

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

**MUNICIPIO DE OROCOVIS
AUDITORÍA 2013-2014
30 DE JUNIO DE 2014**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2014

(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)



CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

AICPA[®] Governmental
Audit Quality Center

Member of: American Institute of Certified Public Accountants (AICPA)
Puerto Rico Society of Certified Public Accountants
Enrolled in the AICPA Peer Review Program Since 1988

Orocovis

55

the

UNCLASSIFIED//
ELECTRONIC

15 JUL 27 AM 9:24

This page intentionally left blank.

| | Pages |
|---|-------|
| PART I – Financial: | |
| Independent Auditor’s Report..... | 2- 4 |
| Required Supplementary Information – Management’s Discussion and Analysis..... | 5-15 |
| Basic Financial Statements: | |
| Governmental-Wide Statements: | |
| Statement of Net Position..... | 16 |
| Statement of Activities..... | 17 |
| Governmental Funds Statements: | |
| Balance Sheet – Governmental Funds..... | 18 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position..... | 19 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds..... | 20 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities..... | 21 |
| Notes to the Basic Financial Statements..... | 22-64 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule – General Fund..... | 66 |
| Notes to Required Supplementary Information – Budgetary Comparison Schedule – General Fund..... | 67 |
| Supplementary Information Required by U.S. Department of Housing and Urban Development: | |
| Section 8 Housing Choice Vouchers Program: | |
| Financial Data Schedule (RQ047) – Entity Wide Balance Sheet Summary..... | 69 |
| Financial Data Schedule (RQ047) – Program Revenues and Expenses Summary..... | 70 |
| Financial Data Schedule (RQ047) – Notes to Financial Data Schedules..... | 71 |

| | Pages |
|---|-------|
| PART II – Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and OMB Circular A-133: | |
| Schedule of Expenditures of Federal Awards..... | 73-74 |
| Notes to Schedule of Expenditures of Federal Awards | 75 |
| 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 <i>Government Auditing Standards</i> | 76-77 |
| Independent Auditor’s Report on Compliance Requirements for Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133..... | 78-80 |
| PART III – Findings and Questioned Costs: | |
| Schedule of Findings and Questioned Costs | 82-85 |
| Summary Schedule of Prior Audits Findings | 86-87 |

PART I
FINANCIAL

This page intentionally left blank.



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Orocovis of the
Commonwealth of Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the Governmental Activities, each major fund, and the aggregate remaining fund information of **Municipality of Orocovis of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise **Municipality's** basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT
To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Orocovis of the
Commonwealth of Puerto Rico
Page 2

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, each major fund, and the aggregate remaining fund information of the **Municipality of Orocovis of the Commonwealth of Puerto Rico**, as of June 30, 2014, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Newly Adopted Standards

As discussed in Note 22 to the financial statements, the **Municipality** adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 15, and budgetary comparison information on pages 66 and 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality's** basic financial statements. The accompanying Financial Data Schedule – Section 8 Housing Choice Vouchers, as required by U.S. Department of Housing and Urban Development, on pages 69 through 71, and the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, on pages 73 through 75, are presented for purposes of additional analysis and are not required parts of the basic financial statements.



INDEPENDENT AUDITOR'S REPORT
To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Orocovis of the
Commonwealth of Puerto Rico
Page 3

The accompanying Financial Data Schedule – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedule – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2014 on our consideration of the **Municipality's** internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considered **Municipality's** internal control over financial reporting and compliance.



CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
December 27, 2014

Stamp No. E135435 was affixed to
the original report.



This page intentionally left blank.

As management of the Municipality of Orocovis of the Commonwealth of Puerto Rico (the "Municipality"), we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements (beginning on page 16).

HIGHLIGHTS

Financial Highlights

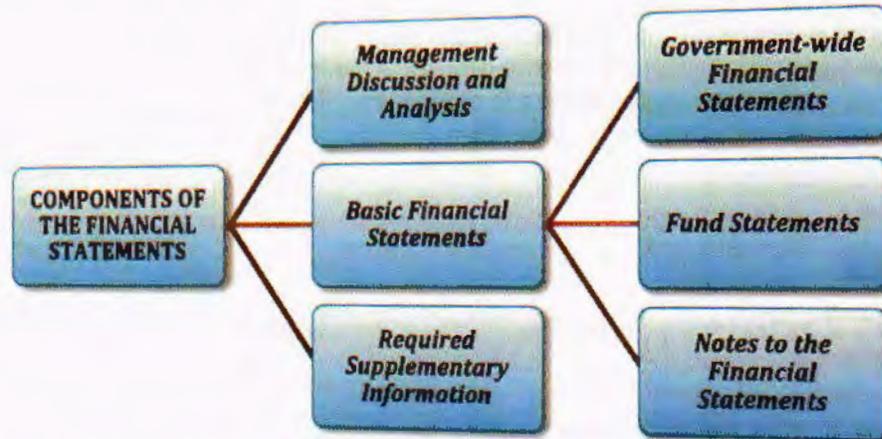
- The assets of the Municipality exceeded its liabilities at the close of the current fiscal year by \$28.4 million (net position).
- As of June 30, 2014, the Municipality's General Fund (the primary operating fund) reported a fund balance of \$654,406, an increase of \$484,976 in comparison with the prior year, as restated.
- The Municipality's activities expenses show a decrease of \$5.6 million in comparison with the prior year and revenues show a decrease of \$3.5 million dollars. These decreases were primarily to funds used for improvement and construction of infrastructure on 2013. The results of activities for fiscal year 2013-14 produced a decrease of net position of \$940 thousand.
- The total cost of the Municipality's mayor program (Head Start) amounted to \$6.750 million and \$6,950 million during fiscal year 2013-2014 and 2012-2013, respectively. This represented a decrease of \$200 thousand (or 0.029%).
- The investment in capital assets for this year is \$29.6 million representing a decrease of \$34 thousand (or 0.12%) in comparison with prior year.
- Loans principal payments were approximately \$574,000, decreasing long-term debt.
- Resources available for appropriation were \$66,866 more than budgeted for the General Fund.

Municipality Highlights

- The Municipality completed multiple construction projects, totaling \$756,423, for various buildings and recreational facilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's basic financial statements comprise three components: (1) management discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statement

Government-Wide Financial Statement

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

Statement of Net Position – The *Statement of Net Position* presents information on all of the Municipality's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether its financial position is improving or deteriorating. Other non-financial factors, such as the condition of the Municipality's roads and other infrastructure may need to be considered to assess the overall financial position of the Municipality.

Statement of Activities – The *Statement of Activities* presents information showing how the Municipality's net position changed during the year. All changes in net position (current year's revenues less expenses) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental and business-type activities). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental revenues (Governmental Activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The Governmental Activities of the Municipality include general government, public works and sanitation; public safety, culture and recreation, housing, welfare, and community development and education. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues.

continue

The government-wide financial statements can be found on pages 16-17 of this report.

Fund Financial Statement

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as Governmental Activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well on balances of expendable resources available at year end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that complies with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$1,902,111.

The government fund financial statements can be found on pages 18-21 of this report.

Notes to the Basic Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements can be found on pages 22 through 64.

Required Supplementary Information

Provides additional information to better understand the financial position of the Municipality and contains the Budgetary Comparison Schedule for the General Fund.

GOVERNMENT-WIDE STATEMENT

Statement of Net Position

The following table presents a summary of the Statements of Net Position as of June 30, 2014 and 2013:

| | 2014 | 2013 |
|----------------------------------|----------------------|----------------------|
| Current and Non-Current Assets | \$ 4,184,645 | \$ 5,061,031 |
| Capital Assets | 35,199,428 | 35,213,802 |
| Total Assets | 39,384,073 | 40,274,833 |
| Current Liabilities | 3,521,375 | 639,139 |
| Unearned | 648,167 | 509,728 |
| Long-Term Liabilities | 6,789,829 | 9,761,130 |
| Total Liabilities | 10,959,371 | 10,909,997 |
| Net Investment in Capital Assets | 29,654,743 | 29,688,977 |
| Restricted (As Restated) | 1,219,553 | 2,363,068 |
| Unrestricted (Deficit) | (2,449,594) | (2,687,209) |
| Total Net Position | \$ 28,424,702 | \$ 29,364,836 |

Net Position (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net Position for the year decreased 3% with respect to prior year. The most significant changes were a decrease in Long-Term Liabilities of (\$2,971,301), an increase in Current Liabilities of \$2,882,236 and a decrease in Restricted Net Position of (\$1,143,515).

The largest portion of the Municipality's net position reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$29,654,743; total capital assets (\$44,634,307) less accumulated depreciation (\$9,434,879) and less any related outstanding debt (\$5,544,685) used to acquire or construct those assets. The Municipality uses these assets to provide services to its citizens

and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purposes of retiring debt.

Restricted net position represents resources that are subject to external restrictions on how they may be used.

Unrestricted net position is the part of the net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2014 the Municipality presented unrestricted (deficit) net position of (\$2,449,594). This balance was affected by long term obligations such as compensated absences \$2,659,054 and other debts for the amount of \$1,391,976 for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. The most significant variance from last year was a (\$5,644,365) reduction in Urban Development expenses, due to the fact that the State Road Improvement Fund had virtually no disbursements when compared to the prior year.

Statement of Activities

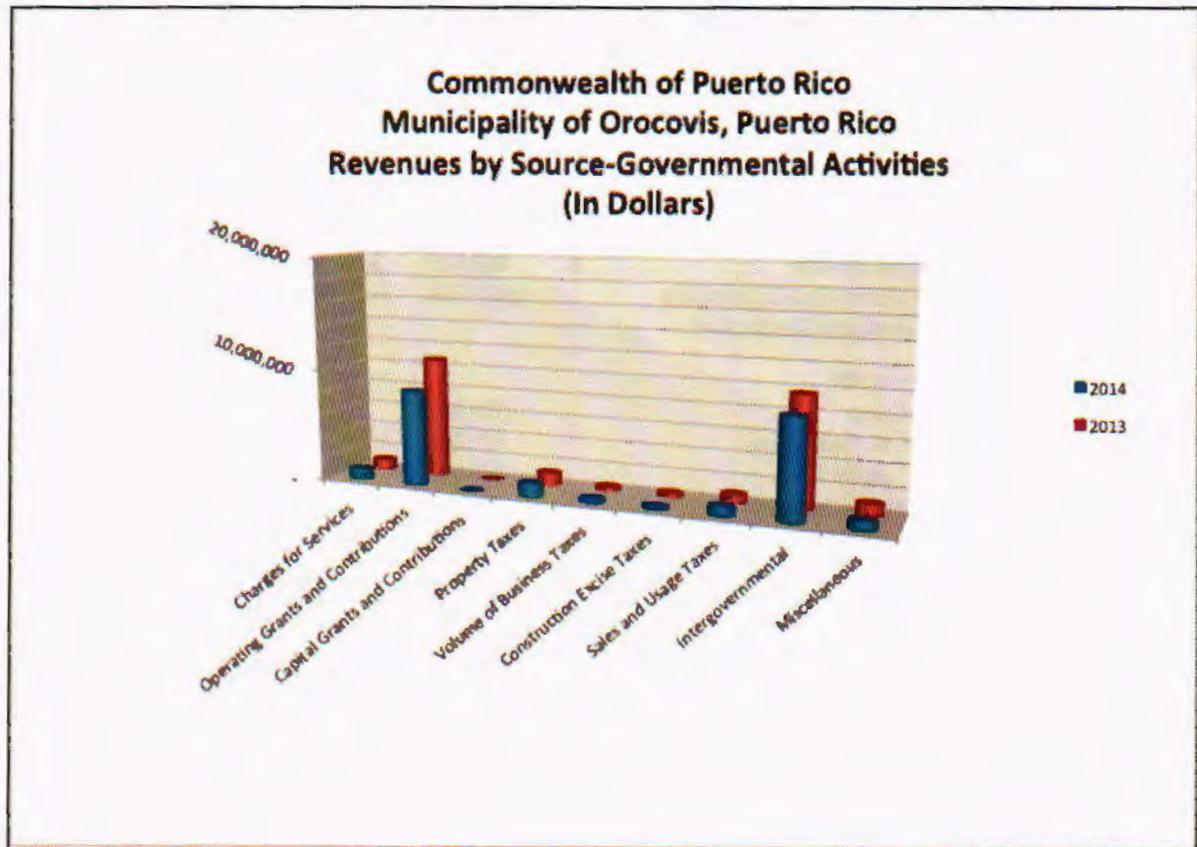
The following table compares the revenues and expenses for the current and previous fiscal year.

