OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL

MUNICIPIO DE NARANJITO
AUDITORÍA 2012-2013

30 DE JUNIO DE 2013

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

Independent Auditors' Report

Basic Financial Statements and Supplemental Schedules

Year Ended June 30, 2013

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
YEAR ENDED JUNE 30, 2013

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
ENDED JUNE 30, 2013

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

The Municipality of Naranjito (the "Municipality") discussion and analysis has been designed with the followings goals:

a) Assist the reader in focusing on significant financial issues,
b) Provide an overview of the Municipality's financial activity,
c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
d) Identify any material deviations from the financial plan (the approved budget), and;
e) Identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality net position increased by $2,058,949.
- Net position amounts to $68,341,766
- Capital assets increased by $6,173,504.
- Capital expenditures amounted to $7,232,824.
- General fund balance increased by $1,516,049.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Position presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements focus on 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 is useful in evaluating the Municipality's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time. The Municipality has elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Municipality's net position totaled $68.3 million at the end of 2013, compared to $66.3 million at the end of the previous year.

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

Condensed Statement of Net Position
June 30, 2013 and 2012

	2013	2012
Current assets	$ 13,676,704	$ 16,131,141
Capital assets	76,479,336	70,305,832
Total assets	90,156,040	86,436,973
Currrent liabilities	2,969,861	3,504,754
Noncurrent liabilities	18,844,413	16,649,402
Total liabilities	21,814,274	20,154,156
Invested in capital assets, net of related debt	60,188,336	55,362,832
Restricted	7,609,633	11,716,630
Unrestricted	543,797	(796,645)
Total net position	$ 68,341,766	$ 66,282,817

Changes in Net Position

The Municipality's net position increased by $2.0 million. Approximately 66 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 23 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and public housing and welfare.

Condensed Statement of Activities
June 30, 2013 and 2012

	2013	2012
Program revenues		
Charges for services	$ 103,388	$ 107,547
Operating grants and contributions	3,131,765	5,984,464
Capital grants and contributions	-	
General revenues		
Property taxes	2,825,944	2,389,232
Municipal license tax	1,732,309	1,155,906
Sales and use taxes	1,156,988	1,693,542
Grants and contributions not restricted to specific programs	9,696,632	7,059,856
Interest and investment earnings	254,196	354,860
Miscellaneous	676,275	971,806
Total revenues	19,577,497	19,717,213
Expenses		
General government	8,052,841	8,022,242
Public safety	896,354	841,973
Public works	3,034,761	4,868,449
Health and welfare	3,339,230	2,203,381
Culture and recreation	741,392	804,358
Community development	472,398	2,035,941
Urban development	150,263	57,449
Education	87,764	2,350
Interest	743,545	522,033
Total expenses	17,518,548	19,358,176
Change in net position	2,058,949	359,037
Net position, beginning of year	66,282,817	65,923,780
Net position, end of year	$ 68,341,766	$ 66,282,817

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported a combined fund balance of $10.7 million compared to a fund balance of $13.3 million in the prior year.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2012, the general fund has a fund balance of $2.2 million. The fund balance increased by $1.5 million during fiscal year 2013.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget to reclassify certain expenditures among the different governmental functions. Such reclassifications were necessary to provide for the developments that affected the Municipality's finances.

Actual revenues and expenditures were mostly on line with budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2013, amounts to $91.5 million, net of accumulated depreciation of $15.0 million, leaving a net book value of $76.5 million. This investment in capital assets includes land, buildings, improvements, equipment, intangibles, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was about 8.78% in terms of net book value. Actual expenditures to purchase or construct capital assets were $7.2 million for the year. Depreciation charges for the year totaled $1.1 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2013, the Municipality has $5.8 million of unexpended proceeds from grants and bonds that are committed to future construction activities.

Debt Administration

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

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

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2013-2014 fiscal year.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 53 Naranjito, Puerto Rico 00719-0053.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
Statement of Net Position
June 30, 2013

ASSETS	
Cash and cash equivalents	4,813,592
Cash with fiscal agent	6,593,327
Accounts receivable:	
Municipal license tax	4,047
Intergovernmental	514,263
Sales ans use tax	65,934
Fines	3,380
Federal grant	1,682,161
Capital assets	76,479,336
Total assets	$ 90,156,040
LIABILITIES	
Accounts payable and accrued liabilities	2,147,003
Due to other governmental agencies	19,084
Deferred revenues:	
Municipal license tax	596,155
Federal grant revenues	207,619
Noncurrent liabilities:	
Due within one year	1,339,427
Due in more than one year	17,504,986
Total liabilities	$ 21,814,274
NET POSITION	
Invested in capital assets, net of related debt	60,188,336
Restricted	
Capital projects	3,226,877
Debt service	3,780,668
Federal and state grant funds	602,088
Unrestricted	543,797
Total net position	$ 68,341,766

