

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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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, 2014*

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

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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, 2014

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MUNICIPALITY OF MAUNABO

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

FISCAL YEAR ENDED JUNE 30, 2014

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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 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, 2014, and the related notes to the financial statements. I was engaged to audit the financial statements of the governmental activities. These financial statements 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. Because of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities.

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.

## 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 \$24,098,365, net of accumulated depreciation of \$10,905,835. 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.

### **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, 2014, 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 the General Fund, the Municipal Hospital Fund and the aggregate remaining fund**

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 of the General Fund, the Municipal Hospital Fund and the aggregate remaining fund in the balance sheet.

### **Qualified Opinion**

In my opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion on the General Fund, the Municipal Hospital Fund and the aggregate remaining fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund, the Municipal Hospital Fund and the aggregate remaining fund of the Municipality, as of June 30, 2014, 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.

### **Unmodified Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Debt Service Fund and the Title I Grant Fund as of June 30, 2014, 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.

### **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 12 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.

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

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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 April 16, 2015, 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.

*P.C. Ortiz Leidee*

Pedro C. Ortiz Leidee, CPA  
License Number 5200

Guayama, Puerto Rico  
April 16, 2015



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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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, 2014. 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, 2014 by \$6,836,365, and at June 30, 2013 by \$7,412,129;
- ❖ The Municipality's total net position decrease by \$575,764 during fiscal year 2013-2014;
- ❖ As of June 30, 2014, the Municipality's governmental funds reported combined fund balances of \$700,889, an increase of \$1,798,981 from the prior year;
- ❖ At June 30, 2014, the unrestricted deficit was \$9,581,335;
- ❖ Loans principal payments were \$662,000 and \$557,000 in 2014 and 2013, 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, 2014**

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

The purpose of the statement of net position 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 position is presented as net position, 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 position, 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 position changed during the fiscal year ended June 30, 2014, 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 position, 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, 2014**

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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, 2014

**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 \$575,764 during the current fiscal year. The Municipality's net position include investments in Capital Assets for \$12,533,365, net of related debt, and \$3,884,335 restricted for future expenses. The Municipality's net position at the end of the fiscal year ended on June 30, 2014 was \$6,836,365, as detailed on **Table 1**.

<b>Table 1</b>		
<b>Statement of Net Position</b>	<b>2014</b>	<b>2013</b>
Current and non-current assets	\$ 6,214,222	\$ 4,307,020
Capital assets	24,098,365	24,721,791
<b>Total Assets</b>	<b>30,312,587</b>	<b>29,028,811</b>
Current liabilities	4,526,183	4,384,039
Long-term liabilities	18,950,039	17,232,643
<b>Total Liabilities</b>	<b>23,476,222</b>	<b>21,616,682</b>
<b>Deferred Inflows of Resources</b>	-	-
Net position:		
Investment in capital assets, net of related debt	12,533,365	14,579,791
Restricted	3,884,335	3,435,678
Unrestricted deficit	(9,581,335)	(10,603,340)
<b>Total Net Position</b>	<b>\$ 6,836,365</b>	<b>\$ 7,412,129</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, 2014**

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

**GOVERNMENTAL ACTIVITIES**

Governmental activities decreased the Municipality's net position. Key elements of this decrease are as follows: the Municipality's governmental activities had net expenses of \$9,989,413. 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 \$575,764.

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>2014</b>	<b>2013</b>	
<b>Revenues</b>			
Operating grants and contributions	\$ 4,726,035	\$ 2,873,092	
Capital grants and contributions	2,470,146	2,080,396	
General revenues:			
Property taxes	1,196,102	1,070,987	
Volume of business taxes	148,236	129,975	
Sales taxes	989,333	940,091	
Construction and Excise Taxes	52,366	172,456	
Intergovernmental	6,979,606	6,254,021	
Charges for services	1,165,568	605,583	
Other General revenues	48,006	208,056	
<b>Total revenues</b>	<b>17,775,398</b>	<b>14,334,657</b>	
<b>Expenses</b>			
Mayor and Municipal Legislature	242,453	293,320	
General Government	3,965,144	3,785,385	
Public safety	536,109	586,390	
Public works	3,459,448	3,886,251	
Health and sanitation	2,223,502	2,393,206	
Culture and recreation	593,454	611,713	
Human services and welfare	1,992,135	2,212,377	
Urban development	1,496,057	2,929,788	
Education	3,158,289	837,282	
Interest on long-term debts	684,571	545,065	
<b>Total expenses</b>	<b>18,351,162</b>	<b>18,080,777</b>	
Changes in net position	(575,764)	(3,746,120)	
Net position – beginning	7,412,129	11,158,249	
<b>Net position – ending</b>	<b>\$ 6,836,365</b>	<b>\$ 7,412,129</b>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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>2014</b>	<b>2013</b>
<b>Assets:</b>			
Total assets – Major Funds	\$	4,924,533	\$ 2,930,332
Total assets – Other Funds		1,994,596	2,195,532
Combined total assets		<u>6,919,129</u>	<u>5,125,864</u>
<b>Liabilities:</b>			
Total liabilities – Major Funds		5,208,439	4,688,911
Total liabilities – Other Funds		1,009,801	1,501,122
Combined total liabilities		<u>6,218,240</u>	<u>6,190,033</u>
<b>Deferred Inflows of Resources:</b>			
Total Inflows – Major Funds		-	33,923
<b>Fund Balances (As Restated):</b>			
Restricted		2,710,669	2,347,660
Committed		186,516	100,868
Unassigned		(2,196,296)	(3,546,620)
Combined total fund balances		<u>700,889</u>	<u>(1,098,092)</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$</b>	<b><u>6,919,129</u></b>	<b>\$ <u>5,125,864</u></b>

<b>Table 4</b>			
<b>Changes in Fund Balances (in thousands)</b>		<b>2014</b>	<b>2013</b>
<b>Revenues:</b>			
Total revenues – Major Funds	\$	13,082,395	\$ 10,557,564
Total revenues – Other Funds		4,726,926	3,859,935
Combined total revenues		<u>17,809,321</u>	<u>14,417,499</u>
<b>Expenditures:</b>			
Total expenditures – Major Funds		14,133,146	11,933,335
Total expenditures – Other Funds		4,697,194	5,768,778
Combined total expenditures		<u>18,830,340</u>	<u>17,702,113</u>
<b>Other financing sources (uses):</b>			
Proceed from issuance of bonds		2,820,000	3,320,000
Transfer – In		1,185,389	2,518,809
Transfer – Out		(1,185,389)	(2,518,809)
Combined other financing sources (uses), net		<u>2,820,000</u>	<u>3,320,000</u>
Net changes in fund balance		1,798,981	35,386
Fund Balance – beginning		(1,098,092)	(1,133,478)
<b>Fund Balance – ending</b>		<b><u>\$ 700,889</u></b>	<b>\$ <u>(1,098,092)</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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 fund balance of \$700,889.

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

- \$1,241,340 are restricted to indicate that it is not available for new spending because it has already been segregated;
- \$1,469,329 are restricted to pay debt services;
- \$186,516 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, 2014, it showed an unassigned deficit of \$2,196,296. 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, 2014 amounted to \$24,098,365 (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>Table 5 Capital Assets</b>	<b>Amount</b>
Construction in progress	\$ 12,820,950
Works of art	90,000
Land	952,313
Depreciable capital assets	<u>10,235,102</u>
<b>Total Assets</b>	<b><u>\$ 24,098,365</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, 2014, 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, 2014**

**LONG-TERM DEBT**

At June 30, 2014 the Municipality had a total of \$18,950,039 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$13,590,000 comprises debt backed by the full faith and credit of the government and \$5,360,039 are other obligations.

<b>Table 6 Long Term Debts</b>	<b>Amount</b>
General obligations	\$ 13,590,000
Section 108 Guaranteed Loan	2,165,000
Others	<u>3,195,039</u>
<b>Total Long Term Debts</b>	<b><u>\$ 18,950,039</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 grow 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, 2014, 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, 2014**

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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.