| | <u>2014</u> | <u>2013</u> |
|--------------------------------------|-----------------------------|-----------------------------|
| Revenues: | | |
| Program Revenues: | | |
| Changes for Services | \$ 995,913 | \$ 1,000,000 |
| Operating Grants and Contributions | 8,443,418 | 10,677,298 |
| Capital Grants and Contributions | - | - |
| General Revenues: | | |
| Property Taxes | 1,189,215 | 1,151,163 |
| Volume of Business Taxes | 425,998 | 409,147 |
| Sales and Usage Taxes | 870,653 | 815,505 |
| Construction Excise Taxes | 304,519 | 404,047 |
| Intergovernmental | 8,621,434 | 9,644,662 |
| Other General Revenues | 840,936 | 1,138,432 |
| Total Revenues | <u>21,692,086</u> | <u>25,240,254</u> |
| Expenses: | | |
| General Administration | 6,454,372 | 6,144,298 |
| Public Safety | 804,926 | 824,506 |
| Public Works | 3,294,084 | 3,559,335 |
| Culture and Recreation | 976,907 | 958,354 |
| Health and Sanitation | 553,917 | 436,360 |
| Solid Wasted Disposal | 137,750 | 124,675 |
| Human Services and Welfare | 1,224,461 | 1,228,962 |
| Urban Development | 1,149,331 | 6,793,696 |
| Public Instruction | 7,517,734 | 7,912,172 |
| Reimbursement of Funds | 188,520 | - |
| Interest on Long-Term Debt | 330,218 | 308,016 |
| Total Expenses | <u>22,632,220</u> | <u>28,290,374</u> |
| Changes in Net Positions | (940,134) | (3,050,120) |
| Net Positions-Beginning, as Restated | 29,364,836 | 32,414,956 |
| Net Positions-Ending | <u>\$ 28,424,702</u> | <u>\$ 29,364,836</u> |

Figure 1 presents revenues comparison by sources of the Governmental Activities during the past two years:

FIGURE 1

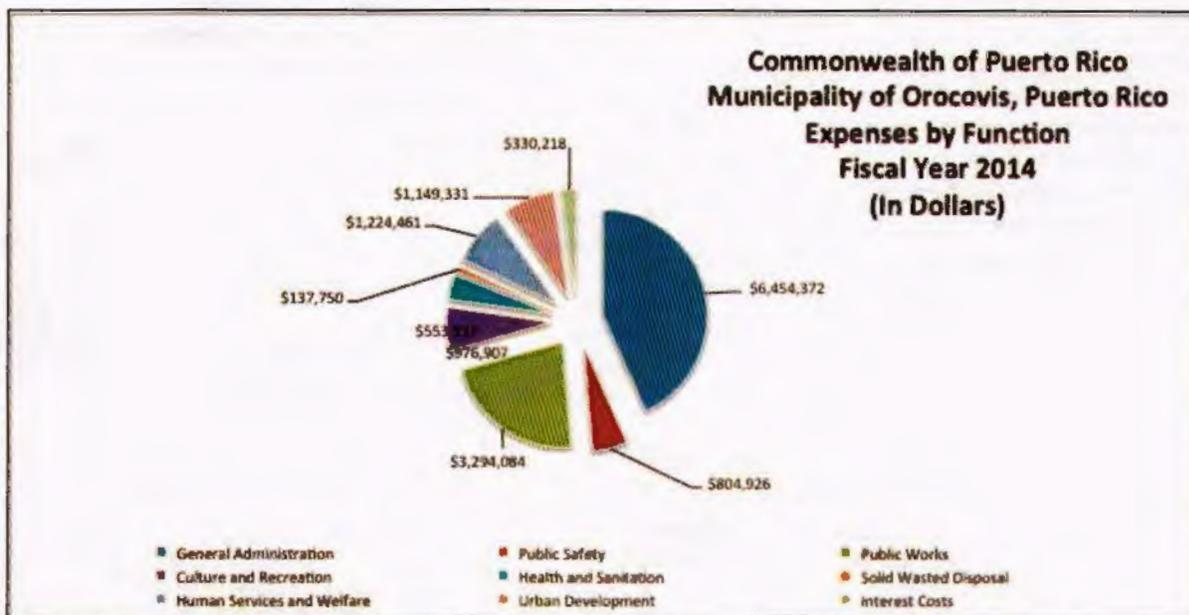
Revenues by Source – Governmental Activities
Fiscal Year ended June 30, 2014 and 2013



Approximately 39% of the Municipality's revenues came from grants and contributions, 39% from intergovernmental, 6% from property taxes, and 16% from other sources. With respect to prior year, revenues decreased by approximately \$3,548,000, due primarily to two factors: the Head Start Fund had an adjustment to its budget with a (\$1.03 million) reduction, and the State Roads Improvement Fund that received over \$4 million last year, did not receive any funds this year.

Figure 2 presents expenses by function of the Governmental Activities during the fiscal year 2013-2014:

FIGURE 2
Expenses by Function



The Municipality's expenses cover a range of services. The largest expenses are general administration with 43.2%, public works with 22.1%, human services and welfare with 8.2%, and urban development with 7.7%. Program revenues of the Municipality covered 42% of total expenses.

The following table focuses on the cost of each of the Municipality's largest functions/ programs as well as each functions/program's net cost (total cost less fees generated by the programs and program-specific intergovernmental aid):

Those who directly benefited from the programs and other governments and organizations that subsidized certain programs with grants and contributions paid some of the cost of governmental activities in 2014. Other general revenues including property, volume of business license taxes, and the sales and usage taxes and intergovernmental revenues substantially covered the \$13,192,889 net cost of services.

| Functions/Programs | Total Cost of Services | | Net Cost of Services | |
|----------------------------|------------------------|----------------------|----------------------|----------------------|
| | 2014 | 2013 | 2014 | 2013 |
| General Administration | \$ 6,454,372 | \$ 6,144,298 | \$ 5,148,664 | \$ 3,584,467 |
| Public Safety | 804,926 | 824,506 | 765,537 | 824,506 |
| Public Works | 3,294,084 | 3,559,335 | 3,294,084 | 3,559,335 |
| Culture and Recreation | 976,907 | 958,354 | 976,907 | 958,354 |
| Health Sanitation | 553,917 | 436,360 | 553,917 | 436,360 |
| Solid Waste Disposal | 137,750 | 124,675 | 22,937 | 124,675 |
| Human Services and Welfare | 1,224,461 | 1,228,962 | 261,608 | 393,904 |
| Urban Development | 1,149,331 | 6,793,696 | (272,192) | 1,955,104 |
| Public Instruction | 7,517,734 | 7,912,172 | 1,922,689 | 4,468,355 |
| Others | 330,218 | 308,016 | 518,738 | 308,016 |
| Total | \$ 22,443,700 | \$ 28,290,374 | \$ 13,192,889 | \$ 16,613,076 |

THE MUNICIPALITY'S FUNDS

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent. The following Table presents a comparison of the 2014 and 2013 fund balances:

Table 4

**Commonwealth of Puerto Rico
Municipality of Orocovis, Puerto Rico
Fund Balance
As of June 30,**

| | 2014 | 2013 |
|-----------------------|---------------------|---------------------|
| Fund Balances: | | |
| Nonexpendable | \$ - | \$ - |
| Restricted | 1,339,530 | 2,050,728 |
| Committed | 417,554 | 74,375 |
| Assigned | 131,654 | 95,055 |
| Unassigned | 13,373 | (186,884) |
| Total | \$ 1,902,111 | \$ 2,033,274 |

As of the end of the current fiscal year, the Municipality's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$1.9 million, which decreased from last year's total by \$131 thousand. Some of the governmental funds are capital expenditure oriented and, therefore, may reflect capital expenditures. The General Fund experienced a \$484,976 increase from a fund balance of \$169,430 (as restated) in the previous year to a fund balance of \$654,406 at the end of the current year.

Table 5

**Commonwealth of Puerto Rico
Municipality of Orocovis, Puerto Rico
General Fund
As of June 30,**

| Description | 2014 | 2013 |
|--|-------------------|---------------------|
| Revenues: | | |
| Property Taxes | \$ 930,312 | \$ 943,726 |
| Volume of Business Taxes | 425,998 | 409,147 |
| Sales and Usage Taxes | 451,374 | 361,403 |
| Intergovernmental | 8,494,436 | 7,987,224 |
| Construction Excise Taxes | 304,519 | 404,047 |
| Miscellaneous | 1,836,849 | 2,138,432 |
| Total Revenues | 12,443,488 | 12,243,979 |
| Expenditures: | | |
| General Government | 5,440,596 | 5,415,926 |
| Public Safety | 739,630 | 779,493 |
| Public Work | 2,973,676 | 3,236,745 |
| Culture and Recreation | 742,605 | 696,631 |
| Health and Sanitation | 546,465 | 428,857 |
| Solid Waste Disposal | 137,750 | 124,675 |
| Public Instruction | 992,882 | 989,653 |
| Human Services and Welfare | 249,632 | 337,998 |
| Urban Development | - | - |
| Capital Outlay | 311,508 | 49,266 |
| Total Expenditures | 12,134,744 | 12,059,244 |
| Net Transfer In (Out) | 176,232 | (325,452) |
| Other Financing Sources | - | - |
| Net Increase (Decrease) in Fund Balance | \$ 484,976 | \$ (140,717) |

At the end of fiscal year 2014, the General Fund presented Committed \$417,554 and Assigned \$131,654 Fund Balance, with an Unassigned Fund Balance of \$105,198. In order to comply with the provisions stated on our Ordinance that implemented the GASB Statement No. 54, regarding the Minimum Fund Balance Policy, the Municipality is in the process of making the arrangements to comply.

continue

Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times increasing the original budget by \$1,822,466 (see pages 66 and 67 for budget to actual comparisons). The current year operations resulted in a \$413,272 net profit, for budgetary purposes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2014, the Municipality had \$35.2 million invested in a variety of capital assets, as reflected in the following Table, which represents a net decrease (additions less depreciation) of \$14 thousand or 0.04% from the end of last year.

Table 6

**Commonwealth of Puerto Rico
Municipality of Orocovis, Puerto Rico
Net Investment in Capital Assets
As of June 30,**

| | Governmental Activities | |
|--------------------------------|--------------------------------|----------------------|
| | 2014 | 2013 |
| Non-depreciable assets: | | |
| Land | \$ 6,994,384 | \$ 6,994,384 |
| Construction in Progress | 2,156,535 | 2,418,649 |
| Depreciable assets: | | |
| Buildings | 16,897,154 | 16,373,043 |
| Equipment and Vehicles | 129,886 | 146,436 |
| Furniture and Fixtures | 454,671 | 457,381 |
| Heavy Equipment | 1,130,429 | 1,256,765 |
| Infrastructure | 7,436,369 | 7,567,144 |
| Total | \$ 35,199,428 | \$ 35,213,802 |

Additional information on the Municipality's capital assets can be found on Note 9 of the Basic Financial Statements.

Debt Outstanding

As of year-end, the Municipality had \$9,773,030 in debts (bonds and other long-term debts) outstanding compared to \$9,761,130 of last year.

Outstanding Debt at Year-End

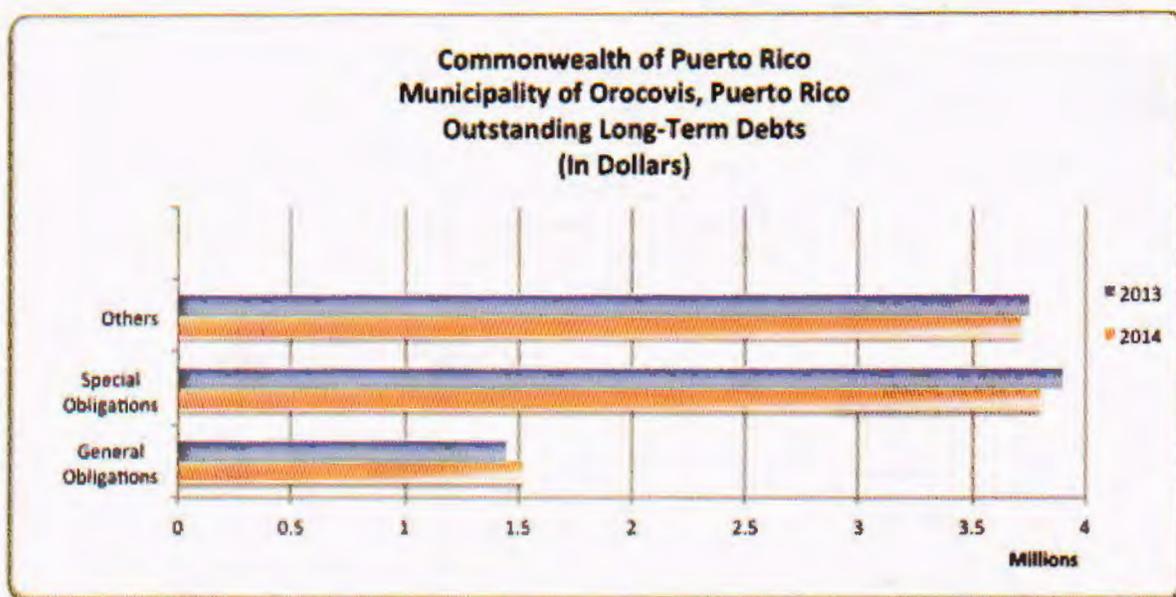
The Municipality made principal payments of (\$1,073,293) thousand during the current year. Rural development granted the Municipality a \$49,999 loan, to be repaid with Property Taxes, along with General Obligation Bonds. Also, this amount was affected by increases from the CRIM Year End Liquidation of \$276,328 and Compensated Absences of \$282,084.

