and state and federal assignments. A summary of capital assets and changes occurring in 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 4 – CAPITAL ASSETS AND REAL ESTATE HELD FOR SALE (CONTINUED)**

Governmental Activities	Balance July 1, 2012	Additions	Retirements / Reclassifications	Balance June 30, 2013
Capital asset, not being depreciated:				
Land	\$ 952,313	\$ -	\$ -	\$ 952,313
Work of Art	90,000	-	-	90,000
Construction in progress	<u>12,820,950</u>	<u>-</u>	<u>-</u>	<u>12,820,950</u>
<b>Total capital assets not being depreciated</b>	<u>13,863,263</u>	<u>-</u>	<u>-</u>	<u>13,863,263</u>
Capital assets, being depreciated:				
Buildings	4,585,285	-	-	4,585,285
Improvements	4,760,769	-	-	4,760,769
Infrastructure	8,238,091	-	-	8,238,091
Machinery and equipment	1,359,931	-	-	1,359,931
Motor vehicles	<u>2,196,861</u>	<u>-</u>	<u>-</u>	<u>2,196,861</u>
<b>Total capital assets being depreciated</b>	<u>21,140,937</u>	<u>-</u>	<u>-</u>	<u>21,140,937</u>
Less accumulated depreciation for:				
Buildings	(2,429,438)	(177,193)	-	(2,606,631)
Improvements	(1,761,884)	(239,133)	-	(2,001,017)
Infrastructure	(1,498,439)	(207,100)	-	(1,705,539)
Machinery and equipment	(1,447,803)	(129,688)	-	(1,577,491)
Motor vehicles	<u>(2,165,365)</u>	<u>(226,366)</u>	<u>-</u>	<u>(2,391,731)</u>
<b>Total accumulated depreciation</b>	<u>(9,302,929)</u>	<u>(979,480)</u>	<u>-</u>	<u>(10,282,409)</u>
<b>Total capital assets being depreciated, net</b>	<u>11,838,008</u>	<u>(979,480)</u>	<u>-</u>	<u>10,858,528</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 25,701,271</u>	<u>\$ (979,480)</u>	<u>\$ -</u>	<u>\$ 24,721,791</u>

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

Governmental activities	Amount
General government	\$ 128,232
Mayor and Municipal	159,978
Public Safety	72,754
Public Works	422,366
Culture and Recreation	56,640
Sanitation	70,712
Human services and welfare	<u>68,798</u>
<b>Total depreciation expenses</b>	<u>\$ 979,480</u>

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the capital assets reported in the governmental activities. In addition, the infrastructure assets recorded in the accompanying statement of net position do not include a substantial portion of the Municipality's infrastructure assets constructed or acquired by the Municipality from 1980 through June 30, 2013. GASB Statement No. 34 requires to retroactively applying the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with this requirement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 5 – BANK OVERDRAFT**

The bank overdraft of \$108,608 and \$56,438 in General Fund and Other Governmental Funds, respectively, was the result of the adjusted cash balance at June 30, 2013, of the Municipality's bank accounts.

**NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES LIABILITIES**

Accounts payable and accrued expenses liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2012-2013, and not paid by the Municipality at June 30, 2013. Following is a detail of these accounts payable and accrued liabilities:

<b>Major Governmental Funds</b>	<b>Accounts Payable</b>	<b>Accrued Liabilities</b>	<b>Total</b>
General Fund	\$ 500,728	\$ 1,141,162	\$ 1,641,890
CDBG Funds	50,028	-	50,028
Other Governmental Funds	<u>592,286</u>	<u>-</u>	<u>592,286</u>
<b>Total</b>	<b><u>\$ 1,143,042</u></b>	<b><u>\$ 1,141,162</u></b>	<b><u>\$ 2,284,204</u></b>

**NOTE 7 – BONDS AND NOTES PAYABLE**

The Municipality issued general and special obligation bonds and notes, principally to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years and to cover expenditures of special events. At June 30, 2013, the government-wide and fund financial statements presented accounts payable regarding to the outstanding balance of these bond and notes in the amount of \$390,000 and accrued interests of \$214,845.

**NOTE 8 – DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2013, balance due to other governmental units consists of the following:

<b>Governmental Agency</b>	<b>Amount</b>
Office of the Commissioner of Municipal Affairs	\$ 402,923
State Retirement System Administration – Special Laws	125,701
State Aqueduct and Sewer Authority	246,002
State Department of Labor	2,408
General Service Administration	<u>1,006</u>
<b>Total</b>	<b><u>\$ 778,040</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 9 – UNEARNED REVENUES**

- A. Volume of business tax** – unearned revenues of \$135,494 in the General Fund relates to volume of business taxes collected in fiscal year 2012-2013 that will be earned in fiscal year 2013-2014.
- B. Federal Grants** – unearned revenues presented in the CDBG Grant Funds in the amount of \$25,415 and the amounts presented in the Other Governmental Funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Unearned revenues from the federal government in the Other Governmental Funds are as follows:

Program Description	Amount
Homeland Security Department	\$ 277,909
Child and Adult Care Food Program	31,170
Homelessness Prevention and Rapid Re-housing Program	27,505
Federal Transportation Administration	8,001
Child Care and Development Block Grants	7,256
Housing Preservation Grant	2,850
Department of Justice	36,304
<b>Total</b>	<b><u>\$ 390,995</u></b>

**NOTE 10 – DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources in the General Fund were unavailable revenues related to property taxes amounting to \$33,923 that represents the final liquidation of the property taxes of the fiscal year 2012-2013. This amount was not collected by the Municipality at June 30, 2013.

**NOTE 11 – GENERAL LONG-TERM DEBTS**

Long-term liability activity for the year ended June 30, 2013, was as follows:

Description	Beginning Balance- as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$ 8,335,000	\$ 3,320,000	\$ 390,000	\$ 11,265,000	\$ 420,000
Property Tax Debt – Law 42	1,224,159	-	30,920	1,193,239	32,863
Compensated absences	1,558,486	25,555	-	1,584,041	210,000
Section 108 Guaranteed Loan	2,499,000	-	167,000	2,332,000	167,000
State Aqueduct and Sewer Authority – debt agreement	255,000	-	180,000	75,000	75,000
State Department of Labor- debt agreement	21,780	-	2,562	19,218	19,218
State Retirement System Administration- debt agreement	454,373	-	165,228	289,145	289,145
Claims & Judgments	-	475,000	-	475,000	-
<b>Total</b>	<b><u>\$ 14,347,798</u></b>	<b><u>\$ 3,820,555</u></b>	<b><u>\$ 935,710</u></b>	<b><u>\$ 17,232,643</u></b>	<b><u>\$ 1,213,226</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**A. GENERAL OBLIGATIONS BONDS AND NOTES**

The Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. Bonds and notes payables as of June 30, 2013, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$485,000, Series 2008, for purchase of equipment, payable in annual installments ranging from \$50,000 to \$85,000, excluding variable interest from 1.53% to 7.50%, through July 1, 2014	\$ 85,000
\$4,920,000, Series 2008, for construction of public recreational facilities, payable in annual installments ranging from \$70,000 to \$420,000, excluding variable interest from 1.53% to 5.00%, through July 1, 2032	4,500,000
\$1,110,000, Series 2007, for construction of public recreational facilities, payable in annual installments ranging from \$15,000 to \$95,000, excluding variable interest from 3.93% to 6.50%, through July 1, 2032	990,000
\$1,030,000, Series 2010, for construction of public recreational facilities, payable in annual installments ranging from \$15,000 to \$90,000, excluding variable interest from 4.75% to 7.50%, through July 1, 2034	960,000
\$820,000, Series 2010, for operational purposes, payable in annual installments ranging from \$20,000 to \$80,000, excluding variable interest from 6.00% to 7.00%, through July 1, 2029	735,000
\$255,000, Series 2011, for operational purposes, payable in annual installments ranging from \$30,000 to \$45,000, excluding variable interest from 6.00% to 6.50%, through July 1, 2018	195,000
\$605,000, Series 2012, for operational purposes, payable in annual installments ranging from \$10,000 to \$50,000, excluding variable interest from 6.00% to 6.50%, through July 1, 2036	585,000
\$1,965,000, Series 2012, for operational purposes, payable in annual installments ranging from \$25,000 to \$165,000, excluding variable interest from 6.00% to 7.00%, through July 1, 2037	1,940,000
\$440,000, Series 2012, for operational purposes, payable in annual installments ranging from \$50,000 to \$80,000, excluding variable interest from 6.00% to 7.00%, through July 1, 2019	390,000

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)**

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

Bonds and notes payables as of June 30, 2013, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$260,000, Series 2012, for purchase of equipment, payable in annual installments ranging from \$5,000 to \$25,000, excluding variable interest from 6.00% to 7.00%, through July 1, 2034	\$ 255,000
\$655,000, Series 2012, for construction of public recreational facilities, payable in annual installments ranging from \$25,000 to \$70,000, excluding variable interest from 6.00% to 7.00%, through July 1, 2027	<u>630,000</u>
<b>Total General Obligations – Bonds</b>	<b><u>\$ 11,265,000</u></b>

These bonds and notes are payable with the following Municipality's resources:

- ❖ Special ad valorem property tax, which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes;
- ❖ Community Development Block Grants' funds;
- ❖ Municipal sales taxes resources restricted for debt service, and;
- ❖ Operational resources.

**B. BONDS AND NOTES AMORTIZATION**

The annual requirements to amortize the general obligations outstanding as of June 30, 2013 are as follows:

Year Ending June 30,	Principal Payment	Interest Payment	Total
2014	\$ 420,000	\$ 568,661	\$ 988,661
2015	380,000	630,475	1,010,475
2016	410,000	607,625	1,017,625
2017	435,000	592,250	1,027,250
2018	470,000	569,075	1,039,075
2019-2023	2,250,000	2,442,225	4,692,225
2024-2028	3,010,000	1,703,200	4,713,200
2029-2033	3,050,000	773,350	3,823,350
2034-2038	<u>840,000</u>	<u>133,250</u>	<u>973,250</u>
<b>Total</b>	<b><u>\$ 11,265,000</u></b>	<b><u>\$ 8,020,111</u></b>	<b><u>\$ 19,285,111</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**C. PROPERTY TAX DEBT – LAW 42**

The Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032 bearing interests at 6.19%. The outstanding balance of the note payable to the CRIM at June 30, 2013 amounted to \$1,193,239.

**D. COMPENSATED ABSENCES**

The government-wide statement of net position includes \$1,584,041 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations. The Municipality did not maintain complete and adequate records over the compensated absences balances presented in the statement of net position at June 30, 2013.

**E. SECTION 108 GUARANTEED LOAN**

On September 14, 2006, the Municipality entered into a loan guarantee commitment of \$3,000,000 with the U.S. Department of Housing and Urban Development (HUD) pursuant to an application under Section 108 of the Housing and Community Development Act of 1974 (Section 108).

The proceeds of \$3,000,000 of the loan guarantee commitment were used by the Municipality to finance the construction of a public recreational facility. The proceeds and uses of the loan guarantee commitment were accounted for in the Section 108 loan guarantee, a fund in the Other Government Funds. The loan guarantee commitment is repaid with grant awards received from the Community Development Block Grants (CDBG), administered by the Puerto Rico pass-through, Office of the Commissioner of Municipal Affairs (OCAM). At June 30, 2013, the outstanding principal balance of the loan guarantee commitment amounted to \$2,332,000. Actually, the Municipality is not complying with the required annual payments of the Section 108 loan. The amounts not paid by the Municipality during the past fiscal years were paid directly by the OCAM. At June 30, 2013, the Municipality owes to OCAM the amount of \$402,923 in accumulated principal and interest payments from current and past years.

**F. STATE AQUEDUCT AND SEWER AUTHORITY- DEBT AGREEMENT**

In April 4, 2012 the Municipality entered into financing agreement with the State Aqueduct and Sewer Authority, for the payment of the Municipality's debt for water and sewer services at March 31, 2012. The balance at June 30, 2013 of this agreement was \$75,000.

**G. STATE DEPARTMENT OF LABOR- DEBT AGREEMENT**

The Municipality entered into a financing agreement with the State Department of Labor, for the payment of the Municipality's debt for unemployment benefits. The balance at June 30, 2013 of this agreement was \$19,238.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**H. STATE RETIREMENT SYSTEM ADMINISTRATION- DEBT AGREEMENT**

In February 25, 2011 the Municipality entered into financing agreements with the State Retirement System Administration, for the payment of the Municipality's debt for retirement benefits of its employees and other special laws. The balance at June 30, 2013 of the agreement related to special laws amounted to \$289,145. The other debt agreement in the amount of \$339,203 was paid during the fiscal year 2012-2013 with the issuance of a general obligation bond.

**NOTE 12 – DEBT RETIREMENT**

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

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

**NOTE 13 – PROPERTY TAXES**

The Municipality is authorized by Law No. 81 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 (assessment date) 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 at June 30, 2013 was 6.83% (of which 2.30% belong to the Commonwealth of Puerto Rico and 4.03% belongs to the Municipality).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated to 1957 market prices. The total real property tax rate in force at June 30, 2013 was 9.83% (of which 2.30% belongs to the Commonwealth of Puerto Rico and 7.53% belongs to the Municipality).

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 each December 31. If CRIM remits to the Municipality property tax advances, which are less than the property 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 13 – PROPERTY TAXES (CONTINUED)**

Law No. 81 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 and 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.