**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, 2014**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 371,115
Cash with Fiscal Agent	2,436,260
Receivables (net):	
Property Tax	4,062
Sales Tax	73,142
Intergovernmental	94,455
Federal Grants	2,151,239
Others	96,799
	<u>5,227,072</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	10,235,102
Total Capital Assets	<u>24,098,365</u>
<b>TOTAL ASSETS</b>	<b><u>30,312,587</u></b>
<b>LIABILITIES</b>	
Bank Overdraft	131,548
Accounts Payable and Accrued Expenses	2,690,499
Bonds Payable	465,000
Accrued Interest	218,408
Due to Governmental Units	631,767
Unearned Revenues	388,961
Long-Term Liabilities:	
Due within One Year	906,928
Due in More than One Year	18,043,111
<b>TOTAL LIABILITIES</b>	<b><u>23,476,222</u></b>
<b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	12,533,365
Restricted for:	
Debt Service	1,469,329
Others Purposes	2,415,006
Unrestricted	(9,581,335)
<b>TOTAL NET POSITION</b>	<b><u>\$ 6,836,365</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, 2014

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	\$ 242,453	\$ -	\$ -	\$ -	\$ (242,453)
General Government	3,965,144	-	-	-	(3,965,144)
Public Safety	536,109	-	48,435	-	(487,674)
Public Works	3,459,448	-	-	212,027	(3,247,421)
Culture and Recreation	593,454	-	10,000	-	(583,454)
Health and Sanitation	2,223,502	1,165,568	701,792	-	(356,142)
Human Services and Welfare	1,992,135	-	1,159,478	-	(832,657)
Urban Development	1,496,057	-	-	2,258,119	762,062
Education	3,158,289	-	2,806,330	-	(351,959)
Interest on Long-Term Debt	684,571	-	-	-	(684,571)
<b>Total Governmental Activities</b>	<b>\$ 18,351,162</b>	<b>\$ 1,165,568</b>	<b>\$ 4,726,035</b>	<b>\$ 2,470,146</b>	<b>(9,989,413)</b>

General Revenues:

Property Tax, levied for General Purposes	874,956
Property Tax, levied for Debt Services	321,146
Sales Tax	989,333
Volume of Business Tax	148,236
Intergovernmental	6,979,606
Construction Excise Tax	52,366
Rent	27,532
Miscellaneous	20,474
Total General Revenues	<u>9,413,649</u>
<b>CHANGE IN NET POSITION</b>	<b>(575,764)</b>
Net Position - Beginning of Year	7,412,129
<b>NET POSITION - END OF YEAR</b>	<b><u>\$ 6,836,365</u></b>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2014

	General Fund	Debt Service Fund	Title I Grant Fund	Municipal Hospital Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS AND DEFERRED</b>						
<b>OUTFLOWS OF RESOURCES</b>						
Assets						
Cash	\$ -	\$ -	\$ -	\$ 75,779	\$ 295,336	\$ 371,115
Cash with Fiscal Agent	256,545	2,081,895	-	-	97,820	2,436,260
Receivables:						
Property Tax	-	4,062	-	-	-	4,062
Sales Tax	6,362	66,780	-	-	-	73,142
Intergovernmental	-	-	-	-	94,455	94,455
Federal Grants	-	-	1,770,098	-	381,141	2,151,239
Due from Other Funds	417,900	-	-	151,112	1,123,045	1,692,057
Others	12,000	-	-	82,000	2,799	96,799
Total Assets	692,807	2,152,737	1,770,098	308,891	1,994,596	6,919,129
Deferred Outflows of Resources						
	-	-	-	-	-	-
<b>TOTAL ASSETS AND DEFERRED</b>	<b>\$ 692,807</b>	<b>\$ 2,152,737</b>	<b>\$ 1,770,098</b>	<b>\$ 308,891</b>	<b>\$ 1,994,596</b>	<b>\$ 6,919,129</b>
<b>OUTFLOWS OF RESOURCES</b>						
<b>LIABILITIES, DEFERRED INFLOWS OF</b>						
<b>RESOURCES AND FUND BALANCES</b>						
Liabilities						
Bank Overdraft	\$ 131,548	\$ -	\$ -	\$ -	\$ -	\$ 131,548
Accounts Payable and Accrued Liabilities	390,704	-	1,770,098	122,375	349,649	2,632,826
Bonds and Notes Payable	-	465,000	-	-	-	465,000
Accrued Interest	-	218,408	-	-	-	218,408
Due to Governmental Units	689,440	-	-	-	-	689,440
Due to Other Funds	1,266,376	-	-	-	425,681	1,692,057
Unearned Revenues	154,490	-	-	-	234,471	388,961
Total Liabilities	2,632,558	683,408	1,770,098	122,375	1,009,801	6,218,240
Deferred Inflows of Resources						
	-	-	-	-	-	-
Fund Balances						
Restricted	256,545	1,469,329	-	-	984,795	2,710,669
Committed	-	-	-	186,516	-	186,516
Unassigned	(2,196,296)	-	-	-	-	(2,196,296)
Total Fund Balances	(1,939,751)	1,469,329	-	186,516	984,795	700,889
<b>TOTAL LIABILITIES, DEFERRED INFLOWS</b>	<b>\$ 692,807</b>	<b>\$ 2,152,737</b>	<b>\$ 1,770,098</b>	<b>\$ 308,891</b>	<b>\$ 1,994,596</b>	<b>\$ 6,919,129</b>
<b>OF RESOURCES AND FUND BALANCES</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, 2014

	General Fund	Debt Service Fund	Title I Grant Fund	Municipal Hospital Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property Taxes	\$ 874,956	\$ 321,146	\$ -	\$ -	\$ -	\$ 1,196,102
Sales Tax	80,967	908,366	-	-	-	989,333
Volume of Business Taxes	148,236	-	-	-	-	148,236
Federal Assistances	-	-	1,770,098	-	3,189,098	4,959,196
Intergovernmental	6,979,606	-	-	700,000	1,525,888	9,205,494
Charges for Services	-	-	-	1,164,725	2,635	1,167,360
Construction Excise Tax	52,366	-	-	-	-	52,366
Rent	27,532	-	-	-	-	27,532
Miscellaneous	53,242	1,155	-	-	9,305	63,702
<b>Total Revenues</b>	<b>8,216,905</b>	<b>1,230,667</b>	<b>1,770,098</b>	<b>1,864,725</b>	<b>4,726,926</b>	<b>17,809,321</b>
<b>EXPENDITURES</b>						
Current:						
Mayor and Municipal Legislature	140,629	-	-	-	-	140,629
General Government	4,319,210	-	-	-	4,920	4,324,130
Public Safety	430,475	-	-	-	59,327	489,802
Public Works	3,190,618	-	-	-	-	3,190,618
Culture and Recreation	557,403	-	-	-	-	557,403
Health and Sanitation	496,734	-	-	1,678,209	3,552	2,178,495
Human Services and Welfare	385,839	-	-	-	1,562,507	1,948,346
Urban Development	-	-	-	-	1,496,057	1,496,057
Education	106,750	-	1,770,098	-	1,281,441	3,158,289
Debt Service:						
Principal	-	495,000	-	-	167,000	662,000
Interest and Other Charges	-	562,181	-	-	122,390	684,571
<b>Total Expenditures</b>	<b>9,627,658</b>	<b>1,057,181</b>	<b>1,770,098</b>	<b>1,678,209</b>	<b>4,697,194</b>	<b>18,830,340</b>
Excess (deficiency) of revenues over (under) expenditures	(1,410,753)	173,486	-	186,516	29,732	(1,021,019)
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceed of Bonds	2,820,000	-	-	-	-	2,820,000
Transfers - In	689,014	155,722	-	-	340,653	1,185,389
Transfers - Out	(496,375)	(609,014)	-	-	(80,000)	(1,185,389)
<b>Total Other Financing Sources and Uses</b>	<b>3,012,639</b>	<b>(453,292)</b>	<b>-</b>	<b>-</b>	<b>260,653</b>	<b>2,820,000</b>
Net Change in Fund Balances	1,601,886	(279,806)	-	186,516	290,385	1,798,981
Fund Balance - Beginning as Restated	(3,541,637)	1,749,135	-	-	694,410	(1,098,092)
<b>Fund Balances - Ending</b>	<b>\$ (1,939,751)</b>	<b>\$ 1,469,329</b>	<b>\$ -</b>	<b>\$ 186,516</b>	<b>\$ 984,795</b>	<b>\$ 700,889</b>

See accompanying Notes to Basic Financial Statements.