**Commonwealth of Puerto Rico
Municipality of Orocovis, Puerto Rico
Outstanding Long-Term Debt
As of June 30,**

| | Governmental Activities | |
|---------------------------------|--------------------------------|---------------------|
| | 2014 | 2013 |
| General and Special Obligations | \$ 5,722,000 | \$ 6,246,001 |
| Law No. 42-MRCC | 845,645 | 857,803 |
| Law No. 146-MRCC | 60,587 | 63,953 |
| LIMS - MRCC | 276,328 | - |
| Christmas Bonus | 209,416 | 204,738 |
| Deferred Charges | - | 11,665 |
| Compensated Absences | 2,659,054 | 2,376,970 |
| Total | \$ 9,773,030 | \$ 9,761,130 |

continue

The Municipality levies an annual special tax of 1.50% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality. The outstanding general obligation debts of the Municipality of \$1.9 million is below the legal limitation. More detailed information about the Municipality's long-term debts is presented in Note 10 to the Basic Financial Statements.



ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The Mayor and the Municipal Assembly are elected every four years in general elections.

The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services. The Municipality's principal sources of revenue are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2014 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

The Municipality has a higher unemployment rate compared to all municipalities in Puerto Rico. As of June 2014 the unemployment rate of the Municipality averaged 21.2% as compared to 13.1% in Puerto Rico (Source Workforce Development Administration of the Commonwealth of Puerto Rico).

The above-mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2014-2015. Amounts available for appropriations (revenues) in the General Fund Budget are \$11,273,431 million, a decrease of around \$46,000 over the 2013-2014 original budget of \$11,319,803 million. Property taxes and other local charges for services, licenses and permits are expected to lead this increase. The Municipality will use the increase in revenues to finance programs we currently offer and to account for the deficit effect on the resources available to expend. Budgeted expenditures are expected to rise slightly below of revenue increases.

If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of fiscal year 2014-2015.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

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 for the money it receives. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance Office on the 2nd floor of the City Hall, State Road #156, P.O. Box 2106, Orocovis, Puerto Rico 00720.

This page intentionally left blank.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OROCOVIS**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

| | GOVERNMENTAL ACTIVITIES |
|--|------------------------------------|
| ASSETS: | |
| Cash | \$ 1,844,001 |
| Cash with Fiscal Agent | 1,243,115 |
| Receivables (Net): | |
| Federal Grants | 910,677 |
| Due from Government Units | 104,708 |
| Property Taxes | 16,248 |
| Sales and Usage Taxes | <u>65,896</u> |
| Capital Assets: | |
| Land and Construction in Progress | 9,150,919 |
| Other Capital Assets [Net of Accumulated Depreciation] | <u>26,048,509</u> |
| Total Capital Assets | <u>35,199,428</u> |
| TOTAL ASSETS | <u>39,384,073</u> |
| LIABILITIES: | |
| Accounts Payable and Accrued Expenses | 375,399 |
| Accrued Interest | 91,223 |
| Due to Governmental Units | 71,552 |
| Unearned Revenues | 648,167 |
| Noncurrent Liabilities: | |
| Due Within One Year | 2,983,201 |
| Due in More than One Year | <u>6,789,829</u> |
| TOTAL LIABILITIES | <u>10,959,371</u> |
| NET POSITION: | |
| Net Investment in Capital Assets | 29,654,743 |
| Restricted for: | |
| Capital Projects | 46,934 |
| Head Start | 378,308 |
| Debt Service | 529,332 |
| Community Development Projects | 264,979 |
| Unrestricted (Deficit) | <u>(2,449,594)</u> |
| TOTAL NET POSITION | <u>\$ 28,424,702</u> |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OROCOVIS**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenues and Changes in Net Position |
|---|----------------------|-------------------------|--|--|---|
| | | Charges For Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental Activities: | | | | | |
| Mayor and Municipal Legislature | \$ 949,080 | \$ - | \$ - | \$ - | \$ (949,080) |
| General Government | 5,505,292 | 881,100 | 424,608 | - | (4,199,584) |
| Public Safety | 804,926 | - | 39,389 | - | (765,537) |
| Public Works | 3,294,084 | - | - | - | (3,294,084) |
| Culture and Recreation | 976,907 | - | - | - | (976,907) |
| Health and Sanitation | 553,917 | - | - | - | (553,917) |
| Solid Waste Disposal | 137,750 | 114,813 | - | - | (22,937) |
| Human Services and Welfare | 1,224,461 | - | 962,853 | - | (261,608) |
| Urban Development | 1,149,331 | - | 1,421,523 | - | 272,192 |
| Public Instruction | 7,517,734 | - | 5,595,045 | - | (1,922,689) |
| Reimbursement of Funds | 188,520 | - | - | - | (188,520) |
| Interest on Long-Term Debt | 330,218 | - | - | - | (330,218) |
| Total Governmental Activities | \$ 22,632,220 | \$ 995,913 | \$ 8,443,418 | \$ - | (13,192,889) |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| Property Taxes, levied for General Purposes | | | | | 930,312 |
| Property Taxes, levied for Debt Service | | | | | 258,903 |
| Sales and Usage Taxes | | | | | 870,653 |
| Volume of Business Taxes | | | | | 425,998 |
| Construction Excise Taxes | | | | | 304,519 |
| Intergovernmental | | | | | 8,621,434 |
| Rent | | | | | 56,432 |
| Miscellaneous | | | | | 784,504 |
| Total General Revenues | | | | | 12,252,755 |
| CHANGES IN NET POSITION | | | | | |
| | | | | | (940,134) |
| Net Position – Beginning of Year | | | | | 29,364,836 |
| NET POSITION – ENDING OF YEAR | | | | | \$ 28,424,702 |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS**

**BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014**

| | GENERAL FUND | HEAD START FUND | DEBT SERVICE FUND | SBGP FUND | CHILD CARE FOOD PROGRAM FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|---------------------|--------------------|----------------------|-------------------|------------------------------------|--------------------------------|--------------------------------|
| ASSETS: | | | | | | | |
| Cash | \$ 902,732 | \$ 34,186 | \$ - | \$ 2,739 | \$ 252,925 | \$ 651,419 | \$ 1,844,001 |
| Cash with Fiscal Agent | - | - | 1,018,655 | - | - | 224,580 | 1,243,115 |
| Receivables: | | | | | | | |
| Property Taxes | - | - | 16,248 | - | - | - | 16,248 |
| Sales and Usage Taxes | 65,896 | - | - | - | - | - | 65,896 |
| Federal Grants | - | 362,692 | - | 433,254 | 114,731 | - | 910,677 |
| Due from Other Funds | 284,443 | - | - | - | - | - | 284,443 |
| Due from Governmental Units | 104,708 | - | - | - | - | - | 104,708 |
| Total Assets | \$ 1,357,779 | \$ 396,878 | \$ 1,034,803 | \$ 435,993 | \$ 367,656 | \$ 875,979 | \$ 4,469,088 |
| LIABILITIES: | | | | | | | |
| Account Payable | \$ 138,415 | \$ 18,549 | \$ - | \$ 75,362 | \$ 108,187 | \$ 34,886 | \$ 375,399 |
| Bond Payable | - | - | 374,000 | - | - | - | 374,000 |
| Accrued Interest | - | - | 91,223 | - | - | - | 91,223 |
| Due to Governmental Units | 71,552 | - | - | - | - | - | 71,552 |
| Due to Other Funds | - | 21 | - | 96,652 | - | 188,770 | 284,443 |
| Unearned Revenues | 388,698 | - | - | - | 259,469 | - | 648,167 |
| Total Liabilities | 598,665 | 18,570 | 465,223 | 171,014 | 367,656 | 223,656 | 1,844,784 |
| DEFERRED INFLOWS OF RESOURCES: | | | | | | | |
| Unavailable Revenues - Commonwealth of Puerto Rico | 104,708 | - | 16,248 | - | - | - | 120,956 |
| Unavailable Revenues - Federal Grants | - | 336,258 | - | 264,979 | - | - | 601,237 |
| Total Deferred Inflows of Resources | 104,708 | 336,258 | 16,248 | 264,979 | - | - | 722,193 |
| FUND BALANCES (DEFICITS): | | | | | | | |
| Restricted | - | 42,050 | 553,332 | - | - | 744,148 | 1,339,530 |
| Committed | 417,554 | - | - | - | - | - | 417,554 |
| Assigned | 131,654 | - | - | - | - | - | 131,654 |
| Unassigned (Deficit) | 105,198 | - | - | - | - | (91,825) | 13,373 |
| Total Fund Balances | 654,406 | 42,050 | 553,332 | - | - | 652,323 | 1,902,111 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits) | \$ 1,357,779 | \$ 396,878 | \$ 1,034,803 | \$ 435,993 | \$ 367,656 | \$ 875,979 | \$ 4,469,088 |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

| | | |
|--|--------------------|-----------------------------|
| Total Fund Balances – Government Funds (Page 18) | | \$ 1,902,111 |
| Amount reported for Governmental Activities in the Statement of Net Position (Page 16) are different because: | | |
| Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are: | | |
| Non Depreciable Capital Assets | \$ 9,150,919 | |
| Depreciable Capital Assets | 35,483,388 | |
| Accumulated Depreciation | <u>(9,434,879)</u> | |
| Total Capital Assets | | 35,199,428 |
| Some of the Municipality's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unavailable in the funds: | | |
| SBGP | 264,979 | |
| MRCC Liquidation | 16,248 | |
| Christmas Bonus Reimbursement | 104,708 | |
| Head Start Program | <u>336,258</u> | |
| Total Unavailable Revenues | | 722,193 |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | | |
| General Obligation Bonds | (1,865,000) | |
| Special Obligation Bonds | (3,483,000) | |
| Other Obligations | <u>(4,051,030)</u> | |
| Total Noncurrent Liabilities | | <u>(9,399,030)</u> |
| Total Net Position of Governmental Activities (Page 16) | | \$ <u>28,424,702</u> |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