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
Statement of Activities
For the year ended June 30, 2013

Functions/programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating grants and contributions	Program Revenues: Capital grants and contributions	Net (expense) revenue and changes in net position: Governmental Activities
General government	$ 8,052,841	$ 103,388	$ -	$ -	$ (7,949,453)
Public safety	896,354		30,495		(865,859)
Public works	3,034,761				(3,034,761)
Health and welfare	3,339,230		3,101,270		(237,960)
Culture and recreation	741,392				(741,392)
Community development	472,398				(472,398)
Urban development	150,263				(150,263)
Education	87,764				(87,764)
Interest on long-term debt	743,545				(743,545)
Total	$ 17,518,548	$ 103,388	$ 3,131,765	$ -	$ (14,283,395)

General revenues:	
Property taxes	$ 2,825,944
Municipal license tax	1,732,309
Municipal sales and use tax	1,156,988
Grants and contributions not restricted to specific programs	9,696,632
Interest and investment earnings	254,196
Miscellaneous	676,275
Total general revenues	16,342,344
Change in net position	2,058,949
Net position at beginning of year	66,282,817
Net position at end of year	$ 68,341,766

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
Balance Sheet
June 30, 2013

	General Fund	Special Revenue State and Federal Grants	Capital Projects Funds	Debt Service Fund	Total
ASSETS					
Cash and cash equivalents	$ 1,296,161	$ 2,546,868	$ 970,563	$ -	$ 4,813,592
Cash with fiscal agent	-	-	2,856,632	3,736,695	6,593,327
Accounts receivable:					
Municipal license tax	4,047	-	-	-	4,047
Intergovernmental	283,769	186,521	-	43,973	514,263
Sales and use tax	65,934	-	-	-	65,934
Fines	3,380	-	-	-	3,380
Federal grant	-	1,682,161	-	-	1,682,161
Due from other funds	2,307,099	-	-	-	2,307,099
Total assets	$ 3,960,390	$ 4,415,550	$ 3,827,195	$ 3,780,668	$ 15,983,803
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable and accrued liabilities	$ 247,941	$ 1,724,818	$ 174,244	$ -	$ 2,147,003
Due to other governmental agencies	19,084	-	-	-	19,084
Due to other funds	-	2,072,400	234,699	-	2,307,099
Deferred revenues:					
Municipal license tax	596,155	-	-	-	596,155
Federal grant revenues	-	16,244	191,375	-	207,619
Total liabilities	863,180	3,813,462	600,318	-	5,276,960
FUND BALANCES:					
Restricted		602,088	3,226,877	3,780,668	7,609,633
Committed					-
Assigned					-
Unassigned	3,097,210				3,097,210
Total fund balance	3,097,210	602,088	3,226,877	3,780,668	10,706,843
Total liabilities and fund balance	$ 3,960,390	$ 4,415,550	$ 3,827,195	$ 3,780,668	$ 15,983,803
Fund Balance Governmental Funds					10,706,843
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.					76,479,336
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the governmental funds.					(18,844,413)
Net position					$ 68,341,766