**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, 2014**

**Total Fund Balances – Governmental Funds** ..... **\$ 700,889**

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>(10,905,835)</u>	
Total Capital Assets .....		24,098,365

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

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 .....	(13,590,000)	
Compensated Absences.....	(1,638,411)	
Property Tax Debt – Law 42.....	(1,160,376)	
Section 108 Guaranteed Loan .....	(2,165,000)	
Property Tax- Final Settlement 2013-2014.....	(157,633)	
Claims & Judgments .....	<u>(238,619)</u>	
Total Long-Term Liabilities .....		<u>(18,950,039)</u>

**Total Net Position of Governmental Activities** ..... **\$ 6,836,365**

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, 2014**

<b>Net Change in Fund Balances – Total Governmental Funds.....</b>		<b>\$ 1,798,981</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.....	<u>(623,426)</u>	
Excess of Capital Outlay over Depreciation Expense .....		(623,426)
Revenues in the Statement of Revenues that correspond to prior year resources are Recorded as revenue in the Statement of Activities .....		
		(33,923)
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.....		
		495,000
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.....		
		(2,820,000)
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 Property Tax- Final Settlement 2013-2014 .....	(157,633)	
Decrease in Property Tax Debt- Law 42.....	32,863	
Decrease in State Aqueduct and Sewer Authority – Debt Agreement .....	75,000	
Increase in Compensated Absences .....	(54,370)	
Decrease in Section 108 Guaranteed Loan .....	167,000	
Decrease in State Department of Labor- Debt Agreement.....	19,218	
Decrease in Retirement System Administration – Debt Agreement .....	289,145	
Decrease in Claims & Judgments .....	<u>236,381</u>	
Total Change in Expenses.....		<u>607,604</u>
<b>Change in Net Position of Governmental Activities.....</b>		<b><u>\$ (575,764)</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, 2014**

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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, 2014, 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, 2014 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, 2014, 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, 2014**

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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, 2014.

**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, 2014**

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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, 2014, 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, 2014

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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  
Department of municipal police

**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, 2014**

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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, 2014

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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  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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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.

**Title I Grant Fund** – This is the fund used to account for the accumulation of resources received from the State Department of Education, with an objective of improving the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

**Municipal Hospital Fund** – This is the fund used to account for all the transactions of the Municipality's Hospital. The primarily objective of this fund is to provide to the community accessible medical services.

**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, 2014**

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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, 2014**

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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, 2014.

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, 2014, 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, 2014

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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, 2014.

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, 2014, 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, 2014**

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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, 2014**

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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, 2014**

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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, 2014 the Municipality has no 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  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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, 2014.

<u>BALANCE JULY 1, 2013</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS AND CURRENT MATURATES</u>	<u>BALANCE JUNE 30, 2014</u>	<u>CURRENT PORTION</u>	<u>LONG-TERM PORTION</u>
\$ 1,584,041	\$ 54,370	\$ -	\$ 1,638,411	\$ 210,000	\$ 1,428,411

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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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  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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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 2013-2014 amounted \$127,212. 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, 2014 amounted to \$273,443.

**U. Future Adoption of Accounting Pronouncements**

The GASB has issued the following accounting standards that have effective dates after June 30, 2014:

- ❖ 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 accounting standards on the Municipality's basic financial statements has not yet been determined.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**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 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, 2014. Therefore, the Municipality's management has concluded that at June 30, 2014 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 \$75,779 in the Municipal Hospital Fund and the \$295,336 in Other Governmental Funds were fully collateralized at June 30, 2014.

The deposits at GDB of \$256,545 in the General Fund, the \$2,081,895 in the Debt Service Fund, and the \$97,820 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 \$4,062 in the Debt Service Fund, represents revenues from fiscal year 2013-2014, not collected by the Municipality at June 30, 2014.

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 3 – RECEIVABLES (CONTINUED)**

**B. Sales Tax Receivables**

As described below in Note 14, 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 \$6,362 and \$66,780 in the General Fund and Debt Service Fund, respectively, represents the amounts due by the taxpayers at June 30, 2014.

**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 Emergency Management Agency	\$ 18,315
State Department of Education – OMEP	16,510
State Department of Treasury	32,767
Others	<u>26,863</u>
<b>Total</b>	<b><u>\$ 94,455</u></b>

**D. Federal Grants Receivable**

Federal grants receivable amounting to \$1,770,098 in the Title I Grant Fund represents expenditures incurred not yet reimbursed by the State Department of Education, 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 in the Other Governmental Fund:

Description	Amount
Twenty-First Century Community Learning Centers	\$ 34,121
Child Care and Development Block Grant	11,379
State Administration of Public Housing	18,064
Community Service Block Grant	40,404
Community Development Block Grant	97,679
Homeland Security Grant	16,304
Rural Development	19,000
Puerto Rico Regional Elderly Office	24,981
Emergency Solution Grant	11,549
Others	<u>107,660</u>
<b>Total</b>	<b><u>\$ 381,141</u></b>

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 3 – RECEIVABLES (CONTINUED)**

**E. Other Receivables**

Other receivable amounting to \$12,000 in the General Fund, represent rent revenues not collected at June 30, 2014. The receivable amounting \$2,799, in the Other Governmental Funds, represents miscellaneous receivables. Receivables amounting to \$82,000, in the Municipal Hospital Fund, are operational grants revenues not collected at June 30, 2014 and \$57,000 of amounts paid in excess to medical service provider during the fiscal year 2013-2014.

**F. Due From Other Funds**

Interfund receivables and payables at June 30, 2014 are summarized as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Other Governmental Funds	Payroll, reimbursable expenditures and loans	\$ 417,900
Municipal Hospital Fund	General Fund	Payroll, reimbursable expenditures and loans	151,112
Other Governmental Funds	General Fund	Payroll, reimbursable expenditures and loans	<u>1,123,045</u>
<b>Total</b>			<b><u>\$ 1,692,057</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, 2014, 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 lives 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 2014, 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, 2014**

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

<b>Governmental Activities</b>	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Retirements / Reclassifications</b>	<b>Balance June 30, 2014</b>
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	(2,606,631)	(177,193)	-	(2,783,824)
Improvements	(2,001,017)	(239,133)	-	(2,240,150)
Infrastructure	(1,705,539)	(207,100)	-	(1,912,639)
Machinery and equipment	(1,577,491)	-	-	(1,577,491)
Motor vehicles	<u>(2,391,731)</u>	<u>-</u>	<u>-</u>	<u>(2,391,731)</u>
<b>Total accumulated depreciation</b>	<u>(10,282,409)</u>	<u>(623,426)</u>	<u>-</u>	<u>(10,905,835)</u>
<b>Total capital assets being depreciated, net</b>	<u>10,858,528</u>	<u>(623,426)</u>	<u>-</u>	<u>10,235,102</u>
<b>Governmental activities capital assets, net</b>	<u><b>\$ 24,721,791</b></u>	<u><b>\$ (623,426)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 24,098,365</b></u>

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

<b>Governmental activities</b>	<b>Amount</b>
General government	\$ 81,618
Mayor and Municipal	101,824
Public Safety	46,307
Public Works	268,830
Culture and Recreation	36,051
Sanitation	45,007
Human services and welfare	<u>43,789</u>
<b>Total depreciation expenses</b>	<u><b>\$ 623,426</b></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, 2014. 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  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 5 – BANK OVERDRAFT**

The bank overdraft of \$131,548 in the General Fund, was the result of the adjusted cash balance at June 30, 2014, of the Municipality's current and payroll 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 2013-2014, and not paid by the Municipality at June 30, 2014. 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	\$ 244,234	\$ 146,470	\$ 390,704
Title I Grant Fund	1,770,098	-	1,770,098
Municipal Hospital Fund	122,375	-	122,375
Other Governmental Funds	<u>349,649</u>	-	<u>349,649</u>
<b>Total</b>	<b><u>\$ 2,486,356</u></b>	<b><u>\$ 146,470</u></b>	<b><u>\$ 2,632,826</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, 2014, the government-wide and fund financial statements presented accounts payable regarding to the outstanding balance of these bond and notes in the amount of \$465,000 and accrued interests of \$218,408.