| | GENERAL FUND | HEAD START FUND | DEBT SERVICE FUND | SBGP FUND | CHILD CARE FOOD PROGRAM FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------|--------------------|----------------------|----------------|------------------------------------|--------------------------------|--------------------------------|
| REVENUES: | | | | | | | |
| Property Taxes | \$ 930,312 | \$ - | \$ 242,655 | \$ - | \$ - | \$ - | \$ 1,172,967 |
| Volume of Business Taxes | 425,998 | - | - | - | - | - | 425,998 |
| Sales and Usage Taxes | 451,374 | - | 419,279 | - | - | - | 870,653 |
| Federal Grants | - | 6,595,737 | - | 436,239 | 722,208 | 394,738 | 8,148,922 |
| Intergovernmental | 8,494,436 | - | - | - | - | 1,244,440 | 9,738,876 |
| Construction Excise Taxes | 304,519 | - | - | - | - | - | 304,519 |
| Rent | 56,432 | - | - | - | - | - | 56,432 |
| Miscellaneous | 1,780,417 | - | - | - | - | - | 1,780,417 |
| Total Revenues | 12,443,486 | 6,595,737 | 661,934 | 436,239 | 722,208 | 1,639,178 | 22,498,784 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| Mayor and Municipal Legislature | 949,080 | - | - | - | - | - | 949,080 |
| General Government | 4,491,516 | - | - | - | - | 298,564 | 4,790,080 |
| Public Safety | 739,630 | - | - | - | - | 20,587 | 760,217 |
| Public Works | 2,973,676 | - | - | - | - | - | 2,973,676 |
| Culture and Recreation | 742,605 | - | - | - | - | 3,310 | 745,915 |
| Health and Sanitation | 546,465 | - | - | - | - | - | 546,465 |
| Solid Waste Disposal | 137,750 | - | - | - | - | - | 137,750 |
| Public Instruction | 992,982 | 6,561,967 | - | - | - | - | 7,554,949 |
| Human Services and Welfare | 249,632 | - | - | - | 722,208 | 252,621 | 1,224,461 |
| Urban Development | - | - | - | 336,509 | - | 772,258 | 1,108,767 |
| Reimbursement of Funds | - | 188,520 | - | - | - | - | 188,520 |
| Capital Outlay | 311,508 | - | - | 99,730 | - | 345,185 | 756,423 |
| Debt Service: | | | | | | | |
| Principal | - | - | 613,524 | - | - | - | 613,524 |
| Interest and Other Charges | - | - | 330,218 | - | - | - | 330,218 |
| Total Expenditures | 12,134,744 | 6,750,487 | 943,742 | 436,239 | 722,208 | 1,692,525 | 22,679,945 |
| EXCESS OF REVENUES OVER (UNDER) | | | | | | | |
| EXPENDITURES | 308,744 | (154,750) | (281,808) | - | - | (53,347) | (181,161) |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Proceed of Bonds | - | - | - | - | - | 49,998 | 49,998 |
| Transfers – In | 580,498 | - | 334,207 | - | - | 70,059 | 984,764 |
| Transfers – Out | (404,266) | - | (479,225) | - | - | (101,273) | (984,764) |
| Total Other Financing Sources (Uses) | 176,232 | - | (145,018) | - | - | 18,784 | 49,988 |
| Net Change in Fund Balances | 484,976 | (154,750) | (426,826) | - | - | (34,563) | (131,163) |
| Fund Balances (Deficit) – Beginning, as Restated | 169,430 | 196,800 | 980,158 | - | - | 686,886 | 2,033,274 |
| FUND BALANCES (DEFICIT) – ENDING | \$ 654,406 | \$ 42,050 | \$ 553,332 | \$ - | \$ - | \$ 652,323 | \$ 1,902,111 |

*CPA
Blaw
02/02/2015*

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS**

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

| | |
|--|----------------------------|
| Net Change in Fund Balances – Government Funds (Page 20) | \$ (131,163) |
| Amount reported for Governmental Activities in the Statement of Activities (Page 17) are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are: | |
| Capital Outlays | \$ 756,423 |
| Depreciation Expense | <u>(770,797)</u> |
| Excess of Capital Outlays over Depreciation Expense | (14,374) |
| Revenues in the Statement of Activities that do not provide current financial resources are reported as revenues in the funds and vice versa: | |
| Head Start | (1,000,692) |
| MRCC Liquidation | 16,248 |
| Christmas Bonus | 2,338 |
| SBGP | <u>175,408</u> |
| Total of Revenues | (806,698) |
| Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase Noncurrent Liabilities in the Statement of Net Position. In the current period, proceeds received was | |
| | (49,998) |
| Repayment of long-term principal is expenditure in the governmental funds, but issuing debt reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were | |
| | 613,524 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: | |
| Increase in Christmas Bonus | (4,678) |
| Decrease in Deferred Charges | 11,665 |
| Increase in MRCC Liquidation | (276,328) |
| Increase in Compensated Absence | <u>(282,084)</u> |
| Total Additional Expenses | <u>(551,425)</u> |
| Change in Net Position of Governmental Activities (Page 17) | \$ <u>(940,134)</u> |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Municipality of Orocovis of the Commonwealth of Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

The Municipality was founded in the year 1825, and operates as a governmental unit of the Commonwealth of Puerto Rico (Commonwealth), under the Act Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Municipality is governed by a Mayor and is elected every four years in the general elections of the Commonwealth. The legislative body (Municipal Legislature) consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the Municipality is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the Municipality's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality. A second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

continue

1. FINANCIAL REPORTING ENTITY – continuation

GASB Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*, provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the respective financial position of the governmental, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2014, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended.

A. Financial Statement Presentation

The basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to local governmental units (GAAP). The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as Governmental Activities.

The financial information of the Municipality is presented in this report as follows:

Required Supplementary Information – Management's Discussion and Analysis

Management's Discussion and Analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

Government-wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information of all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's Puerto Rico Electric Power Authority function of the government. Elimination of this charges would distort the direct cost and program revenue reported for the various functions concerned.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the Municipality's Governmental Activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the Municipality's management are not presented as restricted net position.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for the different Governmental Activities of the Municipality and for each function. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*] provide information about the Municipality's funds. Separate statements for each fund category (Governmental Activities) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Non-major funds are summarized into a single column.

Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The Municipality uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

The Municipality reports the following major governmental funds:

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

Head Start Fund – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness. It is used to account for all financial resources from the Federal Government (US Department of Health and Human Services) and the corresponding matching funds.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of long-term debt principal and interests.

SBGP Fund – This is the fund used to account for all the transactions of the State Block Grant Program. The primary objectives of this program is the development of viable communities by providing decent housing, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Child Care Food Program Fund – Accounts for the revenue and expenditures related to the Child and Adult Care Food Program.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some operational funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar operational funds have been combined into single funds in the accompanying fund financial statements.

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information at June 30, 2014 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund Balance – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2014.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

During the course of operations the Municipality has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in Governmental Activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the Governmental Activities column.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in Governmental Activities are eliminated so that only the net amount is included as transfers in the Governmental Activities column.

The Municipality reports its financial position (*Balance Sheet*) and results of operations (*Statement of Revenues, Expenditures and Changes in Fund Balances*) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Notes to the Basic Financial Statements

The notes to the financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Budgetary Comparison Schedule – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, 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 these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2014, all revenues sources met this availability criterion.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Sheet*. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2014, which are recorded as governmental fund liabilities of June 30, 2014 which is the date when resources were available in the debt service fund. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying *Balance Sheet – Governmental Funds* generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying *Balance Sheet – Governmental Funds*.

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

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts (Unassigned Fund Balance up to the maximum of cash available). Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

The unencumbered balance of any appropriation at the end of the 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the *Budgetary Comparison Schedule – General Fund*:

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Office of the Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

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

Final Budget

The final budgetary data presented in the *Budgetary Comparison Schedule – General Fund* reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.
2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as restricted, committed and assigned fund balances under GAAP.
2. Interfund transactions of the General Fund are not included in the budgetary basis.
3. Certain accrued liabilities and other debts are not included in the budgetary basis.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

Excess of Expenditures over Appropriations

For the year ended June 30, 2014, expenditures exceeded appropriations in the following function (the legal level of budgetary control) of the General Fund: general government by \$66,935 and Public Work by \$79,674. This overspending of appropriation is authorized by law up to 5% if related to cases involving imminent public endangerment (e.g., natural disaster, or fire), which wasn't the case this year, it is considered a budgetary violation. However, the budgetary variance during the year present an excess of revenues of \$66,866 and economies of \$346,406 for a total increase in Budgetary Fund Balance of \$413,272.

D. Assets, Liabilities, and Net Position

1) *Cash and Investment, and Cash with Fiscal Agent*

The Municipality's cash and investment are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995. The Finance Director of the Municipality, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments, if available. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. Cash Equivalents are investments with an original maturity of 90 days or less.

Cash with fiscal agent in the Debt Service Fund represents special additional property tax collections retained by the GDB, deposit in the GDB and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in other governmental funds consists of undisbursed proceeds of certain bonds and notes issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

2) *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Receivables consist of all revenues earned but not collected at June 30, 2014. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables in the general fund represent mostly sales and usage taxes, federal grant and contributions, property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Commonwealth. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) Inventories

The Municipality used the purchase method to account for the purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

4) Capital Assets

Capital assets, which include land, buildings and improvement, machinery and equipment, motor vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the GWFS. Capital assets, other than infrastructure assets, are defined by the Municipality as assets with an initial, individual cost of more than \$25 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The Municipality reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the GWFS regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by Governmental Activities) the Municipality chose to include all such items regardless of their acquisition date or amount.

The Municipality was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the Municipality constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the Municipality values these capital assets at the estimated fair value of the item at the date of its donation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the Municipality capitalization threshold is met. Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. No depreciation is recorded for land and construction in progress. The estimated useful lives of major capital asset categories are:

| CAPITAL ASSETS | YEARS |
|----------------------------------|-------|
| Buildings | 50-60 |
| Improvement Other Than Buildings | 45 |
| Infrastructure | 50 |
| Vehicles and Furniture | 5-10 |
| Machinery and Equipment | 10-15 |

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

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.

The Municipality is prevented legally from entering into obligations extending beyond one fiscal year, and most lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. The Municipality's lease agreements do not include contingent rental payments no escalation clauses. Accordingly, lease payments are recorded in the GWFS as expense when incurred.

5) Deferred Outflows/Inflows of Resources

In addition to assets, the *Statement of Net Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no items that qualify for reporting in this category.

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Municipality has no items that qualify for reporting in this category.

The Municipality has items, which arises only under a modified accrual basis of accounting that qualifies for reporting in deferred inflows of resources. Accordingly, the items, *unavailable revenue*, is reported only in the governmental funds *Balance Sheet*. The governmental funds report *unavailable revenues* from two sources: Christmas Bonus Reimbursement from the Commonwealth and Federal Grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

6) Unearned Revenues

In the GWFS, unearned revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

7) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, if any. As per GASB Statement No. 65, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

In the GFFS, governmental fund types recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

8) Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2014. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due in accrued upon the employee's separation from employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

9) *Claims and Judgments*

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

10) *Accounting for Pension Costs*

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.

For the purpose of applying the requirements of GASBS No. 27, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing defined benefit pension plan and System 2000, a hybrid defined contribution plan, 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 and the basic financial statements of such retirement systems are part of the financial reporting entity of Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 17).

11) *Net Position/Fund Balance*

A) *Net Position*

Net position represent the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements.

The GWFS utilize a net position presentation, which are categorized as follow:

- *Net Invested in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.

Net investment in capital assets is comprised of the following:

| | Governmental Activities |
|--|------------------------------------|
| Capital Assets, Net of Accumulated Depreciation..... | \$35,199,428 |
| Outstanding Balance on Related Debt..... | (5,722,000) |
| Unspent Capital Debt Proceeds..... | <u>177,315</u> |
| Net Investment in Capital Assets | <u>\$29,654,743</u> |

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Restricted Net Position* – These 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* – These consist of net position which do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources that are imposed by management, but can be removed or modified.

Net Position Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the GWFS, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

B) *Fund Balance*

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the Municipality honors constraints on the specific purposes for which amounts in those funds can be spent.

The nonspendable classification contains amounts not in spendable form or legally or contractually required to be maintained intact. Restricted amounts contain restraints on their use externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or imposed by law through constitutional provisions or enabling legislation. Committed amounts can only be used for specific purposes imposed by formal action of the Municipality's highest level of decision-making authority. The highest level of decision-making authority is the Municipal Legislature and it takes a resolution to establish a fund balance commitment. Amounts intended to be used for specific purposes are assigned. Assignments should not cause deficits in the Unassigned Fund Balance. Unassigned Fund Balance is the residual classification for the General Fund.

Fund Balance Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted and unrestricted resources (the total committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the GFFS a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted fund balance to have been depleted before using any of the components or unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Fund Balance Policy

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

Restrictions of Fund Balance

Restrictions of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. The Municipality has implemented the provisions of the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010, in which it is required to classify and report amounts in the appropriate fund balance classification by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

Policy on Committing Funds

It is the policy of the Municipality that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a resolution prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this resolution before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance contained within GASB 54. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Policy on Assigning Funds

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

Policy on Unassigned General Fund Balance

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 10% of budgeted expenditures. The Municipality considers a balance of less than 5% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 15% as excessive. An amount in excess of 15% is to be considered for reservation to accumulate funding for purchase of machinery and equipment, for capital projects, and/or to reduce the tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from Unassigned General Fund Balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital assets purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The Municipality hasn't met its GASB 54 fund balance targets at June 30, 2014.