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2013

	General Fund	Special Revenue State and Federal Grants	Capital Projects Funds	Debt Service Fund	Total
REVENUES:					
Property taxes	$ 1,949,630	$ -	$ -	$ 876,314	$ 2,825,944
Municipal sales and use tax	1,025,184	-	-	707,125	1,732,309
Municipal license tax	1,156,988	-	-	-	1,156,988
Licenses, permits and other local taxes	488,415	-	-	-	488,415
Intergovernmental:					
Local	7,015,343	889,336	237,724	-	8,142,403
Federal	-	4,197,579	-	-	4,197,579
Rent of property	38,012	-	-	-	38,012
Fines and forfeitures	11,889	-	-	-	11,889
Interest	254,196	-	-	-	254,196
Charges for services	103,388	-	-	-	103,388
Other	574,215	52,159	-	-	626,374
Total revenues	12,617,260	5,139,074	237,724	1,583,439	19,577,497
EXPENDITURES:					
Current:					
General government	6,208,407	871,749	-	-	7,080,156
Public safety	671,045	195,619	-	-	866,664
Public works	2,965,133	31,300	-	-	2,996,433
Health and welfare	509,391	2,829,839	-	-	3,339,230
Culture and recreation	511,414	18,556	-	-	529,970
Community development	-	472,398	-	-	472,398
Urban development	150,263	-	-	-	150,263
Education	85,558	-	-	-	85,558
Capital outlays	-	3,196,623	4,036,201	-	7,232,824
Debt service:					
Principal	-	-	-	211,404	211,404
Interest	-	-	-	743,545	743,545
Total expenditures	11,101,211	7,616,084	4,036,201	954,949	23,708,445
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,516,049	(2,477,010)	(3,798,477)	628,490	(4,130,948)
OTHER FINANCING SOURCES (USES):					
Proceeds from issuance of long-term debt	-	-	1,540,000	-	1,540,000
Total other financing sources (uses)	-	-	1,540,000	-	1,540,000
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	1,516,049	(2,477,010)	(2,258,477)	628,490	(2,590,948)
FUND BALANCES, at beginning of year	1,581,161	3,079,098	5,485,354	3,152,178	13,297,791
FUND BALANCES, at end of year	$ 3,097,210	$ 602,088	$ 3,226,877	$ 3,780,668	$ 10,706,843

Net change in fund balance governmental funds	$ (2,590,948)
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 these assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	6,173,504
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,523,607)
Change in net position	$ 2,058,949

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

1. Reporting Entity

The **Municipality of Naranjito** (the Municipality) of the Commonwealth of Puerto Rico is a local government constituted in 1824 with full legislative, fiscal and administrative powers to operate as a government.

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

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

2. Basis of Presentation and Summary of Significant Accounting Policies

The accounting and reporting policies of the Municipality conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to governmental entities. The Municipality follows Governmental Accounting Standards Board (GASB) pronouncements under the hierarchy established by GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reported period. Actual results could differ from those estimates.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements — The statement of Net position and the statement of activities report information on all activities of the Municipality. The effect of interfund balances has been removed from the government-wide statement of Net position (deficiency), except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Municipality's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services or interest earned on investment securities. Following is a description of the Municipality's government-wide financial statements.

The statement of net position presents the Municipality's assets and liabilities, with the difference reported as Net position. Net position is reported in three categories:

- Invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any.
- Restricted net position result when constraints placed on Net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position consists of Net position that does not meet the definition of the two preceding categories. Unrestricted Net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted Net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (1) interest income on loans and investments, changes in the fair value of investments, and fees and charges to customers for services rendered or for privileges provided and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements — Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Municipality that are reported in the accompanying basic financial statements have been classified into governmental and enterprise funds.

Separate financial statements are provided for governmental funds and enterprise funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonexpendable — amounts that cannot be spent because they are not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- Restricted — amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- Committed — amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making Municipality.
- Assigned — amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- Unassigned — amounts that are available for any purpose.

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

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

Government-Wide Financial Statements — The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds 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 recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 120 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include federal and Commonwealth funds to be received. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Interest on general long-term obligations is generally recognized when paid.
- Debt service principal expenditures and claims and judgments are recorded only when payment is due.

For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

General fund - The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

Debt service fund - The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. Consistently with the prior fiscal years' financial statement presentation, during the fiscal year ended June 30, 2013, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

Special revenue funds - Special revenue funds are governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditures for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

Capital projects funds - Capital projects funds are governmental funds, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds accounted for in the capital projects funds.

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

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

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) the general fund, (2) the special revenue state and federal grants fund, and (3) the capital projects fund.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements.

The accompanying GFFS are accompanied by the following schedules required by GAAP: (1) the reconciliation of the balance sheet - governmental funds to the statement of net position, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances - governmental funds to the statement of activities.

Budgetary Control

The Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit for the fiscal year commencing on the next July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than May 10 and May 15, respectively. The Commissioner preliminary verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before June 13.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

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

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

The Municipality's Department of Finance has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level within the general and debt service funds, respectively.

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

Budgetary Accounting

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

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

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that unspent balance from the prior year be carried forward and made available for current spending.

The accompanying statement of revenues and expenditures - budget and actual - budgetary basis - general fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2013.

Deposits and Investments

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of $1,296,161 in the general fund were fully collateralized at June 30, 2013. In the Special Revenue State and Federal Grants fund there were deposits with commercial banks of $2,546,868, and $970,563 in Capital Projects Fund, that were fully collateralized.