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

As of June 30, 2014, 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
Employee Association of the ELA	8,597
State Retirement System Administration	57,673
State Aqueduct and Sewer Authority	169,470
State Department of Labor	23,884
State Department of Treasury	25,887
General Service Administration	<u>1,006</u>
<b>Total</b>	<b><u>\$ 689,440</u></b>

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 9 – UNEARNED REVENUES**

- A. Volume of business tax** – unearned revenues of \$154,490 in the General Fund represents the volume of business taxes collected in fiscal year 2013-2014 that will be earned in fiscal year 2014-2015.
- B. Federal Grants** – unearned revenues 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 are as follows:

<b>Program Description</b>	<b>Amount</b>
Disaster Grants – Public Assistance	\$ 96,425
Community Development Block Grant	25,415
Child and Adult Care Food Program	35,791
Department of Education- CEIM	32,995
Federal Transportation Administration	8,001
Housing Preservation Grant	2,928
Others	32,916
<b>Total</b>	<b><u>\$ 234,471</u></b>

**NOTE 10 – GENERAL LONG-TERM DEBTS**

Long-term liability activity for the year ended June 30, 2014, was as follows:

<b>Description</b>	<b>Beginning Balance</b>	<b>Borrowings or Additions</b>	<b>Payments or Deductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Bonds and Notes Payable	\$ 11,265,000	\$ 2,820,000	\$ 495,000	\$ 13,590,000	\$ 495,000
Property Tax Debt – Law 42	1,193,239	-	32,863	1,160,376	34,928
Compensated absences	1,584,041	54,370	-	1,638,411	210,000
Section 108 Guaranteed Loan	2,332,000	-	167,000	2,165,000	167,000
State Aqueduct and Sewer Authority – debt agreement	75,000	-	75,000	-	-
State Department of Labor – debt agreement	19,218	-	19,218	-	-
State Retirement System Administration– debt agreement	289,145	-	289,145	-	-
Property Tax – Final Settlement 2013-2014	-	157,633	-	157,633	-
Claims & Judgments	475,000	-	236,381	238,619	-
<b>Total</b>	<b><u>\$ 17,232,643</u></b>	<b><u>\$ 3,032,003</u></b>	<b><u>\$ 1,314,607</u></b>	<b><u>\$ 18,950,039</u></b>	<b><u>\$ 906,928</u></b>

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 10 – 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, 2014, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$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	\$ 4,395,000
\$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	965,000
\$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	940,000
\$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	710,000
\$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	160,000
\$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	575,000
\$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	1,910,000
\$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	335,000
\$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	250,000
\$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	605,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)**

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

DESCRIPTION	AMOUNT
\$2,410,000, Series 2014, for operational purposes, payable in annual installments ranging from \$30,000 to \$175,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2036	2,380,000
\$410,000, Series 2013, for operational purposes, payable in annual installments ranging from \$45,000 to \$75,000, excluding variable interest from 6.00% to 7.00%, through July 1, 2020	365,000
<b>Total General Obligations – Bonds</b>	<b><u>\$ 13,590,000</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, 2014 are as follows:

Year Ending June 30,	Principal Payment	Interest Payment	Total
2015	\$ 470,000	\$ 787,381	\$ 1,257,381
2016	505,000	805,175	1,310,175
2017	540,000	782,950	1,322,950
2018	575,000	752,200	1,327,200
2019	580,000	716,075	1,296,075
2020-2024	2,710,000	3,079,575	5,789,575
2025-2029	3,630,000	2,151,425	5,781,425
2030-2034	3,305,000	1,023,300	4,328,300
2035-2039	1,275,000	215,450	1,490,450
<b>Total</b>	<b><u>\$ 13,590,000</u></b>	<b><u>\$ 10,313,531</u></b>	<b><u>\$ 23,903,531</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 10 – 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, 2014 amounted to \$1,160,376.

**D. COMPENSATED ABSENCES**

The government-wide statement of net position includes \$1,638,411 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, 2014.

**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, 2014, the outstanding principal balance of the loan guarantee commitment amounted to \$2,165,000. Actually, the Municipality maintains an accounts payable to the OCAM amounting to \$402,923, which represents the amount of accumulated principal and interest payments, from past years, not paid by the Municipality.

**F. PROPERTY TAX DEBT – FINAL SETTLEMENT 2013-2014**

During fiscal year 2014-2015, the CRIM, as required by law, prepared the final settlement for the fiscal year 2013-2014, whereby a comparison was made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. According to the final settlement, advances to the Municipality exceeded the amount actually collected by the CRIM, and therefore, according to law, a payable to the CRIM amounting \$157,633 should be recorded in the GWFS at June 30, 2014.

**NOTE 11 – 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.

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 11 – DEBT RETIREMENT (CONTINUED)**

Effective February 1, 2014, Commonwealth Act 19 of 2014 created the Municipal Financing Corporation (COFIM, by Spanish acronyms) to which resources from the Municipality's sales and use tax revenues will fund COFIM's issuance, payment of principal and interest, and retirement of debt related to the Municipality.

**NOTE 12 – 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, 2014 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, 2014 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.

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:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 12 – PROPERTY TAXES (CONTINUED)**

- ❖ 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 13 – 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, 2014, 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).

**NOTE 14 – SALES AND USE TAXES**

Since 2007, the Puerto Rico Internal Revenue Code provides for a sales and use tax to be imposed by the Commonwealth Government and each municipal governments. The uniformed tax rate was established at 7% of which the municipalities will collect 1% and the Puerto Rico Treasury Department the other 6%; however, 0.50% of the 6% collected by the state belongs to the municipality and it is distributed through three separate funds: Municipal Development Fund (0.2%) to be distributed among all the municipalities in accordance with a formula created by the Act, Municipal Redemption Fund (0.2%) to finance loans to Municipalities and Municipal Improvements Fund (0.1%) to finance capital improvement projects as determined by the State Legislature. These funds are administered by the Government Development Bank for Puerto Rico. Finally, the Law restricts the use of the funds by the municipalities to certain specific activities. Proceeds from such taxes are limited for financing solid waste disposal, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration. Commonwealth legislation related to this tax includes Act 117 of 2006, Act 80, of 2007, and Act 1 of 2011.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 14 – SALES AND USE TAXES (CONTINUED)**

The Municipality's 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, and is specifically imposed over the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item (as defined by the municipal internal regulation) taken place within municipal limits. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax was due each 20<sup>th</sup> day of each month based on tax collected in the preceding month.

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the Commonwealth Legislature approved new changes to municipal sales and use taxes during 2013 and 2014. Act No. 40 of June 30, 2013, as amended, reduced the municipal sales and use tax from 1.5% to 1% and increased the Commonwealth sales and use tax from 5.5% to 6% effective February 1, 2014. Act 18 of January 24, 2014 created a special fund called "Municipal Administration Fund" ("FAM") under custody of the Governmental Development Bank of Puerto Rico ("GDB") that permits Municipalities to guarantee and pay long term debt and provide funds for its general operations. Effective February 1, 2014, after complying with the requirements imposed under Act 91 of 2006, remaining funds collected under the new law by the Commonwealth shall be deposited in a special fund under management of the GDB called the Local Government Fund, to be distributed among the municipalities. After July 1, 2014, Commonwealth's sales and use tax will still be deposited in COFINA. From these funds the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. For municipalities covered by the agreement the .5% will be distributed as follows:

- a. .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- b. .2% will be deposited in a Municipal Redemption Fund or may be deposited in the municipalities' general fund. The municipalities has the option to maintain funds in the Municipal Redemption Fund to increase its debt margin and issue loans to be obtained from financial institutions.
- c. .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

Act 19 of January 24, 2014 created the Municipal Financing Corporation (COFIM, by Spanish acronyms) under the GDB, with the power to issue, pay or refinance debt incurred by municipalities, backed by the municipal sales and use tax. Effective February 1, 2014, resources of the previous Municipal Redemption Fund were transferred to COFIM. After July 1, 2014 the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds, COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee ("RFA"). The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax or the "Municipal Transfer") will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the Municipal Transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund are not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget. The Act provides for monthly cash advances to the Municipalities (except for the Municipalities that receive cash advances under Act 18 of 2014) within the first ten days of each month in order to maintain its cash flow until the Municipal Transfer is done. If the cash advances exceeds the amount corresponding to the Municipal Transfer (Act 19 of 2014) or exceeds the amount corresponding to Act No. 18 the excess will be deducted on a prorata basis from the next fiscal year cash advances, amount of Municipal Transfer or amount corresponding to Act 18 of 2014.