Prioritization of Fund Balance Use

In circumstances where expenditure is for a purpose that quantities are available in multiple fund balance classifications, the order in which the resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

This space is intentionally left in blank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) Components of Fund Balance

| | GENERAL FUND | HEAD START FUND | DEBT SERVICE FUND | SBGP FUND | CHILD CARE FOOD PROGRAM FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------|--------------------|----------------------|--------------|------------------------------------|--------------------------------|--------------------------------|
| Nonexpendable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Restricted For: | | | | | | | |
| Debt Repayment | - | - | 553,332 | - | - | - | 553,332 |
| Public Instruction | - | 42,050 | - | - | - | - | 42,050 |
| Safety | - | - | - | - | - | 6,360 | 6,360 |
| Improvement of Streets and Sidewalks | - | - | - | - | - | 59,480 | 59,480 |
| Improvement and Construction of Facilities | - | - | - | - | - | 388,250 | 388,250 |
| Improvement of Sewer System | - | - | - | - | - | 66,849 | 66,849 |
| Welfare | - | - | - | - | - | 171,700 | 171,700 |
| Capital Outlay - Purchase of Equipment | - | - | - | - | - | 51,509 | 51,509 |
| Total Restricted | - | 42,050 | 553,332 | - | - | 744,148 | 1,339,530 |
| Committed To: | | | | | | | |
| Waste Disposal | 13,500 | - | - | - | - | - | 13,500 |
| Professional Services | 63,266 | - | - | - | - | - | 63,266 |
| Improvement of Streets and Sidewalks | 277,763 | - | - | - | - | - | 277,763 |
| Improvement and Construction of Facilities | 63,025 | - | - | - | - | - | 63,025 |
| Total Committed | 417,554 | - | - | - | - | - | 417,554 |
| Assigned To: | | | | | | | |
| General Government | 131,654 | - | - | - | - | - | 131,654 |
| Total Assigned | 131,654 | - | - | - | - | - | 131,654 |
| Unassigned (Deficit) | 105,198 | - | - | - | - | (91,825) | 13,373 |
| Total Fund Balances | \$ 654,406 | \$ 42,050 | \$ 553,332 | \$ - | \$ - | \$ 652,323 | \$ 1,902,111 |

E. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. The Municipality has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Intra-Entity Transactions – There are two types of intra-entity transactions: First, the flow of resources between the primary government and its component units, and among the component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund activity, as described above. Second, the intra-entity balances between the primary government and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the *Statement of Net Position*, the proceeds in the primary government's funds, and the asset in the discretely presented component units' *Statement of Net Position*. For the fiscal year there are not intra-entity transactions.

F. Risk Financing

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2014 amounted to approximately \$175,219. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. 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 AACA.

The Municipality obtains workers compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. 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. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2014 amounted to \$427,587.

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

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

G. Use of Estimates

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

H. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

I. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2014:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

The primary government of the Commonwealth, as well as its component units and the municipalities, are considered “cost-sharing” employers of the Retirement Systems; therefore, they would report its allocated share of the Commonwealth’s resulting Net Pension Liability from Statement 67 as follows:

- Based on their respective individual proportion to the collective net pension liability of all the governments participating
- The proportion should be consistent with the method used to assess contributions (percentage of payroll). The use of their respective long term expected contribution effort to Retirement Systems divided by those of all governments in the plan, is encouraged.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY2014-2015). Earlier application is encouraged. The Commonwealth and the Retirement Systems are in the process of evaluating the impact of this Statement on its agencies and component units and also on the municipalities of the Commonwealth. The information to adopt this Statement will be based on the new actuarial reports to be prepared under the new Statement No. 67.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 (FY 2014-2015), and should be applied on a prospective basis.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date— an amendment of GASB Statement No. 68*. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of Statement 68, which is required to be applied in fiscal years beginning after June 15, 2014 (FY 2014-2015).

The Municipality has not yet determined the effect these statements will have on the Municipality's financial statements.

3. CASH AND INVESTMENTS

Cash in Banks

Municipality's cash and investments at June 30, 2014 are composed of: (1) demand deposits in commercial banks, (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent), and (3) cash equivalents in commercial banks. Cash equivalents of \$3.4 million are deposits in commercial bank accounts and interest bearing accounts in GDB, and are recorded at cost, which approximates fair value.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

3. CASH AND INVESTMENTS – continuation

Municipality follows the practice of pooling cash. At June 30, 2014, the pool cash account in interest bearing commercial banks accounts had a balance of \$1.8 million of which \$902,732 in the General Fund, \$34,186 in the Head Start Fund, \$2,739 in the SBGP Fund, \$252,925 in the Child Care Food Program Fund, and \$651,419 in Other Governmental Funds, all was deposited in Popular Bank of Puerto Rico. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally deposit in accounts with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

Cash with fiscal agent in the debt service fund consists of property tax collections and sales and usage taxes amounting to \$1,018,555 that are restricted for the payment of the Municipality's debt service, as required by law. Cash with Fiscal Agent in other governmental funds consist principally of \$224,560 of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, 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, 2014:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2014, the Municipality has invested only in cash equivalents of \$1.8 million consisting of deposit in commercial bank accounts, which are insured by the FDIC, generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2014. 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, 2014.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the Municipality may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2014, the Municipality has balances deposited in commercial banks amounting to \$1.8 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to \$1.2 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014. 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, 2014, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

continue

3. CASH AND INVESTMENTS – continuation

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, 2014, (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 in certificates of deposit and in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2014, the interest risk associated with the Municipality's cash and cash equivalent 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, 2014.

4. ACCOUNTS RECEIVABLE – FEDERAL GRANTS

The due from federal grants for the fiscal year ended June 30, 2014 corresponds to \$362,692 from the Head Start Fund, \$433,254 from the Community Development Block Grant/States Program (SBGP) (through the Office of the Commissioner of Municipal Affairs), and \$114,731 from the Child and Adult Care Food Program (through the Puerto Rico Department of Education).

5. UNEARNED REVENUES

Government-wide *Statement of Net Position* does not report *deferred inflows of resources*, but report *unearned revenues* for resources receive before it has a legal claim to them. Governmental funds *Balance Sheet* report *unearned revenues* in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period as follows:

| Governmental Funds: | |
|--------------------------|-------------------|
| Volume of Business Taxes | \$ 388,698 |
| Federal Grants | 259,469 |
| Total Unearned Revenues | <u>\$ 648,167</u> |

6. DEFERRED INFLOW OF RESOURCES

Governmental funds *Balance Sheet* report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the basic financial statements were as follows:

| Governmental Funds: | |
|-------------------------------------|-------------------|
| Christmas Bonus - Commonwealth | \$ 120,956 |
| Federal Grants: | |
| Head Start | 336,258 |
| SBGP | 264,979 |
| Total Deferred Inflows of Resources | <u>\$ 722,193</u> |

continue

7. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. Interfund Receivable and Payable Balances

During the course of operations, numerous transactions occur between the Municipality's funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as "Due from Other Funds" and "Due to Other Funds" on the *Balance Sheet* and *Statement of Net Position* and will be settled within one year. Due to/from Other Funds at June 30, 2014 are summarized as follows:

| INTERFUND RECEIVABLE | INTERFUND PAYABLE | AMOUNT |
|----------------------|-------------------|-------------------|
| General Fund | Head Start Fund | \$ 21 |
| General Fund | SBGP Fund | 95,652 |
| General Fund | Other Fund | 188,770 |
| Total | | <u>\$ 284,443</u> |

B. Interfund Transfers

During the course of the fiscal year, transactions occur between the Municipality's funds for operating subsidies. Related interfund receipts and disbursements are classified as "Transfers In" and "Transfers Out" on the *Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Net Position*. The transfers are routine and consistent with the activities of the funds. Principally, transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

| INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS | | | |
|---|--------------------------|-------------------|--|
| SOURCES | TRANSFER TO | AMOUNT | PURPOSE |
| General Fund | Debt Service Fund | \$ 334,207 | Debt Payments |
| Other Governmental Funds | General Fund | 101,273 | Reimbursement of Expenditures Incurred |
| Debt Service Fund | General Fund | 479,225 | Equity Transfer |
| General Fund | Other Governmental Funds | 70,059 | Matching Requirements |
| | Total | <u>\$ 984,764</u> | |

8. DUE FROM/TO GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2014 corresponds to \$102,369 from Puerto Rico Treasury Department for the Christmas Bonus.

As of June 30, 2014, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

| | AMOUNT |
|---------------------------------|------------------|
| Water and Sewer Authority | \$ 37,720 |
| Employees Retirement System | 33,832 |
| Total Due to Governmental Units | <u>\$ 71,552</u> |

9. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2014 was as follows:

| DESCRIPTION | BALANCE | | | | BALANCE |
|--|----------------------|------------------|--------------------|-------------|----------------------|
| | JULY 1, 2013 | RECLASSIFICATION | INCREASE | DECREASE | JUNE 30, 2014 |
| Non-Depreciable Capital Assets: | | | | | |
| Land | \$ 6,994,384 | \$ - | \$ - | \$ - | \$ 6,994,384 |
| Construction in Progress | 2,418,649 | (879,688) | 617,574 | - | 2,156,535 |
| Total Non-Depreciable Capital Assets | 9,413,033 | (879,688) | 617,574 | - | 9,150,919 |
| Depreciable Capital Assets: | | | | | |
| Buildings and Buildings Improvements | 20,149,651 | 879,688 | 9,300 | - | 21,038,639 |
| Equipment and Vehicles | 1,615,900 | - | 29,955 | - | 1,645,855 |
| Furniture and Fixtures | 997,834 | - | 75,134 | - | 1,072,968 |
| Heavy Equipment | 3,034,915 | - | - | - | 3,034,915 |
| Infrastructure | 8,666,551 | - | 24,460 | - | 8,691,011 |
| Total Depreciable Capital Assets | 34,464,851 | 879,688 | 138,849 | - | 35,483,388 |
| Less Accumulated Depreciation: | | | | | |
| Buildings and Buildings Improvements | (3,776,608) | - | (364,877) | - | (4,141,485) |
| Equipment and Vehicles | (1,469,464) | - | (46,505) | - | (1,515,969) |
| Furniture and Fixtures | (540,453) | - | (77,844) | - | (618,297) |
| Heavy Equipment | (1,778,150) | - | (126,336) | - | (1,904,486) |
| Infrastructure | (1,099,407) | - | (155,235) | - | (1,254,642) |
| Total Accumulated Depreciation | (8,664,082) | - | (770,797) | - | (9,434,879) |
| Total Depreciable Capital Assets (Net) | 25,800,769 | 879,688 | (631,948) | - | 26,048,509 |
| CAPITAL ASSETS, NET | \$ 35,213,802 | \$ - | \$ (14,374) | \$ - | \$ 35,199,428 |

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

| | AMOUNT |
|---------------------------------|-------------------|
| General Government | \$ 126,672 |
| Public Safety | 44,709 |
| Public Works and Transportation | 320,408 |
| Culture and Recreation | 230,992 |
| Health and Welfare | 7,452 |
| Urban Development | 40,564 |
| Total Depreciation Expenses | <u>\$ 770,797</u> |

10. NONCURRENT LIABILITIES

A. General Obligations Bonds and Special Obligations Bonds

The principal long-term obligations of the Municipality are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities and purchase of machinery and equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 11).

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2014:

| Type of Obligation and Purpose | Issue Date | Original Borrowing | Maturity Date | Interest Rate | Balance Amount |
|---|------------|--------------------|---------------------------|----------------|---------------------|
| General Obligation Bonds: | | | | | |
| Property Taxes Income: | | | | | |
| General Construction | 1990 | \$ 441,000 | 2016 | 5.00% | \$ 30,000 |
| General Construction | 2007 | 685,000 | 2031 | 7.00% | 595,000 |
| General Construction | 2008 | 655,000 | 2031 | 7.50% | 555,000 |
| General Construction | 2013 | 295,000 | 2020 | 6.00% to 7.50% | 260,000 |
| General Construction | 2012 | 500,000 | Undetermined ¹ | 3.75% | 500,000 |
| Total General Obligation Bonds | | | | | 1,940,000 |
| Special Obligation Bonds: | | | | | |
| General Revenues: | | | | | |
| Purchase of Equipment | 2002 | 1,220,000 | 2016 | 1.28% to 8.00% | 260,000 |
| General Construction | 2013 | 660,000 | 2020 | 6.00% to 7.50% | 505,000 |
| Subtotal | | | | | 765,000 |
| Sales and Use Taxes: | | | | | |
| General Construction | 2008 | 2,855,000 | 2024 | 7.50% | 2,285,000 |
| Purchase of Equipment | 2008 | 310,000 | 2014 | 7.50% | 60,000 |
| Purchase of Equipment | 2011 | 453,000 | 2015 | 7.50% | 287,000 |
| General Construction | 2012 | 210,000 | 2026 | 6.00% to 7.50% | 190,000 |
| General Construction | 2013 | 215,000 | 2020 | 6.00% to 7.50% | 195,000 |
| Subtotal | | | | | 3,017,000 |
| Total Special Obligation Bonds | | | | | 3,782,000 |
| Total General and Special Obligation Bonds | | | | | \$ 5,722,000 |

¹ These terms will be determined by the loan grantor upon completion of the construction activities.