The deposits at GDB of $6,593,327, restricted for capital projects, joint resolutions, other governmental funds, and for debt service, are unsecured and uncollateralized, as no collateral is required to be carried by governmental bank.

Accounts Receivable

Receivables consist of all revenues earned but not collected at June 30, 2013. These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans), as applicable. All other outstanding balances between funds are reported as "due to/from other funds"

Use of Estimates

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

Inter-fund Activities

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying GFFS:

Inter-fund 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. Inter-fund receivables, which are not considered to be currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period of time, inter-fund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as an operating transfer from the governmental fund that made the loan.

Inter-fund 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.

Operating transfers are reported as other financing sources in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.

Inter-fund reimbursements — Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

Capital Assets

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

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost of $5,000 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under $5,000 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002 and certain lands, buildings, structures and building improvements.

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

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method. The estimated useful lives of major capital asset categories are:

Description	Years
Buildings	50
Infrastructure	10
Building and site improvements	25
Vehicles	10
Machinery and equipment	7

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

Deferred Revenues

In the GFFS, deferred revenue arises when one of the following situations occur:

The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

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

Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. I6, *Accounting for Compensated Absence,* issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2013 and (2) is not contingent on a specific event that is outside the control of the Municipality' and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes and Medicare taxes).

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

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

The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the GFFS only when matured (when payment is due), for example, as a result of employee resignations or retirements.

Long-term Debt

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

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, 2013 are recorded as governmental Fund liabilities in the GFFS (debt service fund) when resources are available in the debt service fund (June 30, 2013). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

Accounting for Pension Costs and Post-Employment Benefits

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.

The 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.

Risk Management

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

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

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

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

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2013.

Future Adoption of Accounting Pronouncements — The GASB has issued the following statements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for periods beginning after December 15, 2013.
- GASB Statement No. 66, *Technical Corrections-2013-an amendment of GASB Statements No. 10 and No. 62*, which is effective for periods beginning after December 15, 2013.
- GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, which is effective for periods beginning after June 15, 2013.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is effective for periods beginning after December 15, 2013.
- GASB Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*, which is effective for periods beginning after June 15, 2013.
- GASB Statement No. 71, *Accounting and Financial Reporting for Pension transition for contributions made subsequent to the measurement date,* which is effective for periods beginning after June 15, 2014.

Management is evaluating the impact that these statements will have on the Municipality's basic financial statements.

2. Credit Risk

The following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2013:

Credit risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico*. Accordingly, the Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2013 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of $250,000 per depositor. No investments in debt of equity securities were made during the fiscal year ended June 30, 2013. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2013.

Interest rate risk - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates as required by the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico* (the adopted policy of the Municipality). At June 30, 2013, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

Custodial credit risk — In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico,* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of $250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

Therefore, the Municipality's management has concluded that at June 30, 2013, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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

3. Property Taxes

The personal property tax is self-assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomy Laws of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July I and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, deferred revenue is recorded at June 30.

On January 26, 2000, Public Law No. 42 was enacted authorized the CRIM to obtain a loan up to $200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years.

Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

On June 26 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables.

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

The annual tax rate for fiscal year 2012-2013 is 7.83% for real property and 5.83% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.80% and 4.80%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.00% represents the ad valorem tax restricted for debt service. The Commonwealth also contributes an annual tax rate of 0.2% of the Property tax collected and such amount is accounted for similar to item (a) above.

Property tax revenues in the general and debt service funds amounted to $1,949,630 and $876,314, respectively, for the fiscal year ended June 30, 2013.

4. Municipal License Taxes

The Municipality is authorized to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of NARANJITO. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2013, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of $3 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due. Municipal license tax revenues for the fiscal year ended June 30, 2013 amounted to $1,156,988 in the accompanying financial statements.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred revenues. Unearned municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to $596,155 at June 30, 2013. This amount represents the municipal license taxes corresponding to fiscal year ending June 30, 2014 that were collected in advance during the last quarter of the current fiscal year, as required by law.

5. Sales and Use Taxes

The Municipality imposes a sales and use tax pursuant to the provisions of the Puerto Rico Internal Revenue Code, as amended. The tax consists of one percent (1.0%) on the sales price of taxable items or on the purchase prices of all usage, storage, or consumption of taxable items, excluding wholesales. The sales and use tax is a self-assessed tax collected by the Municipality through monthly tax returns due on the twentieth day of the immediate following month. The tax returns are filed by the respective businesses that are required by law to withhold the tax from consumers on each taxable product or service. Sales and use tax revenues amounted to $1,025,184 for the fiscal year ended June 30, 2013.