Under Act 19 of 2014, entities who collect and remit the sales and use tax will render their tax return and payment through COFIM's web site or through a bank institution beginning in early 2015.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 15 – INTERGOVERNMENTAL REVENUES**

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

Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the special revenue and capital project funds of the Municipality.

**NOTE 16 – INTERFUND TRANSFERS**

Interfund transfers during the fiscal year ended at June 30, 2014, are summarized as follows:

<b>Transfer Out</b>	<b>Transfer In</b>	<b>Purpose</b>	<b>Amount</b>
General Fund	Debt Service Fund	Debt Retirement	\$ 155,722
General Fund	Other Governmental Fund	To cover operating expenditures	340,653
Debt Service Fund	General Fund	To cover operating expenditures	609,014
Other Governmental Funds	General Fund	To cover operating expenditures	<u>80,000</u>
<b>Total</b>			<b><u>\$ 1,185,389</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 17 – 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 Puerto Rico Law 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, its instrumentalities, and municipalities and components units not covered by their own retirement systems.

Participation is mandatory for governmental and municipal employees, 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. Temporary and transitory employees are excluded from participation in the System. 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, and their hiring date. 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.

Law Number 305 of September 24, 1999, amended Puerto Rico Law Number 447, establishing a savings program called "Retirement System 2000". All employees active in the system as of December 31, 1999 may have elected to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may have 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 have elected 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.

Puerto Rico Law Number 3 of April 4, 2013 created a new hybrid system incorporating elements of defined benefit and defined contribution plans. As of July 1, 2013, every employee who is a participant of the ERS who had not retired as of June 30, 2013, and any new participant who joins after that date, shall become part of the Defined Contribution Hybrid Program. As per Puerto Rico Law Number 3 of 2013, new provisions shall apply to employees who participate in the System that (1) began to work before January 1, 2000, (2) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of Law Number 3, and (3) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of Law Number 3, or having met such requirements did not elect to retire before July 1, 2013. The savings accounts under the Retirement System 2000 of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Additionally, those who could retire on or before June 30, 2013 because they are 60 years old, may retire on any later date, and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program which are transferred to the Defined Contribution Hybrid Program.

Under the plans, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 17 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

- Up to June 30, 2013, covered employees were 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.
- After June 30, 2013, every participant of the Hybrid Program shall compulsorily have to contribute 10% of his/her salary while he/she is an employee. The participants of the Hybrid may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. Employees who contribute to the retirement system in a special plan with the ERS in coordination with their contributions to Social Security, as defined by the ERS administrator, will be required to contribute 7% of their monthly salaries up to \$550 for FY 2014, to be increased to 8.5% for FY 2015, and finally 10% for FY 2016 and all future periods.
- The Municipality contributed to the system 9.275% of the participating employee's salaries for the fiscal year ended in June 30, 2013 and prior years. Puerto Rico Law 116 of July 6, 2011 increased the employer contribution rate required from the Municipality. The contribution rate increased from 9.275% to 20.775%, to be implemented in incremental 1% to 1.25% annual increased between those years. The same law provided that for fiscal years 2012, 2013, and 2014, the Puerto Rico Office of Management and Budget would contribute these increases for all Municipalities. Starting in fiscal year 2014-2015, the Municipality is required to contribute 12.275% of the participating employee's salaries for that period, and the rate will increase to 13.275% in FY 2016, 14.525% in FY 2017, 15.775% in FY 2018, 17.025% in FY 2019, 18.275% in FY 2020, and finally to 19.525% in FY 2021 and all future periods.

Before July 1, 2013, all employees that did not elect to transfer for the System 2000 Savings program and who at the time of employment were 55 years old or less were eligible to participate in the defined contribution system, with pension benefits for participants 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 (employees hired before April 1, 1990).
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees hired after April 1, 1990).
Less than 30, more than 10	N/A	1.5% of their average compensation for each year of credit service for the remaining years.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 17 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

After July 1, 2013, both the defined contribution and System 2000 Savings systems will be converted to the new Hybrid Defined Contribution System. The following changes implemented by Puerto Rico Law 3 of 2013, all employees that elect to retire, regardless of the previous retirement system they participated in, will be entitled to retire and receive their benefits under the following conditions:

<u>PREVIOUS RETIREMENT PROGRAM</u>	<u>YEARS OF SERVICE</u>	<u>PARTICIPANT'S AGE, AS OF JUNE 30, 2013</u>	<u>ELIGIBLE AGE TO RETIRE</u>
Savings System ("System 2000")	N/A	60 years or more	May retire at any time in the future after June 30, 2013.
Savings System ("System 2000")	N/A	55 to 59 years	May retire once participant meets the predetermined age of 61 to 65 years of age, respectively.
Savings System ("System 2000")	N/A	55	May retire at any time in the future after June 30, 2013, but only for public officers in high-risk positions.
Defined Benefit Program (employed before April 1, 1990).	25 or 10 years or more, respectively	54 or 57 years or less, respectively	May retire once participant meets the predetermined age of 59 to 61 years of age and 10 years of service.
Defined Benefit Program (hired after April 1, 1990 but before January 1, 2000).	10 years	64 years or less	May retire once participant meets the predetermined age of 65 years of age.
All other employees not covered above.	10 years	65 years or more	May retire at any time in the future after June 30, 2013.

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of 55 and 30 years of service. Retirement shall be mandatory on the date the participant reaches both 30 years of service and the age of 58. Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of 55 years and have completed at least 25 years of creditable service; and for members of the System who having reached the age of 58 years, and have completed at least 10 years of creditable service. The members of the Police shall also have the option of a retirement annuity on and after the date on which they have attained the age of 50 years and have completed at least 25 years of creditable service. Any participant whose separation from the service occurs prior to having attained the age of 58 years, who shall have completed at least 10 years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of 58 years or after attaining the age of 50 years in the case of policemen or firemen, and 55 years in the case of the other participants, if they have completed at least 25 years of service in one case or the other.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 17 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

For employees who were hired before April 1, 1990, the amount of the annuity shall be one and 1.50% of the average compensation multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of 20 years up to June 30, 2013. For employees hired after April 1, 1990, the amount of the annuity shall be 1.5% of the average compensation multiplied by the years of accredited services up to June 30, 2013. From July 1, 2013 onwards, participants in the retirement system will not accumulate new years of service nor receive accreditation for previously unrecognized service years, transfer contributions, or return contributions for periods ending on or before June 30, 2013.

However, a minimum pension of \$500 per month, effective July 1, 2013, is hereby fixed for those participants who retired in from the retirement systems. Every pensioner who receives pension of less than \$500 per month shall receive, effective July 1, 2013, the increase require for his/her pension to be \$500.

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.

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.

Contributions in 2013 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 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.

In the event of the death of any participant who had contributions accrued in the new hybrid system, contributions would be reimbursed to heirs or other designated persons as determined by the participant, equal to the original contributions plus undistributed income up to the date of the participant's death. In the case of total and permanent disability or due to terminal illness, the participant will be entitled to his or hers contributions in a lump sum or an annuity at the option of the participant. The Puerto Rico Employee Retirement System also established a disability benefits program, which may provide temporary annuities by means of disability insurance in the event of total and permanent disabilities, and is funded by a maximum of 0.25% of participant's salary.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**NOTE 17 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

Additional benefits are annually awarded for participants of the defined contribution and hybrid retirement systems, but not the Retirement 2000 System, now replaced by the hybrid system. These benefits include a medicine bonus of \$100 provided by July 15th, a Christmas bonus of \$200 provided by December 20th, and contribution of \$100 by the Systems to employees' medical insurance plans. These additional benefits are funded by a special contribution by the Municipality to the systems beginning from fiscal year 2013-2014 onwards in the order of \$2,000 for every pensioner in the Systems who began to work before December 31, 1999.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2014 was approximately \$304,496. 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, 2014. 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.

**NOTE 18 – 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, 2014, the statement of net position presents a liability for claims & judgments amounting to \$238,619, 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 18 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**C. OTHER COMMITMENTS**

At June 30, 2014 the General Fund had commitments of approximately \$133,223 for purchase orders or contracts that will be honored during the subsequent year.