Variable interest rates on 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 USA, and (2) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the US Internal Revenue Code.

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2014, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

continue

10. NONCURRENT LIABILITIES – continuation

B. Legal Debt Limit and Legal Debt Margin

On March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The Municipality debt limits are 10% of valuation of property subject to taxation, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the Municipality.

C. Other Noncurrent Liabilities

Following are the other noncurrent liabilities as of June 30, 2014 and corresponding change during the fiscal year:

| DESCRIPTION | BALANCE | | RETIREMENTS AND ADJUSTMENT | BALANCE JUNE 30, 2014 | AMOUNT'S DUE WITHIN ONE YEAR | AMOUNT'S DUE AFTER NEXT YEAR |
|------------------------|---------------------|---------------------|----------------------------------|-----------------------------|------------------------------------|------------------------------------|
| | JULY 1, 2013 | NEW ISSUES | | | | |
| Law Number 146-MRCC | \$ 63,953 | \$ - | \$ (3,366) | \$ 60,587 | \$ 3,366 | \$ 57,221 |
| Law Number 42-MRCC | 857,803 | - | (12,158) | 845,645 | 25,454 | 820,191 |
| Deferred Credits (PPA) | 11,665 | - | (11,665) | - | - | - |
| MRCC Liquidation | - | 276,328 | - | 276,328 | 276,328 | - |
| Christmas Bonus | 204,738 | 209,416 | (204,738) | 209,416 | 209,416 | - |
| Compensated Absences | 2,376,970 | 549,450 | (267,366) | 2,659,054 | 1,845,637 | 813,417 |
| TOTAL | \$ 3,515,129 | \$ 1,035,194 | \$ (499,293) | \$ 4,051,030 | \$ 2,360,201 | \$ 1,690,829 |

Borrowing from MRCC

On July 1, 2007, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 146. The original amount of debt is \$84,149 to be paid during 25 years plus annual interest of 6.22%.

On July 1, 2002, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 42. The original amount of debt is \$1,049,742 to be paid during 30 years plus annual interest of 6.1875%.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2014 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2014.

Compensated Absences

This amount represents the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations.

continue

10. NONCURRENT LIABILITIES – continuation

D. Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended June 30, 2014:

| DESCRIPTION | BALANCE JULY 1, 2013 | NEW ISSUES | RETIREMENTS AND ADJUSTMENT | BALANCE JUNE 30, 2014 | AMOUNT'S DUE WITHIN ONE YEAR | AMOUNT'S DUE AFTER NEXT YEAR |
|--------------------------|----------------------------|---------------------|----------------------------------|-----------------------------|------------------------------------|------------------------------------|
| General Obligation Bonds | \$ 1,994,001 | \$ 49,999 | \$ (104,000) | \$ 1,940,000 | \$ 119,000 | \$ 1,821,000 |
| Special Obligation Bonds | 4,252,000 | - | (470,000) | 3,782,000 | 504,000 | 3,278,000 |
| Other Obligations | 3,515,129 | 1,035,194 | (499,293) | 4,051,030 | 2,360,201 | 1,690,829 |
| TOTAL | \$ 9,761,130 | \$ 1,085,193 | \$ (1,073,293) | \$ 9,773,030 | \$ 2,983,201 | \$ 6,789,829 |

E. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The Municipality believes it is in compliance with all significant limitations and restrictions.

The annual requirements to amortize the noncurrent liabilities outstanding as of June 30, 2014 are as follows:

| YEAR ENDING JUNE 30, | General Obligation Bonds | | Special Obligation Bonds | | Other Noncurrent Obligations | | TOTAL | |
|-------------------------|--------------------------|---------------------|--------------------------|---------------------|------------------------------|---------------------|---------------------|---------------------|
| | PRINCIPAL PAYMENT | INTEREST PAYMENT | PRINCIPAL PAYMENT | INTEREST PAYMENT | PRINCIPAL PAYMENT | INTEREST PAYMENT | PRINCIPAL | INTEREST |
| 2015 | \$ 119,000 | \$ 59,477 | \$ 504,000 | \$ 213,040 | \$ 2,360,201 | \$ 53,452 | \$ 2,983,201 | \$ 325,969 |
| 2016 | 104,000 | 96,879 | 494,000 | 220,751 | 30,420 | 51,770 | 628,420 | 369,400 |
| 2017 | 106,000 | 90,406 | 379,000 | 198,339 | 32,120 | 49,986 | 517,120 | 338,731 |
| 2018 | 116,000 | 83,528 | 410,000 | 169,127 | 33,926 | 48,095 | 559,926 | 300,750 |
| 2019 | 127,000 | 75,975 | 350,000 | 140,815 | 35,846 | 46,091 | 512,846 | 262,881 |
| 2020-2024 | 503,000 | 312,067 | 1,295,000 | 376,317 | 212,531 | 195,889 | 2,010,531 | 884,273 |
| 2025-2029 | 485,000 | 161,343 | 350,000 | 17,625 | 282,238 | 124,073 | 1,117,238 | 303,041 |
| 2030-2032 | 380,000 | 52,331 | - | - | 250,331 | 31,138 | 630,331 | 83,469 |
| Undetermined | - | - | - | - | 813,417 | - | 813,417 | - |
| TOTAL | \$ 1,940,000 | \$ 932,006 | \$ 3,782,000 | \$ 1,336,014 | \$ 4,051,030 | \$ 600,494 | \$ 9,773,030 | \$ 2,868,514 |

11. DEBT RETIREMENT

Revenues of the Debt Service Fund consist of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the MRCC of the Commonwealth of Puerto Rico to the Municipality (See Note 12).

These property taxes are accumulated by the MRCC in costs of the general obligations bonds issued by the Municipality (See Note 10). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the MRCC.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the Municipality and the Municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

continue

11. DEBT RETIREMENT – continuation

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

12. PROPERTY TAXES

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1st of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business, or (2) owns residential real property with a value in excess of \$15,000 (at 1957 market price). The MRCC is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution. Real property taxes are assessed by the MRCC as January 1st of each year.

The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Real property tax is assessed by the MRCC on each piece of real estate and on each building or residence. The property tax contribution is levied each year over the appraised value of the real property at the beginning of the calendar year.

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC 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 MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. At the time of the preparation of the financial statement, the difference between the advances and the final settlement to the General Fund is pending of final determination.

12. PROPERTY TAXES - continuation

The tax rate for fiscal year 2014 is 8.53% for real property and 6.53% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 7.50% and 5.50%, respectively, belongs to the Municipality. Taxpayers pay 8.33% for real property and 6.33% for personal property and the remaining 0.20% is paid by the Commonwealth's Secretary of the Treasury as a subsidy. As part of Act No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The remaining percentage is distributed as follows: (a) 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through 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. The remaining portion belonging to the Municipality of 1.50% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 11). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

As previously mentioned, on March 9, 2009, the Commonwealth of Puerto Rico approves Act Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The effect of this Law was an increase in the valuation of the real properties and in the exemption granted for the residential units occupied by their owners by multiply both amount by ten. Accordingly, the residential units occupied by their owners are exempt from real property taxes on the first \$150,000 assessed value. For such exempted amounts, the Puerto Rico Secretary of the Treasury assumes payment of the basic tax to the Municipality (6.00%), except for residential units assessed at less than \$35,000 on which a complete exemption is granted. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

In addition, the law grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with an annual net sales volume of less than \$150,000. The MRCC advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the MRCC from taxpayers. The MRCC periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from MRCC. Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

The fiscal impact for the future years has not been determined by the Municipality's management.

13. VOLUME OF BUSINESS TAXES

The volume of business taxes is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of \$3.0 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2014, the tax rates were as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.40% for all other organizations.

continue

13. VOLUME OF BUSINESS TAXES – continuation

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration on or before the due date, the taxpayer is granted a 5% of discount. The volume of business tax receivable represents filed tax returns that were uncollected as of June 30, 2014. Collections of taxes during current fiscal year corresponding of the tax return based on the prior year gross sales are applicable to the next fiscal year and recorded as unearned revenues in the General Fund.

14. SALES AND USAGE TAXES

Municipality imposes a Sales and Usage Taxes of 1.0% collected and belong to the Municipality on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item (changes as per Act Number 18 of 2014). All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Taxes Return Form, no later than the 20th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

- a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;
- b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and
- c. 0.1% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth's Legislature.

Sales and Usage Taxes receivable represents filed sales tax returns that were collected subsequent to June 30, 2014, but pertaining to the current year period.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the Municipality and the Municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

14. SALES AND USAGE TAXES – continuation

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Puerto Rico Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

15. CONSTRUCTION EXCISE TAXES

Municipality imposes and collects municipal construction excise taxes to most natural and legal persons that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings, and any structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, existing buildings and improvements, project design and other engineering fees, licenses and permits, consulting and legal fees. The tax is paid by the taxpayer before the beginning of the construction project. The activities covers by this tax and the exemption granted are as follows:

- a. All construction will pay 3% of construction excise taxes.
- b. All construction projects carried out by state, federal and municipal governments will pay 4% of construction excise taxes.
- c. All construction projects carried out by not-for-profit organization educational institutions have full exemption to the construction excise taxes.

Taxes are payable before beginning construction or any activity related to the construction. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

16. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the Ouasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

17. PENSION PLAN

Description of the Plan

Employees of the Municipality participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended. The ERS is a pension trust of the Commonwealth. ERS covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

As of June 30, 2013, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately \$22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in \$120.0 million annually, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. An appropriation for such additional contribution of approximately \$120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time management believes that approximately \$90 million of this amount will not be collected as expected during fiscal year 2014. Further, this additional contribution was reduced to \$28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make the required contributions to the ERS. As of June 30, 2013, the ERS has recorded a liability of approximately \$16 million for its responsibility as an employer under Act No. 70.

17. PENSION PLANS – continuation

Furthermore, Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the system to Chapter 5 of the ERS. The System 2000 applied to employees joining the ERS on or after January 1, 2000.

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

- (a) General Rule – The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.
- (b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)
- (c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

Retirement age for participants who joined public service after June 30, 2013. The retirement age shall be 67 years, except in the case of Public Officers in High-Risk Positions, for whom it shall be fifty eight (58) years.

Participant of the Program

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

17. PENSION PLAN – continuation

As of July 1, 2013, every employee who is a participant of the System, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the System, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars (\$10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars (\$10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from it.

Annuity for Years of Service

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars (\$500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars (\$500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars (\$500).

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised. Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

17. PENSION PLAN - continuation

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service.

Merit Annuity – Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation. As a result of the enactment of Act No. 3 of April 4, 2013, effective July 1, 2013, merit annuities will no longer be available to participants who joined the ERS after April 1, 1990.

Deferred Retirement Annuity – A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

- (1) For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus
- (2) For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

- (1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.
- (2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.
- (3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

As per Act No. 447 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

continue

17. PENSION PLAN – continuation

- (1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:
 - (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service
 - (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.
 - (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.
- (2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.
- (3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:
 - (i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.
 - (ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

Pension Computation

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

- (i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.
- (ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.

continue

17. PENSION PLAN – continuation

- (iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.
- (iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.
- (v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.
- (vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447.

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

- (i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.
- (ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.
- (iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.
- (iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.
- (v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

continue

17. PENSION PLAN – continuation

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

Coordinated Plan – Prior to July 1, 2013 on the coordinated plan, the participating employee contributes 5.775% for the first \$6,600 of salary plus 8.275% for the excess over \$6,600. For fiscal 2013-2014 the contribution was 7.00% for the first \$6,600 of salary plus 10.00% for the excess over \$6,600. For fiscal 2014-2015 the contribution was 8.50% for the first \$6,600 of salary plus 10.00% for the excess over \$6,600. After July 1, 2015 the contribution was 10.00% of salary. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- \$165 per month if retired with 55 years of age and 30 years of credited service.
- \$110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between \$82 and \$100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

Non-Coordinated Plan (Supplementation Plan) – Prior to July 1, 2013 on the non-coordinated plan, the participating employee contributes 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits. After July 1, 2015 the contribution was 10.00% of salary.

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

- (a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.
- (b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:
 - (1) Effective July 1, 2013, shall contribute seven percent (7%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
 - (2) Effective July 1, 2014, shall contribute eight point five percent (8.5%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
 - (3) Effective July 1, 2015, shall contribute ten percent (10%) of their full monthly salaries.