The commonwealth of Puerto Rico imposes a separate state sales and use tax of 0.5%, which is imposed and collected by the Puerto Rico Treasury Department through monthly tax return due on the twentieth day of the immediate following month. This 0.5% tax is administered by the Government Development Bank of Puerto Rico for the following purposes: (1) 0.2% is deposited in the new "Municipal Debt Service Fund", strictly for granting loans to the municipalities of Puerto Rico; (2) 0.2% for the creation of the "Municipal Development Fund" percentage, which will be distributed among all municipalities pursuant to a statutory formula; and (3) 0.1%, for the creation of the "Permanent Improvements Fund", to be distributed by the Legislature of the Commonwealth of Puerto Rico to carry out public works and permanent improvement projects in the municipalities of Puerto Rico.

6. Intergovernmental Receivables and Payables

Intergovernmental receivable and payables recorded in the accompanying GWFS and GFFS are as follows:

Program Description	Amount
CRIM	$ 327,742
Traffic Safety Commission	12,146
OMEP	89,800
Law No. 52	79,358
Others	5,217
Total	$ 514,263

Federal grants receivable in special revenue state and federal grants and Capital Projects Fund represents expenditures incurred not yet reimbursed by the pass-through grantor. Following is a detail of the federal grants receivable:

Program Description	Amount
Community Development Block Grant - State Program	$ 1,648,541
Child Care	33,620
Total	$ 1,682,161

7. Inter-fund Transactions

Inter- fund – receivables and payables at June 30, 2013 are summarized as follows:

Fund	Receivable Fund	Payable Fund
General Fund	$ 2,307,099	$ -
Special Revenue State and Federal Fund		2,072,400
Capital Projects Fund		234,699
	$ 2,307,099	$ 2,307,099

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers, which are considered by management to be fully realizable at June 30, 2013.

8. Deferred Revenues

Deferred revenues of $596,155 in the general fund is related to municipal license tax collected in fiscal year 2012-2013 that will be earned in fiscal year 2013-2014.

9. Long-Term Obligations

a) The general long-term debt activity for the fiscal year ended June 30, 2013 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 14,943,000	$ 1,540,000	$ (192,000)	$ 16,291,000	$ 569,000
Advances CRIM - Law 42	644,147		(16,270)	627,877	17,293
Advances CRIM - Law 146	62,670		(3,134)	59,536	3,134
Compensated absences	1,670,989	1,152,000	(956,989)	1,866,000	750,000
	$ 17,320,806	$ 2,692,000	$ (1,168,393)	$ 18,844,413	$ 1,339,427

Historically, the general fund has been used to liquidate certain notes payable, compensated absences, federal cost disallowances and any other long-term liabilities other than bonds.

b) Bonds Payable

The Municipality issues general obligation, special obligation and public improvement bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

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

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2013:

1996 Special obligation bond for the reconstruction of the municipality's infrastructure with an original amount of $400,000 due in installments of $25,000 to $40,000 through July 1, 2016, with interest ranging from 6.00% to 8.00%	$ 130,000
1996 Public improvement bond for infrastructure construction with an original amount of $275,000 due in installments of $18,000 to $20,000 through July 1, 2016, with interest of 4.50%	63,000
1999 General obligation bond for infrastructure's construction with an original amount of $56,000 due in installments of $2,000 to $4,000 through July 1, 2024, with interest of 4.50%	33,000
2000 General obligation bond for infrastructure construction with an original amount of $38,000 due in installments of $1,000 to $3,000 through July 1, 2025, with interest rate of 4.50%	25,000
2007 General obligation bond for infrastructure's construction with an original amount of $3,195,000 due in installments of $40,000 to $265,000 through July 1, 2032, with interest ranging from 1.53% to 7.00%	2,860,000
2009 Special obligation note for infrastructure's improvements with an original amount of $40,000 due in installments of $5,000 to $10,000 through July 1, 2016, with interest ranging from 4.75% to 6.50%	25,000
2008 Special obligation note for equipment acquisition with an original amount of $880,000 due in installments of $120,000 to $180,000 through July 1, 2014, with interest ranging from 1.53% to 6.50%	340,000
2008 Special obligation note for infrastructure's construction with an original amount $2,685,000 due in installments of $40,000 to $225,000 through July 1, 2032 with interest ranging from 1.53% to 7.25%	2,505,000
2009 Special obligation bond for infrastructure's construction with an original amount of $350,000 due in installments of $5,000 to $35,000 through July 1, 2034, with interest ranging from 5.00% to 7.00%	335,000
2009 General obligation bond for infrastructure's construction with an original amount of $335,000 due in installments of $5,000 to $30,000 through July 1, 2034, with interest ranging from 5.00% to 7.00%	320,000
2009 General obligation bond for infrastructure's construction with an original amount of $3,620,000 due in installments of $55,000 to $305,000 through July 1, 2034, with interest ranging from 4.75% to 7.00%	3,450,000
2009 Special obligation bond for infrastructure's construction with an original amount of $225,000 due in installments of $5,000 to $20,000 through July 1, 2034, with interest ranging from 5.00% to 7.50%	210,000
2010 Special obligation bond for infrastructure's construction with an original amount of $1,010,000 due in installments of $10,000 to $85,000 through July 1, 2035, with interest ranging from 5.00% to 7.50%	990,000
2011 Special obligation bond to compensate obligations related with the Municipal Revenue Collection Center (CRIM) with an original amount of $1,490,000 due in installments of $20,000 to $130,000 through July 1, 2035, with interest ranging from 6.00% to 7.50%	1,445,000
2012 General obligation bond for infrastructure's construction or improvements with an original amount of $645,000 due in installments of $15,000 to $65,000 through July 1, 2031, with interest ranging from 5.00% to 7.50%	630,000
2012 Special obligation note for infrastructure's construction or improvements with an original amount of $1,410,000 due in installments of $20,000 to $125,000 through July 1, 2036, with interest ranging from 6.00% to 7.50%	1,390,000
2013 General obligation bond for infrastructure's construction or improvements with an original amount of $405,000 due in installments of $45,000 to $75,000 through July 1, 2019, with interest ranging from 6.00% to 7.50%	405,000
2012 General obligation bond for infrastructure's construction or improvements with an original amount of $575,000 due in installments of $10,000 to $50,000 through July 1, 2037, with interest ranging from 6.00% to 7.50%	575,000
2012 Special obligation note for infrastructure's construction or improvements with an original amount of $560,000 due in installments of $5,000 to $45,000 through July 1, 2037, with interest ranging from 6.00% to 7.50%	560,000
	$ 16,291,000

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts.

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

Year ending June 30,	Principal	Interest
2014	$ 569,000	$ 692,015
2015	620,000	1,072,448
2016	482,000	1,045,646
2017	505,000	1,021,750
2018	495,000	987,544
2019-2023	2,766,000	4,390,700
2024-2028	3,734,000	3,339,152
2029-2033	4,940,000	1,724,587
2034-2038	2,180,000	276,275
	$ 16,291,000	$ 14,550,117

c. **Advances from- CRIM-**.This amount represents the balance owed to CRIM at June 30, 2013 which will be repaid through a financing obtained by the CRIM with GDB, as explained in Note 3.

d. **Compensated absences** – The government-wide statement of net position includes $1,866,000 of accrued sick leave benefits and accrued vacation benefits and related employer payroll cost, representing the Municipality's commitment to fund such costs from future operations.

NOTE 10. CAPITAL ASSETS

Capital assets; those with an estimated useful live of five years or more from the time of acquisition by the Municipality and a cost of $500 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in current year, including those changes for infrastructure and construction in-progress 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 NARANJITO

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

Governmental Activities:	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
Capital asset, not being depreciated:				
Land	$ 23,083,239	$	$ -	$ 23,083,239
Construction in progress	27,376,564	1,363,399	(1,820,265)	26,919,698
Total capital assets not being depreciated	50,459,803	1,363,399	(1,820,265)	50,002,937
Capital assets, being depreciated:				
Buildings and building improvements	7,652,019	-	-	7,652,019
Site improvements	4,173,231	5,043,801	-	9,217,032
Infrastructure	15,143,960	2,448,742	-	17,592,702
Furniture and fixtures	2,676,182	83,338	-	2,759,520
Works of Art	2,400	7,485	-	9,885
Vehicles	4,133,249	106,323	-	4,239,572
Total capital assets being depreciated	33,781,041	7,689,690		41,470,731
Less accumulated depreciation for:				
Buildings and building improvements	(2,550,897)	(191,300)	-	(2,742,197)
Site improvements	(652,772)	(230,426)	-	(883,198)
Equipment	(2,297,713)	(167,988)	-	(2,465,701)
Infraestructure	(4,525,693)	(392,908)	-	(4,918,601)
Works of Art	(1,141)	(928)	-	(2,069)
Vehicles	(3,906,796)	(75,770)	-	(3,982,566)
Total accumulated depreciation	(13,935,012)	(1,059,321)	-	(14,994,332)
Total capital assets being depreciated, net	$ 19,846,029	$ 6,630,369	-	$ 26,476,399
Governmental activities capital assets, net	$ 70,305,832	$ 7,993,768	-	$ 76,479,336

11. Employees' Retirement Systems

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

The Retirement System provides retirement, death, and disability benefits pursuant to legislation enacted by the Commonwealth's Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month.