**NOTE 20 – FUND BALANCE (DEFICIT)**

As of June 30, 2014, the fund balance (deficit) classifications are as follows:

Fund Balance	General Fund	Debt Service Fund	Municipal Hospital Fund	Other Governmental Fund	Total
<b>Committed for:</b>					
General Government	\$ 256,545	\$ -	\$ -	\$ -	\$ 256,545
Health and Sanitation	-	-	186,516	-	186,516
<b>Restricted for:</b>					
General Government	-	-	-	10,899	10,899
Public Safety	-	-	-	64,434	64,434
Public Works	-	-	-	157,863	157,863
Human Services and Welfare	-	-	-	16,392	16,392
Urban Development	-	-	-	729,197	729,197
Culture and Recreation	-	-	-	6,010	6,010
Debt Service	-	1,469,329	-	-	1,469,329
<b>Unassigned</b>	<u>(2,196,296)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,196,296)</u>
<b>Total Fund Balance</b>	<b><u>\$ (1,939,751)</u></b>	<b><u>\$ 1,469,329</u></b>	<b><u>\$ 186,516</u></b>	<b><u>\$ 984,795</u></b>	<b><u>\$ 700,889</u></b>

**NOTE 22 – ACCUMULATED DEFICIT**

The Municipality has an accumulated deficit of \$1,939,751 in the General Fund. Among the actions taken by management, during the fiscal year 2013-2014, to reduce the accumulated deficit were; the inclusion of an account for the amortization of the accumulated deficit in the 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, during the fiscal year 2013-2014 the Municipality received intergovernmental revenues from the State agencies, for operational purposes. Finally, 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 were used to pay current and outstanding operational debts at June 30, 2013, with various state agencies and suppliers of the Municipality. The results of these actions resulted in a reduction of \$1,601,886 in the accumulated deficit of the Municipality.

**NOTE 23 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through April 16, 2015, 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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
<b>REVENUES:</b>				
Property taxes	\$ 756,078	\$ 756,078	\$ 756,078	\$ -
Volume of Business Taxes	187,500	187,500	148,236	(39,264)
Sales Tax	90,000	90,000	80,967	(9,033)
Intergovernmental Revenues	8,798,175	9,398,175	6,979,606	(2,418,569)
Construction Excise Taxes	185,000	185,000	52,366	(132,634)
Rent	177,503	177,503	27,532	(149,971)
Miscellaneous	<u>826,130</u>	<u>826,130</u>	<u>53,242</u>	<u>(772,888)</u>
<b>Total revenues</b>	<u>11,020,386</u>	<u>11,620,386</u>	<u>8,098,027</u>	<u>(3,522,359)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
Mayor and Municipal Legislature	148,203	151,203	140,629	10,574
General government	6,182,979	6,697,872	3,734,898	2,962,974
Public safety	519,146	507,045	431,664	75,381
Public works	2,774,944	2,869,152	3,190,618	(321,466)
Culture and Recreation	597,850	597,850	557,403	40,447
Health and Sanitation	350,876	350,876	504,842	(153,966)
Human Service and Welfare	199,169	199,169	385,839	(186,670)
Education	91,497	91,497	106,750	(15,253)
Transfer- Out	<u>155,722</u>	<u>155,722</u>	<u>155,722</u>	<u>-</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>11,020,386</u>	<u>11,620,386</u>	<u>9,208,365</u>	<u>2,412,021</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(1,110,338)</u>	<u>\$(1,110,338)</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	\$ 8,098,027
Differences-budget to GAAP	<u>118,878</u>

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances **\$ 8,216,905**

**Uses/outflows of resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 9,208,365
Differences-budget to GAAP:	
Prior year expenditures are not outflows of budgetary resources, but are expenditure for financial purposes	349,399
Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes	(133,223)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(155,722)
Adjustment to expenditures	<u>358,839</u>

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances **\$ 9,627,658**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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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, 2014 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2014.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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		\$ 11,790
Pass-Through State – State Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	41,285
<b>Total U.S. Department of Agriculture</b>			<b>53,075</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	13-FC 12-AB-FC 11-AB-FC-FE 10-AB-FC 09-AB-FC 08-NSP 1-3 08-AB-FC-DR 07-FC	984,196
Emergency Solutions Grants	14.231	2014-000193A	8,897
Pass-Through State – Puerto Rico Housing Administration:			
Public and Indian Housing	14.850	2012-000058	802,572
<b>Total U.S. Department of Housing and Urban Development</b>			<b>1,795,665</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	42,773
<b>Total U.S. Department of Justice</b>			<b>42,773</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF EDUCATION:</b>			
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Title I Grants to Local Educational Agencies	84.010	2014-AF-0395	1,770,098
Twenty-First Century Community Learning Centers	84.287	2014-AF0037	488,053
<b>Total U.S. Department of Education</b>			<b>2,258,151</b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
Pass-Through State – Office of the Governor:			
Disaster Grants- Public Assistance	97.036	N/AV	145,941
State Homeland Security Program	97.073	EMW2012-SS-00049	16,304
<b>Total U.S. Department of Homeland Security</b>			<b>162,245</b>
<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	140261R2 / 130149R2	71,914
Pass-Through State – Administration of Children and Families:			
Community Service Block Grant	93.569	123-2014-000175	25,256
Child Care and Development Block Grant	93.575	G1401PRCCDF	309,498
<b>Total U.S. Department of Health and Human Service:</b>			<b>406,668</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 4,718,577</b>

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, 2014**

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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 Guarantees (CFDA No. 14.248), for which the grantor does not impose continuing compliance requirements. The outstanding balance of the loan at June 30, 2014 was \$2,165,000.

**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 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, 2014, and the related notes to the financial statements. I was engaged to audit the financial statements of the governmental activities. These financial statements collectively comprise the Municipality's basic financial statements and have issued my report thereon dated April 16, 2015. 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. The report on the governmental fund financial statements was qualified for the interfund balances.

**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 2014-02, 2014-03 and 2014-04.

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 deficiency described in the accompany Schedule of Findings and Questioned Costs to be a significant deficiency. Finding 2014-01.

**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 2014-003 and 2014-04.

**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.

*PR C. Ortiz Leide*

Pedro C. Ortiz Leide CPA  
License Number 5200

Guayama, Puerto Rico  
April 16, 2015



**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, 2014. 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 Major Federal Programs**

As identified in the findings numbers listed in the table below and described in the accompanying Schedule of Findings and Questioned Costs, the Municipality, did not comply with requirements regarding the following:

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

**Basis for Qualified Opinion on Major Federal Programs (continued)**

<b>Awarding Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding Number</b>
Department of Housing and Urban Development	14.850- Public and Indian Housing	Eligibility	2014-007
Department of Housing and Urban Development	14.850- Public and Indian Housing	Reporting	2014-008
Department of Education	84.287- Twenty-First Century Community Learning Centers	Allowable Activities	2014-010
Department of Education	84.010- Title I Grants to Local Educational Agencies	Procurement and Suspension and Debarment	2014-011

Compliance with such requirements is necessary, my opinion, for the Municipality to comply with the requirements applicable to the programs.

**Qualified Opinion on Major Federal Programs**

In my opinion, except for the noncompliance described in the "Basis for Qualified Opinion on Major Federal Programs" 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 each of the major federal programs listed in the "Basis for Qualified Opinion on Major Federal Programs" paragraph for the year ended June 30, 2014.

**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 (Community Development Block Grant-State's Program and Child Care Development Block Grant) identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

**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 2014-005, 2014-006 and 2014-009. 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.

**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)**

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 items 2014-007, 2014-008, 2014-010 and 2014-011 to be material weaknesses.