The participants of the Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

continue

17. PENSION PLAN – continuation

- (c) Mandatory Contribution for the Purchase of Disability Insurance – Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

Employer Contributions to the System (ERS and Hybrid Program)

On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Every employer, beginning on July 1, 2013, shall mandatorily contribute to the System the following:

| | |
|--------------|--|
| July 1, 2013 | Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant |
| July 1, 2014 | Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant |
| July 1, 2015 | Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant |
| July 1, 2016 | Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant |
| July 1, 2017 | Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant |
| July 1, 2018 | Eighteen point twenty-five percent (18.025%) of the salary of each participant |
| July 1, 2019 | Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant |
| July 1, 2020 | Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant |

It is provided that the established increases applicable to the municipalities for fiscal years 2012-2013 and 2013-2014, shall be included in the budget petition submitted by the Office of Management and Budget to the Legislative Assembly.

17. PENSION PLAN – continuation

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

Death of a Pensioner

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

Separation from Service for Disability or Terminal Illness

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator.

Additional Benefits Program

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

- (a) A Medication Bonus equal to one hundred (\$100), which shall be paid no later than July 15 of each year;

continue

17. PENSION PLAN – continuation

- (b) A Christmas Bonus equal to two hundred dollars (\$200), which shall be paid no later than December 20 of each year; and
- (c) A Government contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars (\$100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars (\$2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

The persons who retire under the provisions of Act 305-1999, known as 'Retirement Savings Accounts Program', and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

Annual Contribution

The Municipality's contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

| FISCAL YEAR | DEFINED BENEFIT | HYBRID PROGRAM | ACT NO. 3 |
|-------------|-----------------|----------------|------------|
| 2014 | \$ - | \$ - | \$ 146,532 |
| 2013 | 109,374 | 78,029 | - |
| 2012 | 97,465 | 70,354 | - |

Total employee contributions to the above-mentioned plans during the year ended June 30, 2014, 2013 and 2012 amounted to approximately \$486,155.

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

18. HEALTHCARE COSTS

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidize the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to approximately \$359,012 for the fiscal year ended June 30, 2014.

19. CONTINGENCIES

A. Claims and Judgments

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

B. Federal Grants

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program requirements, the Municipality may be required to reimburse the grantor or pass-through agencies. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Municipality is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

20. COMMITMENTS

A. Operating Leases

The Municipality leases real property, buildings, and equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund for the year ended June 30, 2014, amounted to approximately \$278,687. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

20. COMMITMENTS - continuation

B. Construction and Improvement Commitments

The Municipality had encumbrances at June 30, 2014 for the construction, improvements, or renovation of several municipal facilities in the following funds:

| | Encumbered For | Amount | Reported within Fund Balance Classification |
|-----------------|---|------------|--|
| General Fund | Resurfacing of Streets and Other Improvements | \$ 143,925 | Committed to Improvement of Streets and Sidewalks |
| Non Major Funds | Resurfacing of Streets and Other Improvements | 18,700 | Restricted to Improvement of Streets and Sidewalks |

C. Solid Waste Disposal Contract

The Municipality has a solid waste disposal contract with the Municipality of Barranquitas, Puerto Rico until June 30, 2015, with automatic annual renewal, to provide the service for disposal of solid waste. In the contract it was established that the Municipality is committed to pay the amount of \$25 through \$300 per motor vehicle that transported solid waste depending on their capacity. Expenditure for the year ended June 30, 2014 for this service amounts to \$138,000, approximately.

Future commitments are scheduled as follows:

| Year | Amount |
|-------|-------------------|
| 2015 | \$ 138,000 |
| 2016 | 138,000 |
| 2017 | 138,000 |
| 2018 | 138,000 |
| 2019 | 138,000 |
| Total | <u>\$ 690,000</u> |

21. FUND BALANCES RESTATEMENT

The following reconciles the June 30, 2013 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2013 for the various funds:

| | STATE ROADS IMPROVEMENT FUND | OTHER GOVERNMENTAL FUNDS |
|---|------------------------------------|--------------------------------|
| Fund Balance, as Previously Reported, At June 30, 2013 | \$ (53,690) | \$ 740,576 |
| Reclassification of Non-Major Fund | <u>53,690</u> | <u>(53,690)</u> |
| Beginning Fund Balance, as Restated, At July 1, 2013 | <u>\$ -</u> | <u>\$ 686,886</u> |

This reclassification did not constitute a change in accounting principle.

continue

22. NEW ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2014:

GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement, and to defined contribution plans that provide postemployment benefits other than pensions.

The major fundamental change, among others related to the application and determination of certain measurement assumptions in valuing pension plans, is switching from the existing "funding-based" accounting model, where currently the Annual Required Contribution (ARC) is compared to the actual payments made and that difference determines the Net Pension Obligation; to an "accrual basis" model similar to current FASB standards, where the Total Pension Obligation (Actuarially determined) is compared to the Net Plan Position (or assets) and the difference represents the Net Pension Liability. This particular Statement will be applicable to the three Retirement Systems of the Commonwealth of Puerto Rico, not to the rest of the Commonwealth's agencies or any of the Commonwealth's component units. The impact of this Statement will be establishing its new net pension liability for the Commonwealth to an amount resembling the existing actuarial deficiency in the aforementioned Retirement Systems which at June 30, 2013 amounted to approximately \$34 billion.

GASB Statement No. 70 ("GASB 70"), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

A nonexchange financial guarantee is a credit enhancement or assurance offered by a guarantor without receiving equal or approximately equal value in exchange. The guarantor agrees to pay an obligation holder in the event that the issuer of the obligation is not able to make its required payments to the obligation holder. Nonexchange financial guarantees can include guarantees by a state for bonds issued by local governments within that state or guarantees of mortgage loans to individuals, if equal or approximately equal value is not received in exchange.

GASB 70 does not have any impact on the Municipality's financial statements.

23. SUBSEQUENT EVENT

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through December 27, 2014, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

END OF NOTES

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

This page intentionally left blank.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual Amounts (Budgetary Basis) (See Accompanying Notes) | Variance with Final Budget |
|--|-------------------|-------------------|--|-------------------------------|
| | Original | Final | | |
| BUDGETARY FUND BALANCE, JULY 1, 2013 | \$ 196,702 | \$ 196,702 | \$ 196,702 | \$ - |
| Resources (Inflows): | | | | |
| Property Taxes | 930,311 | 930,311 | 930,312 | 1 |
| Volume of Business Taxes | 341,500 | 428,619 | 425,998 | (2,621) |
| Sales and Usage Taxes | 240,800 | 443,807 | 451,374 | 7,567 |
| Intergovernmental Revenues | 8,236,869 | 8,394,226 | 8,494,262 | 100,036 |
| Construction Excise Taxes | 96,500 | 312,933 | 304,519 | (8,414) |
| Rent | 18,000 | 53,557 | 56,432 | 2,875 |
| Miscellaneous | 1,270,500 | 1,812,995 | 1,780,417 | (32,578) |
| Transfers from Other Funds | - | 580,498 | 580,498 | - |
| Total Resources (Inflows) | 11,134,480 | 12,956,946 | 13,023,812 | 66,866 |
| Amounts Available for Appropriation | 11,331,182 | 13,153,648 | 13,220,514 | 66,866 |
| Charges to Appropriations (Outflows): | | | | |
| Mayor and Municipal Legislature | 915,432 | 1,049,804 | 1,040,908 | 8,896 |
| General Government | 4,093,003 | 4,121,566 | 4,188,501 | (66,935) |
| Public Safety | 873,448 | 765,913 | 758,434 | 7,479 |
| Public Works | 1,911,133 | 3,099,507 | 3,179,181 | (79,674) |
| Culture and Recreation | 813,496 | 758,920 | 748,640 | 10,280 |
| Health and Sanitation | 525,953 | 614,513 | 578,156 | 36,357 |
| Solid Waste Disposal | 180,000 | 155,000 | 151,250 | 3,750 |
| Human Services and Welfare | 213,139 | 272,116 | 255,773 | 16,343 |
| Public Instruction | 800,000 | 993,432 | 992,882 | 550 |
| Capital Outlays | 417,643 | 662,716 | 312,549 | 350,167 |
| Transfers to Other Funds | 391,233 | 463,459 | 404,266 | 59,193 |
| Total Charges to Appropriations | 11,134,480 | 12,956,946 | 12,610,540 | 346,406 |
| BUDGETARY FUND BALANCE, JUNE 30, 2014 | \$ 196,702 | \$ 196,702 | \$ 609,974 | \$ 413,272 |

The accompanying Notes to Required Supplementary Information are an integral part of this schedule.

1. **Budgetary Reporting**

The Budgetary Comparison Schedule – General Fund is presented as Required Supplementary Information in accordance with GASB Accounting Standard Codification Section 1700, *The Budget and Budgetary Accounting*. Formal and legal budgetary control is based upon major classes of expenditures known as functions.

2. **Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

| | <u>General Fund</u> |
|--|----------------------|
| Sources/Inflows of Resources: | |
| Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 66) | \$ 13,220,514 |
| Difference – Budget to GAAP: | |
| GASB 54 Reclassification of Revenue | 174 |
| Transfers from Other Funds are a budgetary resource but are not a Current-Year Revenue for financial reporting purposes | (580,498) |
| The Fund Balance (Deficit) at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes | <u>(196,702)</u> |
| Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 20) | <u>\$ 12,443,488</u> |
| Uses/Outflows of Resources: | |
| Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 66) | \$ 12,610,540 |
| Difference – Budget to GAAP: | |
| Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes | (386,359) |
| Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes | 314,829 |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes | <u>(404,266)</u> |
| Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 20) | <u>\$ 12,134,744</u> |

END OF THIS SECTION

**SUPPLEMENTARY INFORMATION REQUIRED BY
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

This page intentionally left blank.

SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM –
 FINANCIAL DATA SCHEDULE (RQ080)
 ENTITY WIDE BALANCE SHEET SUMMARY
 JUNE 30, 2014

COMMONWEALTH OF PUERTO RICO
 MUNICIPALITY OF OROCOVIS

| Line Item No. Assets | Value |
|---|-------------------|
| Current Assets - Cash: | |
| 111 Cash - Unrestricted | \$ 76,860 |
| 113 Cash - Other Restricted | 23,950 |
| 100 Total Cash | 100,810 |
| 150 Total Current Assets | 100,810 |
| Fixed Assets: | |
| 164 Furniture, Equipment & Machinery - Administration | 33,414 |
| 166 Accumulated Depreciation | (10,227) |
| 160 Total Capital Assets, Net of Accumulated Depreciation | 23,187 |
| 190 Total Assets | 123,997 |
| 200 Deferred Outflow of Resources | - |
| 290 Total Assets and Deferred Outflow of Resources | \$ 123,997 |
| | |
| Liabilities and Equity | Value |
| Liabilities: | |
| Current Liabilities: | |
| 312 Accounts Payable <=90 days | \$ 6,110 |
| 310 Total Current Liabilities | 6,110 |
| 300 Total Liabilities | 6,110 |
| 400 Deferred Inflow of Resources | - |
| Equity | |
| 508.4 Net Investment In Capital Assets | 23,187 |
| 511.4 Restricted Net Position | 23,950 |
| 512.4 Unrestricted Net Position | 70,750 |
| 513 Total Equity - Net Assets / Position | 117,887 |
| 600 Total Liabilities, Deferred Inflow of Resources and Equity - Net Assets / Position | \$ 123,997 |

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

**SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM –
FINANCIAL DATA SCHEDULE (RQ080)
PROGRAM REVENUES AND EXPENSES SUMMARY
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS

| <u>Line Item No.</u> | <u>Revenues</u> | <u>Value</u> |
|----------------------|---|--------------------------|
| 70600 | HUD PHA Operating Grants | \$ 240,644 |
| 70000 | Total Revenue | <u>240,644</u> |
| | Expenses: | |
| | Administrative: | |
| 91100 | Administrative Salaries | 24,765 |
| 91500 | Employee Benefit Contributions - Administrative | 5,683 |
| 91600 | Office Expenses | 2,922 |
| 91900 | Other | <u>603</u> |
| 91000 | Total Operating - Administrative | <u>33,973</u> |
| 96900 | Total Operating Expenses | <u>33,973</u> |
| 97000 | Excess of Operating Revenue over Operating Expenses | <u>206,671</u> |
| 97300 | Housing Assistance Payments | 206,328 |
| 97400 | Depreciation Expense | <u>4,091</u> |
| 90000 | Total Expenses | <u>244,392</u> |
| 10000 | Excess (Deficiency) of Total Revenue Over (Under) Total Expenses | <u>\$ (3,748)</u> |
| | Memo Account Information: | |
| *11030 | Beginning Equity | \$ 121,635 |
| *11170 | Administrative Fee Equity | \$ 93,937 |
| *11180 | Housing Assistance Payments Equity | \$ 23,950 |
| *11190 | Units Months Available | 564 |
| *11210 | Number of Units Months Leased | 536 |

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

1. BASIS OF PRESENTATION

The accompanying Financial Data Schedules (FDS) includes the Section 8 Housing Choice Vouchers Program activities of the Municipality of Orocovis of the Commonwealth of Puerto Rico (Municipality). The information in the FDS is presented in accordance with the requirements of HUD's *Uniform Financial Reporting Standards for HUD Housing Programs*. Because the FDS presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net position of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets, Liabilities, Net Assets, Revenues and Expenses reported on the FDS, are reported on the full accrual basis of accounting. They are recognized following the HUD's *Uniform Financial Reporting Standards for HUD Housing Programs*.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Assets, Liabilities and Net Assets/Position are presented in the Municipality's *Statement of Net Position*. Revenues and Expenses are reported in the *Statement of Activities*.