In addition, 1.50% 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 (the "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.

**NOTE 14 – VOLUME OF BUSINESS TAXES**

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes on all trade or business activities operated by any natural or legal person within the territorial area of Maunabo. This is a self-assessed tax generally based on the business volume measured by gross sales. The Municipality establishes the applicable tax rates. At June 30, 2013, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers. Any taxpayers that have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60% and 90% under standard rates.

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax return to be filed every April 15 based on the actual volume of business generated in the preceding calendar year.

Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax returns. 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.

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% discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the GFFS (See Note 9).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 15 – SALES TAXES**

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

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed overall sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on July 1, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

**NOTE 16 – INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government. Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements.

Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the State Assignment, CDBG Funds and Other Governmental Funds.

**NOTE 17 – INTERFUND TRANSFERS**

Interfund transfers during the fiscal year ended at June 30, 2013, are summarized as follows:

<b>Transfer Out</b>	<b>Transfer In</b>	<b>Purpose</b>	<b>Amount</b>
General Fund	Other Governmental Funds	To cover operating expenditures	\$ 596,396
Other Governmental Funds	General Fund	To cover operating expenditures	<u>1,922,413</u>
<b>Total</b>			<b><u>\$ 2,518,809</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 18 – EMPLOYEE'S RETIREMENT PLAN**

The Employee's Retirement System of the Government of Puerto Rico and its instrumentality (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 employees of the Commonwealth of Puerto Rico and its instrumentality and of certain municipalities and components units not covered by their own retirement systems.

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

The Municipality adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation for each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- ❖ The present value of the future pension payments was computed by using a discount of 9%.
- ❖ Future pension payments reflect an assumption of a 6% salary increase.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

<u>YEARS OF SERVICE</u>	<u>PARTICIPANT'S AGE</u>	<u>PENSION BENEFITS</u>
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2006 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the fiscal year ended on June 30, 2011, 2012 and 2013 were, approximately, \$300,300, \$256,200 and \$214,187 respectively. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2013. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**NOTE 19 – COMMITMENTS AND CONTINGENCIES**

**A. CLAIMS AND JUDGMENTS**

The Municipality is, at present, a defendant in a number of legal proceedings that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities.

At June 30, 2013, the statement of net position presents a liability for claims & judgments amounting to \$475,000, related to a plaintiff for collection of money of construction permits.

It is management's opinion, based on the advice of the legal counsel, that the other potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsels with the information currently available cannot determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

**B. FEDERAL GRANTS**

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds.

**C. CONSTRUCTION**

The Municipality had commitments at June 30, 2013 of approximately \$590,000 for the construction, improvements, or renovation of several capital facilities and the capital assets.

**D. OTHER COMMITMENTS**

At June 30, 2013 the General Fund had commitments of approximately \$215,014 for purchase orders or contracts that will be honored during the subsequent year.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 20 – FUND BALANCE (DEFICIT)**

As of June 30, 2013, the fund balance (deficit) classifications are as follows:

Fund Balance	General Fund	Debt Service Fund	Other Governmental Fund	Total
<b>Committed for:</b>				
General Government	\$ 4,983	\$ -	\$ 14,425	\$ 19,408
Urban Development	-	-	81,460	81,460
<b>Restricted for:</b>				
General Government	-	-	11,027	11,027
Public Safety	-	-	59,022	59,022
Public Works	-	-	147,757	147,757
Human Services and Welfare	-	-	14,646	14,646
Urban Development	-	-	360,063	360,063
Culture and Recreation	-	-	6,010	6,010
Debt Service	-	1,749,135	-	1,749,135
<b>Unassigned</b>	<u>(3,546,620)</u>	<u>-</u>	<u>-</u>	<u>(3,546,620)</u>
<b>Total Fund Balance</b>	<b><u>\$ (3,541,637)</u></b>	<b><u>\$ 1,749,135</u></b>	<b><u>\$ 694,410</u></b>	<b><u>\$ (1,098,092)</u></b>

**NOTE 21 – ACCOUNTING CHANGES AND RESTATEMENTS**

**A. GOVERNMENTAL FUND FINANCIAL STATEMENTS**

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Fund balance, beginning	\$ (2,923,934)	\$ 1,409,024	\$ 720,635	\$ (794,275)
Reclassification of the Sales Tax Fund to the General Fund	111,365	-	(111,365)	-
Reclassification of the State Retirement System Administration - debt agreement, paid during the fiscal year 2012-2013	<u>(339,203)</u>	<u>-</u>	<u>-</u>	<u>(339,203)</u>
<b>Fund balance, beginning as restated</b>	<b><u>\$ (3,151,772)</u></b>	<b><u>\$ 1,409,024</u></b>	<b><u>\$ 609,270</u></b>	<b><u>\$ (1,133,478)</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 22 – ACCUMULATED DEFICIT**

The Municipality has an accumulated deficit of \$3,541,637 in the General Fund. Among the actions currently taken by management to reduce the accumulated deficit are; the inclusion of an account for the amortization of the accumulated deficit in the 2013-2014 operational budget, a reduction of the transitory employees maintain in the General Fund, an operational cost reduction plan and a reduction in the operational budget for the fiscal year 2013-2014. Also, the Municipality is identifying other intergovernmental revenues available by the State agencies, which can be used by the Municipality to cover operational costs. In addition, in the months of July and October 2013, the Municipality issued one obligation note and one obligation bond in the amount of \$410,000 and \$2,410,000, respectively, with the Government Development Bank. The proceeds of the issuance of these financing resources will be used to pay outstanding debts at June 30, 2013, with various state agencies and suppliers of the Municipality. The results of these actions will be reflected in the operations of fiscal year 2013-2014.

**NOTE 23 – SUBSEQUENT EVENTS**

The Municipality's executive branch approved Resolution No. 42, Series 2012-2013, authorizing the issuance of a General Obligation Note in the amount of \$410,000. This note is payable with resources collected through the Sales Tax Municipal Redemption Fund, and were disbursed by the Governmental Development Bank (GDB) during July 2013.

Also, the Municipality's executive branch approved Ordinance No. 1, Series 2013-2014, authorizing the issuance of a General Obligation Bond in the amount of \$2,410,000. This bonds are payable with resources collected through the operational resources Municipal Redemption Fund, and were disbursed by the Governmental Development Bank (GDB) during August 2013.