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

Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Municipality is required to contribute 10.275% of the participant's gross salary. On April 4, 2013 the Legislature enacted Act No. 3 which amended Act No. 447 to establish a new retirement program.

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

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

The Municipality is required by Act No. 305 to contribute 10.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan. On April 4, 2013 the Legislature enacted Act No. 3 which amended Act No. 305 to establish a new retirement program.

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

Defined Contribution Hybrid Program – On April 4, 2013 the Legislature enacted Act No. 3 which amended Act No. 447 and Act. No. 305 to establish, among other things, a defined contribution hybrid program (the "Hybrid Program") to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit pension plan and the defined contribution plan, and were rehired on or after July 1, 2013, become members of the Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013 were participants of previous plans will become part of the Defined Contribution Hybrid Program.

Participants in the defined benefit pension plan who as of June 3, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants who as of June 30, 2013, have not reach the age of 58 and completed 10 years of service or have not reach the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Participants in the defined contribution plan who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Act. No. 3 requires employees to contribute ten percent (10%) of their monthly gross salary to the Hybrid Program. Employee contributions are credited to individual accounts established under the Hybrid Program. In addition a mandatory contribution equal to or less than point twenty five percent (.25%) is required for the purchase of disability insurance.

The Municipality is required to contribute 12.275% of each participant's gross salary. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability the participants have the option of receiving a lump sum or purchasing an annuity contract

Employee and Municipality's contributions to the defined contribution hybrid program will commence on fiscal year 2014.

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

12. Commitments and Contingencies

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Public Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

The Municipality has reported committed fund balance, for the outstanding encumbrances amounting to $150,644 in the general fund at June 30, 2013. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

The Municipality has reserved and committed funds for outstanding construction projects amounting to approximately $3,200,000 at June 30, 2013.

The Municipality receives financial assistance from the federal Governments of the United States of America and the Commonwealth in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Accordingly, expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. Disallowance as a result of these audits may become liabilities of the Municipality.

13. Subsequent events

The Municipality evaluated subsequent events up to March 26, 2014, the date the financial statements were available to be issued.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
Budgetary Comparison Schedule - General Fund
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts Budgetary Basis (See Note 1)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	$ 1,655,715	$ 1,655,715	$ 1,949,630	$ 293,915
Municipal sales and use tax	1,100,000	1,100,000	1,025,184	(74,816)
Municipal license tax	990,000	990,000	1,156,988	166,988
Licenses, permits and other local taxes	387,020	387,020	488,415	101,395
Charges for services	120,000	120,000	103,388	(16,612)
Interest, fines and penalties	180,000	180,000	266,085	86,085
Intergovernmental - local	7,047,661	7,047,661	7,015,343	(32,318)
Other	758,935	758,935	612,227	(146,708)
Transfers from other funds	-	-	-	-
Total revenues	12,239,331	$ 12,239,331	12,617,260	377,929
EXPENDITURES:				
General government	6,428,242	6,808,004	6,338,501	(469,503)
Public safety	766,875	675,633	671,045	(4,588)
Public works	3,372,647	3,085,122	2,965,133	(119,989)
Health and welfare	910,079	915,347	509,391	(405,956)
Culture and recreation	514,935	516,144	511,414	(4,730)
Urban development	154,330	152,025	150,263	(1,762)
Education	92,223	87,056	85,558	(1,498)
Transfers to other funds	-	-	-	-
Total expenditures	12,239,331	$ 12,239,331	11,231,305	(1,008,026)
EXCES OF REVENUES OVER EXPENDITURES	$ -	$ -	$ 1,385,955	$ (630,097)

Explanation of differences:

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	$ 12,617,260
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.	$ 12,617,260
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	$ 11,231,305
Differences - budget to GAAP:	
Prior year encumbrances recorded as current year expenditures for GAAP basis.	20,550
Current year encumbrances recorded as expenditures for budgetary purposes	(150,644)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances.	$ 11,101,211