END OF NOTES

This page intentionally left blank.

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY GOVERNMENT AUDITING
STANDARDS AND OMB CIRCULAR A-133**

This page intentionally left blank.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

| <u>FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE</u> | <u>FEDERAL CFDA NUMBER</u> | <u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u> | <u>FEDERAL EXPENDITURES</u> |
|--|------------------------------------|---|---------------------------------|
| U.S. Department of Agriculture: | | | |
| Pass-Through Puerto Rico Family Department – Administration for the Childhood Care and Integral Development: | | | |
| Child and Adult Care Food Program | 10.558 | CCC-252 | \$ 722,208 |
| Pass-Through USDA-Rural Development: | | | |
| Community Facilities Loans and Grants | 10.766 | 63-007-690660065 | <u>49,999</u> |
| Total U. S. Department of Agriculture..... | | | <u>772,207</u> |
| U.S. Department of Housing and Urban Development: | | | |
| Direct Program: | | | |
| Section 8 Housing Choice Vouchers Program | 14.871 | | 240,302 |
| Pass-Through State – Office of the Commissioner of Municipal Affairs: | | | |
| Community Development Block Grant/States Program (SBGP) and Non Entitlements Grants in Hawaii (Stated Administered Small Cities Program) | 14.228 | N/AV | 436,239 |
| Pass-Through Puerto Rico Family Department – Administration for the Childhood Care and Integral Development: | | | |
| Emergency Solutions Grant Program..... | 14.231 | N/AV | <u>2,695</u> |
| Total U.S. Department of Housing and Urban Development..... | | | <u>679,236</u> |
| U.S. Department of Justice: | | | |
| Pass-Through Puerto Rico Office for Public Security: | | | |
| Public Safety Partnership and Community Policing Grants | 16.710 | | <u>20,587</u> |
| Total U. S. Department of Justice..... | | | <u>20,587</u> |

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

| <u>FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE</u> | <u>FEDERAL CFDA NUMBER</u> | <u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u> | <u>FEDERAL EXPENDITURES</u> |
|--|------------------------------------|---|---------------------------------|
| U.S. Department of Health and Human Services: | | | |
| Pass-Through Puerto Rico Family Department – Administration for the Childhood Care and Integral Development: | | | |
| Head Start Program | 93.600 | 02-CH-9944/06AD | <u>6,750,487</u> |
| Total U.S. Department of Health and Human Services | | | <u>6,750,487</u> |
| U.S. Department of Homeland Security: | | | |
| Pass-Through Puerto Rico Office for Public Security: | | | |
| Disaster Grants – Public Assistance (Presidentially Declared Disasters) | 97.036 | N/AV | <u>132,793</u> |
| Total U. S. Department of Homeland Security | | | <u>132,793</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 8,355,310</u> |

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying *Schedule of Expenditures of Federal Awards* (the Schedule) includes the federal grant activities of the Municipality of Orocovis of the Commonwealth of Puerto Rico (Municipality). The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net assets of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available.

3. FEDERAL CFDA NUMBER

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

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the Municipality's *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund* as follows: Head Start Fund – \$6,750,487, SBGP Fund – \$436,239, Child Care Food Program Food – \$722,208 and Other Governmental Funds \$446,376.

END OF NOTES

This page intentionally left blank.



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

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Orocovis of the
Commonwealth of 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, each major fund, and the aggregate remaining fund information of the **Municipality of Orocovis of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise **Municipality's** basic financial statements, and have issued our report thereon dated December 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Municipality's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Municipality's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Municipality'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the **Municipality'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 weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

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

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Orocovis of the
Commonwealth of Puerto Rico

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 **Municipality's** internal control or on compliance. This report is an integral part of an audit reformed 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 Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
December 27, 2014

Stamp No. E135436 was affixed to
the original report.





INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Orocovis of the
Commonwealth of Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Municipality of Orocovis of the Commonwealth of Puerto Rico (Municipality)**'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 **Municipality**'s major federal programs for the fiscal year ended June 30, 2014. **Municipality**'s major federal programs are identified in the Summary of Auditors' Result 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**'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**'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**'s compliance.

Basis for Qualified Opinion on Head Start Program

As described in the accompanying Schedule of Findings and Questioned Costs, **Municipality** did not comply with requirements regarding CFDA No. 93.600 Head Start Program, as described in Finding Number 2014-001 for Matching and 2014-002 for Reporting. Compliance with such requirements are necessary, in our opinion, for **Municipality** to comply with the requirements applicable to that program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Orocovis of the
Commonwealth of Puerto Rico

Page 2

Qualified Opinion on Head Start Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, **Municipality** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Head Start Program for the fiscal year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, **Municipality** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Result Section of the accompanying Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2014.

Other Matters

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

Report on Internal Control Over Compliance

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

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-002 to be material weaknesses.



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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Orocovis of the
Commonwealth of Puerto Rico**

Page 3

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

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 Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
December 27, 2014

Stamp No. E135437 was affixed to
the original report.



This page intentionally left blank.

PART III
FINDINGS AND QUESTIONED COSTS

This page intentionally left blank.

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unmodified Opinion
Modified: Qualified Opinion
 Adverse Opinion
 Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported

Type of auditor's report issued on compliance for Major Programs:

- Unmodified Opinion
 - Community Development Block Grant/States Program (SBGP) and Non Entitlements Grant in Hawaii (Stated Administered Small Cities Program)
 - Section 8 Housing Choice Vouchers Program
- Qualified Opinion
 - Head Start Program
- Adverse Opinion Disclaimer Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133?

- Yes No

Identification of Major Programs:

| CFDA Number | Name of Federal Program or Cluster |
|-------------|---|
| 14.228 | Community Development Block Grant/States Program (SBGP) and Non Entitlements Grant in Hawaii (Stated Administered Small Cities Program) |
| 14.471 | Section 8 Housing Choice Vouchers Program |
| 93.600 | Head Start Program |

Dollar threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed no findings that are required to be reported herein under the *Government Auditing Standards*.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|--|--|
| FINDING REFERENCE NUMBER | 2014-001 |
| FEDERAL PROGRAM | HEAD START PROGRAM (93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH PUERTO RICO DEPARTMENT OF FAMILY – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT |
| AWARD NUMBER | 02CH9944/II |
| COMPLIANCE REQUIREMENT | MATCHING |
| TYPE OF FINDING | MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS |
| CRITERIA | The 42 USC 9835(b); 45 CFR Sections 1301.20 and 1301.21; state that Financial assistance extended under this subchapter for a Head Start program shall not exceed 80 percent of the approved costs of the assisted program or activities. |
| CONDITION | As part of our audit procedures, we verified the Close-Out Report submitted to the Pass-Through Agency and trace the cash or in-kind contributions against supporting documentation. We noted that the Municipality reported as federal share the amount of \$6,822,806 (or 82.68%), and in-kind contributions of \$1,316,196 (or 17.32%). |
| QUESTIONED COSTS | Not determined |
| INFORMATION TO PROVIDE PROPER PERSPECTIVE | Municipality is in communication with the Pass-Through Agency with respect with this requirement and some new policies that should be implemented. |
| CAUSE | Municipality didn't monitor on a monthly basis that they were in compliance with the in-kind contributions. |
| EFFECT OR POSSIBLE EFFECT | Municipality didn't comply with the in-kind contributions, which can lead to the Pass-Through Agency to incur in federal expenditures that are not allowed. |
| RECOMMENDATION | We recommend Management to monitor, on a monthly basis, the in-kind contributions, and implement adequate procedures when they detect that the required percentage is not attained, in order to correct the deficiency timely. |
| RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED | The staff was oriented on the importance of the in-kind contribution, emphasizing the value and accounting documentation for volunteer work. Also, for the processes that increase the in-kind contribution and documentation of transactions within the month end be established. Responsibility is assigned to an assistant accounting periodically requesting details of the in-kind contribution with supporting documentation (invoices, records, certification wages, etc.). It should present monthly to Management and the Governing Board in the In-Kind Contribution Report, the accumulated information of the required contribution and the contribution reported at end of the month. |
| IMPLEMENTATION DATE | January 2015 |
| RESPONSIBLE PERSON | Jorge Torres Colón, Administrative Assistant, Head Start Program |

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|--|---|
| FINDING REFERENCE NUMBER | 2014-002 |
| FEDERAL PROGRAM | HEAD START PROGRAM (93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH PUERTO RICO DEPARTMENT OF FAMILY – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT |
| AWARD NUMBER | 02CH9944/I |
| COMPLIANCE REQUIREMENT | REPORTING |
| TYPE OF FINDING | MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS |
| CRITERIA | According to the Grant Agreement, the program shall submit the Close Out Report to the Pass-Through Agency not later than 20 calendar days following the close date of the program. |
| CONDITION | During our Reporting test we noted that the Municipality submitted the Close Out Report on April 25, 2014; almost two months after the close of the program year, which is February 28. |
| QUESTIONED COSTS | Not determined |
| INFORMATION TO PROVIDE PROPER PERSPECTIVE | The accounting records were complete after the close out date of February 28. |
| CAUSE | The accounting records were not available and complete with the information needed to prepare the reports on a timely basis. |
| EFFECT OR POSSIBLE EFFECT | Municipality was unable to verify if they were complying with the matching requirements, for which deficiencies are mentioned on finding Number 2014-001. This deficiency might lead to a reduction of funds in subsequent years or other administrative sanctions from the Pass-Through Agency. |
| RECOMMENDATION | We recommend management to implement immediately proper internal controls in order to assure that the accounting records are complete and reconciled. |
| RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED | Fiscal procedures were updated and should be reviewed annually, SAGE system is used as the official accounting system as required in the Fund Delegation Agreement and to ensure that the accounting information meets the federal requirements. A timetable for closing will take place as a measure of continuous monitoring to verify that the information is available to the assigned dates. |
| IMPLEMENTATION DATE | March 2015 |
| RESPONSIBLE PERSON | Jorge Torres Colón, Administrative Assistant, Head Start Program |

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2013

Finding Number 2013-001 **Reporting**
The **Municipality** submitted the Close-Out Report on July 23, 2013; almost six (6) months after the close of the program year.

CFDA Number 93.600

Questioned Cost None

Auditee Comments Pending of final determination of the **Administration** for the Childhood Care and Integral Development of the Puerto Rico Family Department.

Finding Number 2013-002 **Special Test and Provisions**
Delay in final inspections relating to Housing Rehabilitation.

CFDA Number 14.871

Questioned Cost None

Auditee Comments Pending of final determination of US Department of Housing and Urban Development.

Finding Number 2013-003 **Special Test and Provisions**
Any annual inspections for three tenant.

CFDA Number 14.871

Questioned Cost None

Auditee Comments Pending of final determination of US Department of Housing and Urban Development.

FISCAL YEAR 2012

Finding Number 2012-III-01 **Special Test and Provisions**
The **Municipality** used a utility allowance schedule of 2010 for the reexamination.

CFDA Number 14.871

Questioned Cost None

Auditee Comments Pending of final determination of US Department of Housing and Urban Development.

(2) **Audit Findings not Corrected or Partially Corrected:** – continuation

FISCAL YEAR 2011

| | | |
|-------------------------|--|--|
| Finding Number | 2011-III-01 | Davis-Bacon Act No documentation of procedures performed to verify that wages paid are not less than the prevailing wages. |
| CFDA Number | 93.600 93.708 | |
| Questioned Cost | None | |
| Auditee Comments | Pending of final determination of the Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department. | |

(3) **Corrective action taken is significantly different from corrective action previously reported:**

NONE

(4) **Audit findings is no longer valid:**

NONE

END OF SCHEDULE