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. The ERS financial situation was approached through Act 3, which became effective on July 1, 2013 ("Effective Date"). The Act establishes the following: (i) it freezes and grandfatheres the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS's defined benefit formula (those who joined the ERS prior to January 1, 2000 whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service) (the "Defined Benefit Employees"); (ii) it provides that, beginning on July 1, 2013, the retirement benefits accruing on and after the Effective Date for Defined Benefit Employees will be based on a defined contribution plan and will be paid out in the form of a lifetime annuity (upon retirement, the employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013 in the form of a lifetime annuity); (iii) it provides that defined contribution benefits accrued pursuant to System 2000 will also be paid in the form of a lifetime annuity rather than a lump sum payment; (iv) it eliminates the so called "merit pension" that provided to participants who joined the Employees Retirement System prior to April 1, 1990, after attaining 30 years of service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age 55 or greater) of the average salary earned during the highest 36 months of employment; (v) it increases the retirement age for various groups of participants; (vi) it increases the employee contribution to the ERS from 8.275% to a minimum of 10%; (vii) it eliminates or reduces various retirement benefits previously granted by special laws and the System will benefit from the savings generated; (viii) it increases the minimum pension from \$400 to \$500 per month for current retirees; and (ix) it eliminates or modifies other benefits, such as disability and survivor benefits.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 23 – SUBSEQUENT EVENTS (CONTINUED)**

All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42).

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund, which authorize municipalities to pledge the funds deposited on the Municipal Administration Fund to secure the repayment of any loan, bond, promissory note or other evidence of debt, whose source of repayment are the funds deposited into the Special Fund and to meet any budgeted expenditure of the municipalities and any activity or project of the municipalities; authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in the approved Law; amend paragraph (b) of section 4020.01; amended paragraph (b) of section 4020.02, and amend paragraph (a) and repealing paragraph (e) of section 6080.14 of the law No. 1 - 2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico", for the purposes of restructuring the sales and use tax so that tax rate is six (6) percent statewide and one (1) percent at municipal level; to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 19 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico"; in order to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

Management has evaluated subsequent events through March 15, 2014, the date the financial statements were available to be issued.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND  
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property taxes	\$ 778,050	\$ 778,050	\$ 778,050	\$ -
Volume of Business Taxes	185,000	185,000	129,975	(55,025)
Sales Tax	30,000	30,000	88,660	58,660
Intergovernmental Revenues	6,062,579	6,062,579	6,254,021	191,442
Licenses, permits and other local taxes	475,000	475,000	172,456	(302,544)
Rent of Property	83,571	83,571	39,037	(44,534)
Miscellaneous	<u>1,425,877</u>	<u>1,725,877</u>	<u>251,861</u>	<u>(1,474,016)</u>
<b>Total revenues</b>	<u>9,040,077</u>	<u>9,340,077</u>	<u>7,714,060</u>	<u>(1,626,017)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
Mayor and Municipal Legislature	146,790	145,665	144,014	1,651
General government	3,300,532	3,765,947	3,524,035	241,912
Public safety	503,186	418,911	415,532	3,379
Public works	3,064,908	3,232,608	3,463,885	(231,277)
Culture and Recreation	623,128	501,468	555,073	(53,605)
Health and Sanitation	630,019	596,609	621,681	(25,072)
Human Service and Welfare	<u>771,514</u>	<u>678,869</u>	<u>726,440</u>	<u>(47,571)</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>9,040,077</u>	<u>9,340,077</u>	<u>9,450,660</u>	<u>(110,583)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(1,736,600)</u>	<u>\$(1,736,600)</u>

**EXPLANATION OF DIFFERENCE BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENSES**

**Sources/inflows of resources:**

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 7,714,060
Differences-budget to GAAP	<u>-</u>
<b>Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances</b>	<b><u>\$ 7,714,060</u></b>

**Uses/outflows of resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 9,450,660
Differences-budget to GAAP:	
Prior year expenditures are not outflows of budgetary resources, but are expenditure for financial purposes	99,684
Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes	(215,014)
Adjustment to expenditures	<u>94,612</u>
<b>Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances</b>	<b><u>\$ 9,429,942</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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**NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY CONTROL**

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the General Fund.

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2013 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2012.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Direct Program:			
Rural Housing Preservation Grants	10.433		\$ 12,952
Natural Resources Conservation Service- Emergency Watershed Protection Program	10.927		35,561
Pass-Through State – State Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	31,609
<b>Total U.S. Department of Agriculture</b>			<b>80,122</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Pass-Through State - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State's Program	14.228	12-AB-FC 11-AB 10-AB-FC 09-AB-FC 08-NSP 1-3 08-AB-FC-DR 07-AB-FC	1,674,967
Pass-Through State – State Department of Family:			
ARRA-Homelessness Prevention and Rapid Re- Housing Program	14.257	272-1220000-04F- 2009-S08DC720001	1,964
Emergency Shelter Grants Program	14.231	ESG2011	13,212
Pass-Through State – Puerto Rico Housing Administration:			
Public and Indian Housing	14.850	2012-000058	1,135,992
<b>Total U.S. Department of Housing and Urban Development</b>			<b>2,826,135</b>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Pass-through State – State Department of Justice:			
Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-2693	98,696
<b>Total U.S. Department of Justice</b>			<b>98,696</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S. DEPARTMENT OF ENERGY:</b>			
Pass-through State – Office of the Energy Affairs: ARRA-Energy Efficiency Conservation Block Grant Program	81.128	2012-AF0037	13,007
<b>Total U.S. Department of Energy</b>			<u>13,007</u>
<b>U.S. DEPARTMENT OF EDUCATION:</b>			
Pass-through the Commonwealth of Puerto Rico - Department of Education: Twenty-First Century Community Learning Centers	84.287	2013-AF0025	162,873
<b>Total U.S. Department of Education</b>			<u>162,873</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
Pass-Through State – Office of the Governor: Disaster Grants- Public Assistance	97.036	N/AV	125,655
<b>Total U.S. Department of Homeland Security</b>			<u>125,655</u>
<b>CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICE:</b>			
Direct Program: Volunteers in Service to America AmeriCorps Vista	94.013		9,708
<b>Total Corporation for National &amp; Community Service</b>			<u>9,708</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE</b>			
Pass-Through State – Office of Governor, Regional Elderly Office: Special Program for Aging, Title III, Part B	93.045	2011-2012 / 2012-2013	64,810
Pass-Through State – Administration of Children and Families: Child Care and Development Block Grant	93.575	241-2013-000033	405,528
<b>Total U.S. Department of Health and Human Service:</b>			<u>470,338</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 3,786,534</u>

See notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 1 – GENERAL**

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 – FEDERAL CFDA NUMBER**

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

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

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

**NOTE 5 – LOAN OUTSTANDING**

The Municipality had an outstanding loan balance under program Section 108 Loan Guarantee Assistance (CFDA No. 14.248), for which the grantor does not impose continuing compliance requirements. The outstanding balance of the loan at June 30, 2013 was \$2,332,000.