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 2014-005, 2014-006 and 2014-009 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  
April 16, 2015



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

**Financial Statements**

**Opinion Units**

**Type of Opinions**

Governmental activities	Disclaimer	
General Fund	Qualified	
Debt Service Fund	Unmodified	
Title I Grant Fund	Unmodified	
Municipal Hospital Fund	Qualified	
Aggregated remaining fund	Qualified	
Internal control over financial reporting:		
Material weakness identified?	Yes <b>X</b>	No
Significant deficiencies identified?	Yes <b>X</b>	No reported
Noncompliance material to financial statements noted?	Yes <b>X</b>	No

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes <b>X</b>	No
Significant deficiencies identified?	Yes <b>X</b>	No reported
Type of auditor’s report issued on compliance for major programs:	<b>Unmodified Opinion on Child Care Development Block Grant and Community Development Block Grants/ State’s</b> <b>Qualified Opinion on Public and Indian Housing, Title Grants to Local Educational Agencies and Twenty-First Century Learning Centers</b>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <b>X</b>	No

**Identification of major programs**

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
14.228	Community Development Block Grants/ State’s Program
14.850	Public and Indian Housing
84.010	Title I Grants to Local Educational Agencies (Title I Part A of the ESEA)
84.287	Twenty-First Century Community Learning Centers
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 <b>X</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING</b>	<b>2014-001</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 the 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 the audit:</p> <ol style="list-style-type: none"><li>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>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>The Municipality is not reconciling the bank reconciliations against accurate and complete accounting records;</li><li>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></ol>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**SECTION II – FINANCIAL STATEMENTS FINDINGS**

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<b>FINDING</b>	<b>2014-001 (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 acquire an accounting system to comply with a complete accounting.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING</b>	<b>2014-002</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 the examination, I noted that the Municipality does not have adequate internal controls and procedures to ensure that all capital expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality did not have adequate supporting documentation of the cost of the capital assets, including the infrastructure, reported in the statement of net position at June 30, 2014.
<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, states 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 lack of an adequate capital assets subsidiary ledger, for financial reporting purposes, did not permit the proper accounting over the capital assets additions, the accumulated depreciation and the depreciation expense presented in the financial statements of the Municipality.
<b>EFFECT</b>	The Municipality's government wide financial statements do not present fairly, the financial position of the governmental activities, and the change in net position.
<b>RECOMMENDATION</b>	I recommend management and the Property Division of the Municipality to make an inventory of the capital assets, support it with adequate documentation and reconcile it with the capital assets subsidiary ledger.
<b>MANAGEMENT RESPONSE</b>	The Municipality will be make a physical inventory to record all property. Also, it will prepare adequate documentation of the infrastructure assets and other capital assets.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING NUMBER</b>	<b>2014-003</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS- INTERFUND TRANSACTIONS</b>
<b>CONDITION</b>	The Municipality does not maintain an accurate record over the interfund transactions of all Municipality's' funds.
<b>CONTEXT</b>	During the 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, 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 as of June 30, 2014 and for the 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 evaluate a detail of interfund transactions to obtain a correct balance with supporting documents. Also, we acquire an accounting system to improve these interfunds transactions.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING NUMBER</b>	<b>2014-004</b>
<b>REQUIREMENT</b>	<b>SINGLE AUDIT SUBMISSION</b>
<b>CONDITION</b>	The Municipality did not comply with the required due date for the submission of the Single Audit Report and the Data Collection Form.
<b>CONTEXT</b>	The Municipality did not submit, in a timely manner, the Single Audit Reporting package for the fiscal year ending on June 30, 2014. The due date for this report was no later than March 31, 2015.
<b>CRITERIA</b>	OMB Circular A-133, Subpart C, Section 320 (a) states that all audits shall be completed and submitted to the Federal Audit Clearinghouse and the cognizant agency within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit report.
<b>CAUSE</b>	Due to the lack of adequate accounting records, the Municipality did not comply with the requirements established in OMB Circular A-133.
<b>EFFECT</b>	The Municipality is not in compliance with OMB Circular A-133, Subpart C, Section 320 (a). Also, the Municipality could be sanctioned by the Federal Government for the noncompliance of this requirement.
<b>RECOMMENDATION</b>	I recommend management to continue complying with the due dates established in the OMB Circular A-133 related to the submission of the Single Audit reporting package.
<b>MANAGEMENT RESPONSE</b>	We will comply with the Single Audit due date requirement, for the audit of fiscal year 2014-2015, in accordance with OMB Circular A-133.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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<b>FINDING</b>	<b>2014-005</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>ALLOWABLE ACTIVITIES – HOUSEKEEPING SERVICES</b>
<b>CONDITION</b>	The Program failed to maintained appropriate supporting documentation regarding the housekeeping services in the participant's files.
<b>CONTEXT</b>	<p>As part of the disbursement test, I examined five (5) housekeeping services participant's files and noted the following conditions:</p> <ul style="list-style-type: none"><li>• In five (5) participants' files, I noted that the application form, the eligibility form, the evaluation form and the contracts were completed the same date. I could not determine if there was an organized selection process. Also, the contracts between the Municipality and the participants were made after the services started;</li><li>• Five (5) files did not include evidence of the birth certificate and the social security of the participants;</li><li>• Two (2) files did not include evidence of the health certificate of the participants;</li><li>• In one (1) file I did not found evidence of the monitoring follow-up visits made to the participants.</li></ul>
<b>CRITERIA</b>	Code of Federal Regulations 24, 85.20 (a) (2) states that fiscal control and accounting procedures of subgrantees, must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Also, the Municipality has an operational guide "Manual Operacional Programa Auxiliares del Hogar" that includes all procedures and program's requirements for housekeeping services.
<b>CAUSE</b>	The Program's internal controls procedures relating to the Housekeepers services failed to assure that all required information regarding participants were obtained in accordance with the operational guide.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>2014-005 (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>ALLOWABLE ACTIVITIES – HOUSEKEEPING SERVICES</b>
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 24, 85.20 (a) (2) and with the operational guide.
<b>RECOMMENDATION</b>	I recommend management to implement adequate internal controls and procedures in order to assure that the program staff completes all the required forms in accordance with the regulations and the operational guide.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	The Municipality's federal programs office will be evaluating the housekeeping files to complete the required documentation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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<b>FINDING NUMBER</b>	<b>2014-006</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 accounting records maintains differences with the quarterly reports submitted to the pass-through entity.
<b>CONTEXT</b>	During the reporting test, I noted that the accumulative expenditures reported in the quarterly report for the month ended June 30, 2014, submitted to the pass-through entity (OCAM), did not reconcile with the accounting records (check register) for the amount of \$39,120.
<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. 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.
<b>CAUSE</b>	The Program internal controls over the accounting records failed to assure that accurate quarterly reports were submitted to the pass-through agency.
<b>EFFECT</b>	The Program did not submit accurate quarterly reports to the pass-through entity in order to comply with the Federal regulation.
<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 adequate accounting registers.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>2014-006 (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>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	The Municipality's federal programs office will improve the internal controls over the recording of the financial transactions with the required supporting documentation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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<b>FINDING NUMBER</b>	<b>2014-007</b>
<b>FEDERAL PROGRAM</b>	<b>PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ELEGIBILITY</b>
<b>CONDITION</b>	The Program failed to document properly the eligibility process.
<b>CONTEXT</b>	<p>During the eligibility test, I selected a sample of twenty-five (25) participants' files and noted the following conditions:</p> <ul style="list-style-type: none"><li>a. In two (2) participants, which were subject to annual reexamination, during the fiscal year 2013-2014, I found that the Program did not update the Enterprise Income Verification (EIV);</li><li>b. For one (1) participant, the income reported in the Form 50058, did not agree with third party income verification;</li><li>c. In one (1) participant file, I noted that other member of the family (18 years or older) did not signed the release forms that allow the Program to obtain information from third parties and employment verification (Privacy Act Notice).</li></ul>
<b>CRITERIA</b>	<p>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. In addition, Code of Federal Regulation, 24, Section 982.516 (g), states that as a condition of admission to or continued assistance under the program, the PHA shall require the family head, and such other family members as the PHA designates, to execute a HUD-approved release and consent form authorizing any depository or private source of income, or any Federal, state or local agency, to furnish or release to the PHA or HUD such information as the PHA or HUD determines to be necessary. In addition, Chapter G of the Municipality's Administrative Plan establishes the policies and procedures for third parties verifications.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>2014-007 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ELEGIBILITY</b>
<b>CAUSE</b>	The Program's internal controls failed to assure that the EIV System was used during the mandatory annual and interim reexamination as a third party income verification of the family income. In addition, the Program's staff failed to obtain all the required documentation necessary for the reexamination process.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 24, Section 982.516 (a) (1), (2) and (g).
<b>RECOMMENDATION</b>	I recommend management to continue strengthening the internal controls and procedures designed to verify the family income and composition using third parties information and the EIV system in each mandatory reexamination of the participants. Also, the Program should obtain all the necessary information related to the income and family composition of the participant's during the reexamination process. Also, the Program should be aware that all heads of household and members 18 years or older must signed the release of information during the reexamination process.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	The Municipality's housing program office will be improving the internal controls over the eligibility procedures documentation. Also, we evaluate the tenant's files to verify that it contains the required documentation.