See notes to budgetary comparison schedule

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

Notes to Budgetary Comparison Schedule – General Fund

1. 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 USGAAP, 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 USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program:			
Section 8 Housing Choice Voucher	14.871		$ 807,005
Direct Program:			
Supportive Housing Program	14.235		150,310
Direct Program:			
Homeless Prevention and Rapid Re-housing Technical Assistance	14.262		80,424
Pass-through the Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State's Program	14.228	Not Available	1,676,676
Total U.S. Department of Housing and Urban Development:			**2,714,415**
Federal Emergency Management Agency:			
Direct Program:			
Public Assistance Grants	83.544		31,300
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Administration for Children and Family:			
Child Care and Development Block Grant	93.575	Not Available	220,555

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Energy			
Pass-through ARRA Fund	93.383		135,000
U.S. DEPARTMENT OF JUSTICE:			
Direct Program:			
Edward Byrne Memorial Justice Assistance Grant Program	16.803		30,495
Pass-through the Commonwealth of Puerto Rico Department of Justice:			
Crime Victim Assistance (VOCA)	16.575	Not Available	10,208
Total U.S. Department of Justice			**40,703**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 3,141,973**

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO

Notes to the
Schedule of Expenditures of Federal Awards
June 30, 2013

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of NARANJITO of the Commonwealth of Puerto Rico and is presented on the accrual basis of accounting. The Municipality of NARANJITO reporting entity is defined in Note 1 to the Municipality's basic financial statements. 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 the basic financial statements.

NOTE 2 - RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Federal financial assistance revenues and expenditures are reported in the Municipality's general-purpose financial statements as other governmental funds and capital project fund under the accrual basis of accounting. Expenditures in the Schedule of Expenditures of Federal Awards are presented in the cash basis of accounting.

NOTE 3 - FEDERAL CFDA NUMBER

The CFDA number included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

Gil Alberto Ortiz Cabrera
Certified Public Accountants & Professional Consultants

Members of: The American Institute of Certified Public Accountants (AICPA)
Puerto Rico Board of Certified Public Accountants

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

Honorable Major and Members

of the Municipal Assembly

Municipality of Naranjito

Naranjito, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Naranjito, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Municipality of Naranjito's basic financial statements, and have issued our report thereon dated March 26, 2014

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

CPA Gil Alberto Ortiz Cabrera

License 1332

Stamp # 2698948 was affixed

to the original report.

San Juan, Puerto Rico

March 26, 2014

Gil Alberto Ortiz Cabrera
Certified Public Accountants & Professional Consultants

Members of: The American Institute of Certified Public Accountants (AICPA)
Puerto Rico Board of Certified Public Accountants

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

Honorable Major and Members

of the Municipal Assembly

Municipality of Naranjito

Naranjito, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited Municipality of Naranjito's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of [Name of Governmental Entity or Nonprofit Organization] 's major federal programs for the year ended June 30, 2013. Municipality of Naranjito's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed 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. Our opinion on each major federal program is not modified with respect to these matters.

Municipality of Naranjito's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality of Naranjito's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

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

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

CPA Gil Alberto Ortiz Cabrera

License 1332

Stamp # 2698949 was affixed

to the original report.

San Juan, Puerto Rico

March 26, 2014

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

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statement

a. Type of auditor's report issued: *Unqualified*

b. Internal Control over financial reporting:
- Material weakness (es) identified? ____Yes __X__ No
- Significant deficiency (ies) identified that is (are) not considered to be material weakness (es)? ____Yes __X__ No

c. Material noncompliance to financial statements noted? ____Yes __X__ No

Federal Awards

a. Internal Control over major programs:
- Material weakness (es) identified? ____Yes __X__ No
- Significant deficiency (ies) identified that is (are) not considered to be material weakness (es)? ____Yes __X__ No

b. Type of auditor's report issued on compliance for major programs: *Unqualified*

c. Any audit findings disclosed that are required to be reported in accordance of Circular A-133? ____Yes __X__ No

d. The programs tested as major program are:

CFDA Numbers	Name of Federal Program of Cluster
14.228	Community Development Block Grant/State Program
14.235	Supportive Housing Program
93.383	ARRA Fund Energy

e. The threshold for distinguishing Type A and B programs was $300,000.

f. Municipality qualifies as low risk auditee? __X__ Yes ____ No

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
CURRENT YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Our audit of revealed that the Municipality of Naranjito has maintained an effective system of internal control over compliance with requirements of law, regulations, contracts and grants applicable to federal programs. No Federal Award Findings and Questioned Costs were detected during the audit.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF NARANJITO
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There are no prior year findings pending to be corrected.