**NOTE 6 – MAJOR PROGRAMS**

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

**PEDRO C. ORTIZ LEDEE**  
CERTIFIED PUBLIC ACCOUNTANT

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

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

I 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, each major fund, and the aggregate remaining fund information of Municipality of **Maunabo**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated March 15, 2014. The report on the governmental fund financial statements was qualified for the interfund balances. I did not express an opinion on the governmental activities because I was unable to obtain sufficient and competent evidential matter related to the capital assets and the liability for compensated absences.

**Internal Control Over Financial Reporting**

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not design to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

*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 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. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Findings 13-II-02, 13-II-03 and 13-II-04.

*A significant deficiency* is a deficiency, or 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. I consider the deficiencies described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 13-II-01 and 13-II-05.

**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)**

**Compliance and Other Matters**

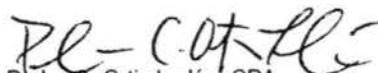
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 13-II-01, 13-II-02, 13-II-03 and 13-II-04.

**Municipality's Response to Findings**

Municipality's response to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly I express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of my 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.

  
Pedro C. Ortiz Ledée, CPA  
License Number 5200

Guayama, Puerto Rico  
March 15, 2014



**PEDRO C. ORTIZ LEDEE**  
CERTIFIED PUBLIC ACCOUNTANT

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**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  
Member of the Municipal Legislature  
Municipality of Maunabo, Puerto Rico**

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

I have audited Municipality of **Maunabo**, Puerto Rico (Municipality) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality's major federal programs for the fiscal year ended June 30, 2013. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**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**

My responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Municipality's compliance.

**Basis for Qualified Opinion on Community Development Block Grants- States**

As described in the accompanying Schedule of Findings and Questioned Costs, the Municipality, did not comply with requirements regarding CFDA 14.228 Community Development Block Grants- States as described in finding 2013-III-07 for Reporting. Compliance with such requirement is necessary in my opinion, for the Municipality, to comply with the requirements applicable to that program.

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

**Qualified Opinion on Community Development Block Grants- States**

In my opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Municipality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grants- States for the year ended June 30, 2013.

**Unmodified Opinion on Each of the Other Major Federal Programs**

In my opinion, the Municipality 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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

**Other Matters**

The results of my auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 13-III-06, 13-III-08, 13-III-09, 13-III-10 and 13-III-11. My opinion on each major federal program is not modified with respect to these matters.

Municipality's response to the noncompliance findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly I express no opinion on the response.

**Report on Internal Control over Compliance**

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

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses and significant deficiencies

*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. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 13-III-07 to be material weaknesses.

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

Report on Internal Control over Compliance (Continued)

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. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as items 13-III-06, 13-III-08, 13-III-09, 13-III-10 and 13-III-11 to be significant deficiencies.

Municipality's response to the internal control over compliance findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly I express no opinion on the response.

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

  
Pedro C. Ortiz Ledee, CPA  
License Number 5200

Guayama, Puerto Rico  
March 15, 2014



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

**Financial Statements**

Type of auditor's report issued:	<b>Disclaimer of opinion for governmental activities</b>
	<b>Qualified opinion for fund financial statements</b>
Internal control over financial reporting:	
Material weakness identified?	Yes <input checked="" type="checkbox"/> No
Significant deficiencies identified?	Yes <input checked="" type="checkbox"/> No reported
Noncompliance material to financial statements noted?	Yes <input checked="" type="checkbox"/> No

**Federal awards**

Internal Control over major programs:	
Material weakness identified?	Yes <input checked="" type="checkbox"/> No
Significant deficiencies identified?	Yes <input checked="" type="checkbox"/> No reported
Type of auditor's report issued on compliance for major programs:	<b>Qualified Opinion on Community Development Block Grants/ State's</b>
	<b>Unmodified Opinion on Public &amp; Indian Housing and Child Care Development Block Grant</b>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <input checked="" type="checkbox"/> No