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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<b>FINDING NUMBER</b>	<b>2014-008</b>
<b>FEDERAL PROGRAM</b>	<b>PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>REPORTING</b>
<b>CONDITION</b>	The Program did not summarize the financial transactions in a complete set of accounting records.
<b>CONTEXT</b>	During the 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. The accounting information of the Program was maintain in independent Excell worksheets by month that were not integrated to a formal accounting system.
<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 failed to establish adequate internal controls over the accounting records and the accurate submission of the monthly reports to the pass-through agency.
<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 controls 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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>2014-008 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>REPORTING</b>
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	The Municipality's housing program office will be improving the internal controls over the recording of the financial transactions with the required supporting documentation.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>2014-009</b>
<b>FEDERAL PROGRAM</b>	<b>PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TEST- DEPOSITORY AGREEMENTS</b>
<b>CONDITION</b>	The Municipality failed to enter in a depository agreement with its financial institution.
<b>CONTEXT</b>	During the 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's housing program office will be contacting the financial institution to formalize the deposit agreement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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<b>FINDING</b>	<b>2014-010</b>
<b>FEDERAL PROGRAM</b>	<b>TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS (CFDA 84.287) U.S. DEPARTMENT OF EDUCATION PASS THROUGH – STATE DEPARTEMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ALLOWABLE ACTIVITIES</b>
<b>CONDITION</b>	During the fiscal year 2013-2014, the Program did not maintained the required attendance of students.
<b>CONTEXT</b>	According to the grant agreement formalized between the Municipality and the pass-through entity, the Program was required to maintain, during the fiscal year 2013-2014, an attendance of two hundred forty (240) students. During the examination of the records, I noted that the Program did not reached the earmark, of two hundred forty (240) students. Also, during the examination, I noted that the Program did not maintained adequate procedures to document that the 70% of the students, increased in 2% the academic improvements in the Spanish, English, science and mathematics, during the program year 2013-2014, in accordance with the grant agreement.
<b>CRITERIA</b>	Code of Federal Regulation 34, Sections 80.42 (a) and (b) establish that all financial and programmatic records, supporting documents, statistical records and other records of grantees and sub-grantees are required to be maintained by the terms of this part, program regulations or the grant agreement, or otherwise reasonably considered pertinent to program regulations or the grant agreement. Clause Third (a) of the grant agreement establish, that the services that will develop the Municipality, includes (a) a tutorial program in the basic assignments of Spanish, English, mathematics and sciences, where the students can increase the academic enrichment. The Municipality will serve in each center, a minimum attendance of sixty (60) students for each day of service. The Municipality will impact an attendance of two hundred forty (240) students in an extended schedule.
<b>CAUSE</b>	The efforts made by the Program to complete the required attendance were not enough to reach the earmark established in the contract with the pass-through entity.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 34, Sections 80.42 (a) and (b) and Clause Third (a) of the grant agreement.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>2014-010 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS (CFDA 84.287) U.S. DEPARTMENT OF EDUCATION PASS THROUGH – STATE DEPARTEMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ALLOWABLE ACTIVITIES</b>
<b>QUESTIONED COSTS</b>	None
<b>RECOMMENDATION</b>	I recommend management to reduce the amount of students that plan to impact, in the next proposal, in order to comply with the grant agreement earmarking.
<b>MANAGEMENT RESPONSE</b>	The Municipality's education department will be improving the internal controls over student's assistance to maintain a complete file to each student of this proposal.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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<b>FINDING</b>	<b>2014-011</b>
<b>FEDERAL PROGRAM</b>	<b>TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (CFDA 84.010) U.S. DEPARTMENT OF EDUCATION PASS THROUGH – STATE DEPARTEMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PROCUREMENT AND SUSPENSION AND DEBARMENT</b>
<b>CONDITION</b>	The Municipality disbursed funds during fiscal year 2013-2014 not in accordance with the procurement process established by the Federal and State regulations.
<b>CONTEXT</b>	During the disbursement test, I noted that the Program disbursed \$1,703,103 to a service provider, subcontracted by the Municipality, for educational services during the month of June 2014. The Municipality did not provide evidence of the process of evaluation, the basis for selection of the selected proponent and an analysis for making the award to the specific service provider.
<b>CRITERIA</b>	Code of Federal Regulation 34, Section 80.36 (b) (1) and (9) states that grantees and sub-grantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. Grantees and sub-grantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Also, CFR 80.36 (b) (12) (c), Competition, states that all procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Section 80.36. Also, Chapter X, Article 10.001, Section (a) of the Law 81 of the Autonomous Municipalities of Puerto Rico, states that the municipalities, except for the special situations established in the Law 81, will comply with the requirement of a public bid when the purchase of materials, equipment, food, medicines and other services exceed the amount of \$100,000. In addition, Clause Seventh, of the grant agreement, states that the Municipality cannot make subcontracts, transfer nor trespass the realization of the services established in this agreement without the previous consent and in writing of the pass-through entity. The Municipality will be responsible of the recruitment, designation and appointment of the human resources that will be providing the services, excluding the pass-through entity of the matters related with the working hours, salaries and complaints.
<b>CAUSE</b>	The Municipality does not performed an appropriate procurement process because failed to publish a request for proposal or celebrate a public bidding for the educational services exceeding \$100,000.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>2014-011 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (TITLE I PART A OF THE ESEA) (CFDA 84.010) U.S. DEPARTMENT OF EDUCATION PASS THROUGH – STATE DEPARTEMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PROCUREMENT AND SUSPENSION AND DEBARMENT</b>
<b>EFFECT</b>	Procurement policies were not followed adequately and could result in higher costs for the educational services charged to the Program.
<b>RECOMMENDATION</b>	I recommend management to procure educational services from a representative amount of educational service providers and assure that the selection method is properly documented. Also, the Program must assure that the selected providers represents the lower and most advantageous price. Also, management should publish a request for proposal or a public bidding when the items or services requested exceed \$100,000.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	The Municipality will consider use adequate procurement process to acquire educational services in open competition to assure that brings opportunity to many providers.

**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>
13-III-06	Cash Management	14.228	None	Full corrective action was taken.
13-III-07	Reporting	14.228	None	No corrective action has been taken. Finding Reference 2014-006.
13-III-08	Eligibility	14.850	None	No corrective action has been taken. Finding Reference 2014-007.
13-III-09	Procurement and Suspension and Debarment	14.850	None	No corrective action has been taken. During fiscal year 2013-2014 the Program did not formalized construction contracts.
13-III-10	Reporting	14.850	None	No corrective action has been taken. Finding Reference 2014-008.
13-III-11	Special Test-Depository Agreement	14.850	None	No corrective action has been taken. Finding Reference 2014-009.
12-III-06	Allowable Activities-Transfer of Funds	14.228	None	Full corrective action was taken.
12-III-08	Cash Management	14.228	None	Full corrective action was taken.
12-III-10	Program Income	14.228	None	Full corrective action was taken.
12-III-11	Reporting	14.850	None	No corrective action has been taken. Finding Reference 2014-008.

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MUNICIPALITY OF MAUNABO**

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

**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-12	Eligibility	14.850	None	No corrective action has been taken. Finding Reference 2014-007.
12-III-13	Reporting	14.850	None	No corrective action has been taken. Finding Reference 2014-008.
12-III-14	Special Test- Depository Agreement	14.850	None	No corrective action has been taken. Finding Reference 2014-009.
11-III-05	Allowable Activities	14.228	\$87,891	No corrective action has been taken.
11-III-07	Cash Management	14.228	None	Full corrective action was taken
11-III-09	Reporting	14.228	None	No corrective action has been taken. Finding Reference 2014-006.
11-III-10	Allowable Activities	14.850	None	Full corrective action was taken.
11-III-11	Eligibility	14.850	None	No corrective action has been taken. Finding Reference 2014-07.
11-III-12	Reporting	14.850	None	No corrective action has been taken. Finding Reference 2014-008.

**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
11-III-13	Special Test- Depository Agreement	14.850	None	No corrective action has been taken.  Finding Reference 2014-009.
10-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.
10-III-07	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.
10-III-10	Reporting	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.
10-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.