**Identification of major programs**

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants/ State's Program
14.850	Public and Indian Housing
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes      No <input checked="" type="checkbox"/>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING</b>	<b>13-II-01</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS AND REPORTING SYSTEM</b>
<b>CONDITION</b>	The Municipality did not maintain an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles (GAAP).
<b>CONTEXT</b>	<p>During my examination of the accounting cycle, I noted that the Municipality's management did not have adequate internal control procedures in place over the financial statements issued by the Municipality using the basis of accounting required by GAAP. The accounting records are maintained in the cash and budgetary basis and at the end of year, external consultants summarized in electronic worksheets the revenues, expenditures, capital assets transactions, accounts receivables, accounts payable and long term-debts. These worksheets are used for the preparation of the financial statements.</p> <p>Also, I noted the following conditions during my audit:</p> <ol style="list-style-type: none"><li>a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. The computerized system is only used to maintain the budget, to record the purchase orders and the issuance of the checks of the General Fund. These accounting systems does not provide for a self-balancing set of accounts for each fund operated by the Municipality;</li><li>b. Both accounting systems does not help management to distinguish between expenditures incurred and encumbrances and does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payables and long-term debts;</li><li>c. The Municipality is not reconciling the bank reconciliations against accurate and complete accounting records;</li><li>d. The accounting personnel does not maintained a Model 4a (the manual accounting system that summarized the cash transactions of the Municipality) for the monthly cash transactions of the General Fund and the special revenue funds of the Municipality;</li><li>e. No adequate year-end closing entries procedures were made.</li></ol>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING</b>	<b>13-II-01 (CONTINUED)</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS AND REPORTING SYSTEM (CONTINUED)</b>
<b>CRITERIA</b>	Article 8.010 (b) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) states that the system used must produce reliable reports and financial statements, provide complete information about the results of operations and include the necessary internal controls to account for all funds, capital assets and other assets.
<b>CAUSE</b>	The Municipality has not established effective internal control procedures over the preparation of the financial statements and the transactions recorded on its accounting records.
<b>EFFECT</b>	The Municipality is not in compliance with Articles 8.010 (b) and (c) of the State Law Number 81 of August 30, 1991.
<b>RECOMMENDATION</b>	I recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system that provides trial balances by each fund in the modified accrual basis of accounting. In addition, the system should provide for the maintenance of the capital assets and the general long term debt of the Municipality.
<b>MANAGEMENT RESPONSE</b>	The Municipality will maintain monthly a subsidiary ledger for the fixed assets and the long-term debt. In addition, we will made all the required adjusting journal entries in accordance with GAAP.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING</b>	<b>13-II-02</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS- CAPITAL ASSETS</b>
<b>CONDITION</b>	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
<b>CONTEXT</b>	During my examination of the property records, I noted that the Municipality does not have adequate internal controls and procedures to ensure that all capital outlay expenditures and dispositions are recorded in the capital assets subsidiary ledger. In addition, the Municipality did not have adequate procedures to reclassify the finished accumulated construction in progress to buildings or infrastructure. Also, the Municipality has not recorded the infrastructure assets, accordingly, has not recorded depreciation expenses for those assets. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality did not performed periodical physical inventories of its capital assets.
<b>CRITERIA</b>	Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico de 1991</i> of August 30, 1991, stated that Municipality should maintain updated property accounting records. Also, GASB 34 requires that all capital assets, including infrastructure, must be presented in the statement of net position and that there must be depreciated during its useful life.
<b>CAUSE</b>	The Municipality did not maintain an adequate control of the accountability of its capital assets including the infrastructure.
<b>EFFECT</b>	The Municipality is not in compliance with Article 8.010 (c) (3) of the State Law Number 81 of August 30, 1991 and GASB 34.
<b>RECOMMENDATION</b>	I recommend management and the Property Division of the Municipality to make an inventory of the capital assets and reconcile it with the capital assets subsidiary ledger. In addition, the Municipality should implement adequate internal control procedures to improve the accountability of infrastructure assets.
<b>MANAGEMENT RESPONSE</b>	The Municipality will made a physical inventory of all the municipal property. The Municipality will maintain an adequate register of all the additions by class of property. We will analyze all the finish construction in progress to transfer all the costs to buildings or infrastructure.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING NUMBER</b>	<b>13-II-03</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS- COMPENSATED ABSENCES</b>
<b>CONDITION</b>	The amount accumulated of compensated absences at June 30, 2013, in the Statement of Position was not adequately supported with accurate and complete records.
<b>CONTEXT</b>	During my examination of the payroll process, I noted that the cumulative records of compensated balances of the Municipality's employees, were not completed and were not updated to reflect the real balances of accumulated vacations and sick leaves at June 30, 2013.
<b>CRITERIA</b>	GASB 16, Accounting for Compensate Absences, issued by the Governmental Accounting Standards Board, establishes the standards for accounting and reporting for compensated absences for state and local governments.
<b>CAUSE</b>	The Municipality did not maintain adequate internal control procedures to assure that the time and attendance records are reconcile and updated on a monthly basis.
<b>EFFECT</b>	The Municipality is not in compliance with GASB 16, Accounting for Compensate Absences, issued by the Governmental Accounting Standards Board.
<b>RECOMMENDATION</b>	I recommend management to update and reconcile, in a timely manner the time and attendance records of the employees with the cumulative records in order to obtain adequate balances which support the compensated balances accumulated in the Statement of Net Position.
<b>MANAGEMENT RESPONSE</b>	The Municipality will verify system used to maintain the compensated absences balances. We will proceed to make an analysis of the vacation leaves and sick leaves balances in order to update the system and properly account the increases or decreases of the compensated balances.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING NUMBER</b>	<b>13-II-04</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS- INTERFUND TRANSACTIONS</b>
<b>CONDITION</b>	The Municipality does not maintain an accurate record over the special revenue funds transactions and the interfund transactions of all Municipality's' funds.
<b>CONTEXT</b>	During my examination of the accounting records, I noted that the Municipality does not maintain adequate controls over the interfund transactions. This situation caused that various special revenue funds (Federal funds and other special revenue funds), were used as loans, to paid operational costs of the General Fund and other funds. In addition, the Municipality did not maintain proper records of the interfund cash transactions and the corresponding due from and due to accounts balances presented in the balance sheet, for the fiscal year 2012-2013 and previous balances.
<b>CRITERIA</b>	Article 8.004 (c) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991, stated that the restricted funds received by the Municipality should be only used for the purposes established by these resources. In addition, Article 8.010 (C) (2) and (3) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, stated that Municipality should maintain accurate accounting records and funds controls.
<b>CAUSE</b>	The Municipality did not maintain an adequate control of the accountability of the interfund transactions and the due from and due to account balances.
<b>EFFECT</b>	The Municipality is not in compliance with Articles 8.004 (c) and 8.010 (c) (2) and (3) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991.
<b>RECOMMENDATION</b>	I recommend management to implement procedures in order to obtain and maintain all the required documentation regarding the interfund transactions. Also, the Municipality should avoid making transfers between funds that are not adequately supported and authorized.
<b>MANAGEMENT RESPONSE</b>	The Municipality will account all loans and reimbursements between funds and will maintain an adequate register of the interfund transactions.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**SECTION II – FINANCIAL STATEMENTS FINDINGS**

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<b>FINDING NUMBER</b>	<b>13-II-05</b>
<b>REQUIREMENT</b>	<b>INTERNAL CONTROLS AND PROCEDURES OVER THE DISBURSEMENT CYCLE</b>
<b>CONDITION</b>	During the fiscal year 2012-2013, the Municipality disbursed funds without the appropriate supporting documentation.
<b>CONTEXT</b>	<p>During my examination of the Municipality's disbursement process, I examined sixty (60) checks of the General Fund and other special revenue funds and noted the following deficiencies:</p> <ol style="list-style-type: none"><li>1. In seven (7) disbursements vouchers, the invoices, were not marked as paid or cancelled;</li><li>2. In one (1) disbursement vouchers, the purchase order was not approved (signed) by one of the responsible employees;</li><li>3. In one (1) disbursement voucher the original supplier's invoice was not available for my examination. In addition, in one (1) disbursement voucher the receiving report from the supplier was not available for my examination;</li><li>4. In twelve (12) disbursement vouchers, the purchase orders were issued after the invoices and the services or goods were received.</li></ol>
<b>CRITERIA</b>	The Chapter IV of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affair (OCAM), establishes the internal control procedures that the Municipalities should follow during the disbursement cycle.
<b>CAUSE</b>	The Municipality's internal control failed to assure that the disbursement vouchers contains all the documentation required by Law.
<b>EFFECT</b>	The Municipality is not in compliance with the Chapter IV of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affair (OCAM).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING NUMBER</b>	<b>13-II-05 (CONTINUED)</b>
<b>REQUIREMENT</b>	<b>INTERNAL CONTROLS AND PROCEDURES OVER THE DISBURSEMENT CYCLE</b>
<b>RECOMMENDATION</b>	I recommend management to improve the internal control procedures in order to obtain and maintain all the required documentation and supporting documents related to the disbursements process prior to the issuance of the checks.
<b>MANAGEMENT RESPONSE</b>	The Municipality will proceed to maintain adequate internal controls at the moment of proceeding with the disbursements in compliance with the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affair and the Law 81 of the Autonomous Municipalities of Puerto Rico.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>13-III-06</b>
<b>FEDERAL PROGRAMS</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>CASH MANAGEMENT</b>
<b>CONDITION</b>	The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.
<b>CONTEXT</b>	During my cash management test, I examined twenty-one (21) requests of funds made by the Program to the pass-through entity and found that eight (8) requests took between eight (8) and twenty-one (21) days from the moment the funds were deposited and the issuance of the checks or transfers for the disbursements.
<b>CRITERIA</b>	Code of Federal Regulations 24, Section 570.489 (c) (1) states that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement made by the grantee.
<b>CAUSE</b>	The Federal Programs and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to the pass-through agency only for immediate needs.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulations 24, CFR 570.489 (c) (1).
<b>RECOMMENDATION</b>	I recommend management to strengthen its disbursements procedures to minimize the time between the transfer of funds by the pass-through and disbursement made by the Municipality.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Once the requisition of funds are deposited in the Municipality, we will gave the instructions to issue the disbursements before the three days requirement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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<b>FINDING NUMBER</b>	<b>13-III-07</b>
<b>FEDERAL PROGRAM</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>REPORTING</b>
<b>CONDITION</b>	The Program did not maintain accurate accounting records of the financial transactions and did not reconcile, the cash account with the quarterly reports submitted to the pass-through-entity.
<b>CONTEXT</b>	<p>During my reporting test, I noted that the Program did not maintain adequate accounting records and did not summarize the information of all the financial transactions related to assets, liabilities, revenues and expenditures of the Program, in a formal general ledger or other accounting system. Also, I found that the disbursements reported in the quarterly reports, submitted to the pass-through entity (OCAM), were not traceable to reliable financial information. In addition, the cash balance at June 30, 2013, reported in the quarterly reports, does not agree with the bank reconciliation.</p> <p>In addition, the Municipality did not maintain adequate internal controls and did not maintain adequate supporting documentation over the interfund cash transactions and the corresponding due from and due to account balances. During my examination, I noted that the Program's trial balance maintain a balance of \$50,333 of interfund receivable. This amount was the result of the interfund transactions, not necessarily for the repayment of reimbursable expenditures, with other funds during the fiscal year 2012-2013.</p> <p>In addition, I did not found evidence of the submission of two (2) program income quarterly reports to the pass-through entity, for the fiscal year 2012-2013.</p>
<b>CRITERIA</b>	Code of Federal Regulations 24, Section 85.20(a) (1) requires that fiscal control and accounting procedures must be sufficient to permit preparation of reports. Code of Federal Regulations 24, Section 85.20(b) (2) requires that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>13-III-07 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>REPORTING</b>
<b>CRITERIA</b>	<p>Also, CFR 24 Section 85.20 (b) (3) states that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.</p> <p>The Program is required by OCAM to report quarterly any and all program income generated, as per Circular Memorandum Num. 2013-14.</p>
<b>CAUSE</b>	<p>The Program failed to establish adequate internal controls over the accounting records and the accurate submission of the monthly reports to the pass-through agency.</p>
<b>EFFECT</b>	<p>The Program did not submit accurate quarterly reports to the pass-through entity in order to comply with the Federal regulation.</p>
<b>RECOMMENDATION</b>	<p>The Program should continue improving its internal control over the recording of the financial transactions in order to assure that the information submitted to the pass-through entity is adequately supported and recorded in adequate accounting registers. Also, the Program should avoid the transfer of funds that are not adequately supported.</p>
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	<p>The Municipality will maintain adequate internal controls over the accounting transactions of the Program. Also, we will give instructions to reconcile the accounting records with the quarterly reports required by the pass-through entity.</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	13-III-08
<b>FEDERAL PROGRAM</b>	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	ELEGIBILITY
<b>CONDITION</b>	The Program failed to document properly the eligibility process.
<b>CONTEXT</b>	<p>During my eligibility test, I selected a sample of twenty (20) participants' files and noted the following conditions:</p> <ol style="list-style-type: none"><li>For one (1) participant, I did not find evidence that the Program made a reexamination of the family income and the composition during the fiscal year 2012-2013;</li><li>In three (3) participants which were subject to annual reexamination, during the fiscal year 2012-2013, I found that the Program did not update the Enterprise Income Verification (EIV);</li><li>For one (1) participant, the income reported in the Form 50058, did not agree with third party income verification. Also, for three (3) participants, the family members included in the Form 50058, did not agree with the third party income verification.</li></ol>
<b>CRITERIA</b>	Code of Federal Regulation 24, Section 982.516 (a) (1) states that the PHA must conduct a reexamination of family income and composition at least annually; (2) the PHA must obtain and document in the tenant file third party verification of the following factors or must document in the file why third party verification was not available: (A) reported family annual income; (B) the value of assets; (C) expenses related to deductions from annual income; and (D) other factors that affects the determination of adjusted income.
<b>CAUSE</b>	The Program failed to maintain adequate internal controls that assure that annual reexaminations were made in a timely manner and were calculated using the information obtain from third parties. Also, the Program has not established adequate internal controls over the use of the EIV System during the mandatory annual and interim reexamination as a third party income verification of the family income.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	13-III-08 (CONTINUED)
<b>FEDERAL PROGRAM</b>	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	ELEGIBILITY
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 24, Section 982.516 (a) (1) and (2).
<b>RECOMMENDATION</b>	I recommend to management to continue strengthening the internal controls over the eligibility process to assure that the reexaminations are made annually and that the HAP calculations are made using the third parties verifications. I also recommend strengthening the procedures designed to verify the family income and composition using the EIV system in each mandatory reexamination of the participants.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	The Municipality will evaluate the internal controls over the Federal program "Public & Indian Housing" in order to assure that the procedures related to the annual reexamination and the verification of the EIV are in compliance with the program requirements.

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MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	13-III-09
<b>FEDERAL PROGRAM</b>	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	PROCUREMENT, SUSPENSION AND DEBARMENT
<b>CONDITION</b>	The Program formalized contracts and did not verify if the contractors were suspended or debarred by the Federal government.
<b>CONTEXT</b>	During my suspension and debarment test, I examined two (2) construction contracts and noted that for these contracts there was no evidence that demonstrated that the Program verify these contractors in the Excluded Parties List System (EPLS) maintained by the General Service Administration.
<b>CRITERIA</b>	Code of Federal Regulations 24, Subpart C, Section 85.35 states that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs subject to 2 CFR part 2424.
<b>CAUSE</b>	The Program does not performed an appropriate procurement process because failed to document adequately the acquisition process. Also, the Program did not maintain appropriate procurement standard procedures to assure that that the contracts formalized in excess of \$25,000, awarded to the contractors, are not suspended or debarred.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 24, Section 85.35.
<b>RECOMMENDATION</b>	I recommend management to implement procedures in order to obtain and maintain all the required documentation regards the acquisition process (procurement) to comply with this requirement. Also, I recommend management to obtain the EPLS in printed or electronic format, every time the Municipality formalized a contract with Program's funds with contractors or professionals and verify if they are debarred or excluded.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	The Municipality will verify that all the contractors under the "Public & Indian Housing" are not suspended or debarred. Also, we will proceed to search and print in the internet website <a href="http://www.sam.gov">www.sam.gov</a> information about the contractors.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	13-III-10
<b>FEDERAL PROGRAM</b>	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	REPORTING
<b>CONDITION</b>	The Program did not summarize the financial transactions in a complete set of accounting records.
<b>CONTEXT</b>	During my reporting test, I noted that the Program did not summarize the information of all the financial transactions related to assets, liabilities, revenues and expenditures of the Program, in a formal general ledger or other accounting system. In addition, the Program did not maintain adequate internal controls and did not maintain adequate supporting documentation over the interfund cash transactions and the corresponding due from and due to account balances.
<b>CRITERIA</b>	Code of Federal Regulations 24, Subpart C, Section 85.20 (a) (1) requires that fiscal control and accounting procedures must be sufficient to permit preparation of reports. Code of Federal Regulations 24, Subpart C, Section 85.20 (b) (2) requires that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
<b>CAUSE</b>	The Program did not maintain adequate internal controls that assure proper safeguard over the accounting records of the Program. Also, the lack of control over the transfer of funds, permits interfund transfers without the adequate supporting documentation.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulations 24, Subpart C, Section 85.20 (a) (1) and (b) (2).
<b>RECOMMENDATION</b>	The Program should continue improving its internal control over the recording of the financial transactions in order to assure that the information submitted to the pass-through entity is adequately supported and recorded in accounting registers. Also, the Program should avoid the transfer of funds that are not adequately supported.

COMMONWEALTH OF PUERTO RICO  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	13-III-10 (CONTINUED)
<b>FEDERAL PROGRAM</b>	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	REPORTING
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	The Municipality will continue improving its accounting records in order to continue improving the financial records of the Program.

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MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	13-III-11
<b>FEDERAL PROGRAM</b>	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	SPECIAL TEST- DEPOSITORY AGREEMENTS
<b>CONDITION</b>	The Municipality failed to enter in a depository agreement with its financial institution.
<b>CONTEXT</b>	During my evaluation, I did not identify evidence of a depository agreement in the form required by HUD with the depository institution of the Municipality.
<b>CRITERIA</b>	Code of Federal Regulation 24, Section 982.156 (a) states that unless otherwise required or permitted by HUD, all program receipts must be promptly deposited with a financial institution selected as depository by the PHA in accordance with HUD requirements. In addition, Code of Federal Regulations 24, 982.156 (c) states that the PHA must enter into an agreement with depository in the form required by HUD.
<b>CAUSE</b>	The Municipality's management failed to enter into agreements in the form required by HUD with its financial institution.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 24, Subpart D, Section 982.156 (a) and (c).
<b>RECOMMENDATION</b>	I recommend management to contact its financial institution and formalize, as soon as possible, the depository agreement in the form established by HUD.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	The Municipality will coordinate a meeting with the financial institutions were the Municipality maintains the Program's funds in order to formalized a contract in the form established by HUD.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<b>FINDING NUMBER</b>	<b>COMPLIANCE</b>	<b>CFDA NUMBER</b>	<b>QUESTIONED COSTS</b>	<b>AUDITEE COMMENTS</b>
12-III-05	Allowable Cost-Disbursement Process	14.228	None	Full corrective action was taken.  We improved our internal controls over the disbursement process.
12-III-06	Allowable Activities-Transfer of Funds	14.228	None	No corrective action has been taken.  Finding Reference 13-III-07.
12-III-07	Allowable Activities-Housing Rehabilitation	14.228	None	Full corrective action was taken.  We improved our internal controls over the disbursement process.
12-III-08	Cash Management	14.228	None	No corrective action has been taken.  Finding Reference 13-III-06.
12-III-09	Procurement, Suspension and Debarment	14.228	None	Full corrective action was taken.  We improved our internal controls over the acquisition process.
12-III-10	Program Income	14.228	None	No corrective action has been taken.  Finding Reference 13-III-07.
12-III-11	Reporting	14.850	None	No corrective action has been taken.  Finding Reference 13-III-10.
12-III-12	Eligibility	14.850	None	No corrective action has been taken.  Finding Reference 13-III-08.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
12-III-13	Reporting	14.850	None	No corrective action has been taken.  Finding Reference 13-III-10.
12-III-14	Special Test- Depository Agreement	14.850	None	No corrective action has been taken.  Finding Reference 13-III-11.
11-III-05	Allowable Activities	14.228	\$87,891	No corrective action has been taken.  Finding Reference 13-III-07.
11-III-06	Allowable Activities- Housing Rehabilitation and Housekeeper Services	14.228	None	Full corrective action was taken.  We improved our internal controls over the disbursement process.
11-III-07	Cash Management	14.228	None	No corrective action has been taken.  Finding Reference 13-III-06.
11-III-08	Procurement, Suspension and Debarment	14.228	None	Full corrective action was taken.  We improved our internal controls over the acquisition process.
11-III-09	Reporting	14.228	None	No corrective action has been taken.  Finding Reference 13-III-07.
11-III-10	Allowable Activities	14.850	None	No corrective action has been taken.  Finding Reference 13-III-10.

**COMMONWEALTH OF PUERTO RICO  
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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
11-III-11	Eligibility	14.850	None	No corrective action has been taken.  Finding Reference 13-III-08.
11-III-12	Reporting	14.850	None	No corrective action has been taken.  Finding Reference 13-III-10.
11-III-13	Special Test- Depository Agreement	14.850	None	No corrective action has been taken.  Finding Reference 13-III-11.
10-III-05	Allowable Activities	14.228	None	No corrective action has been taken.  Finding Reference 13-III-07.
10-III-06	Allowable Activities- Housing Rehabilitation and Housekeeper Services	14.228	None	Full corrective action was taken.  We improved our internal controls over the disbursement process.
10-III-07	Cash Management	14.228	None	No corrective action has been taken.  Finding Reference 13-III-06.
10-III-08	Procurement, Suspension and Debarment	14.228	None	Full corrective action was taken.  We improved our internal controls over the acquisition process.
10-III-10	Reporting	14.228	None	No corrective action has been taken.  Finding Reference 13-III-07.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
10-III-11	Reporting	14.850	None	No corrective action has been taken.  Finding Reference 13-III-10.
09-III-05	Allowable Activities	14.228	None	Finding no longer valid.  The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
09-III-06	Allowable Activities	14.850	\$19,505	Finding no longer valid.  The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
09-III-07	Allowable Activities	14.228	None	Finding no longer valid.  The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
09-III-08	Cash Management	14.228	None	Finding no longer valid.  The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
09-III-10	Reporting	14.228/ 14.248	None	Finding no longer valid.  The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
09-III-11	Reporting	14.850	None	Finding no longer valid.  The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
08-III-01	Reporting- Accounting System	All Federal Programs	None	Finding no longer valid.  The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
08-III-04	Reporting- Bank Reconciliations	All Federal Programs	None	Finding no longer valid.  The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.