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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2014**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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MUNICIPALITY OF QUEBRADILLAS  
BASIC FINANCIAL STATEMENTS  
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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Municipal Legislature  
Municipality of Quebradillas  
Quebradillas, Puerto Rico

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Quebradillas, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors

consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Quebradillas, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 10 and 45 to 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Quebradillas' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of

additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements.

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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2014, on our consideration of the Municipality of Quebradillas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality of Quebradillas' internal control over financial reporting and compliance.

San Juan, Puerto Rico  
October 6, 2014

The stamp E135644 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



**Commonwealth of Puerto Rico  
Municipality of Quebradillas**

**Management's Discussion and Analysis**

**Year Ended June 30, 2014**

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

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

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

***FINANCIAL HIGHLIGHTS***

- The Municipality's net position of governmental activities increased by \$2,096,057.
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$1,383,183.
- On a budgetary basis, actual revenues exceed actual expenditures by \$1,260,745.
- Capital expenditures amounted to \$1,015,741.

***USING THIS ANNUAL REPORT***

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

**Government-Wide Financial Statements**

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

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

**Commonwealth of Puerto Rico  
Municipality of Quebradillas**

**Management's Discussion and Analysis**

**Year Ended June 30, 2014**

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

Both government-wide financial statements distinguish governmental activities of the Municipality from business-type activities that are intended to recover significant portion of their costs from fees and charges. Governmental activities include general government, public safety, culture and recreation, health and welfare and public work. Business-type activities include park and recreation utilities.

**Fund Financial Statements**

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements; Government Fund Financial Statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

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

**Commonwealth of Puerto Rico  
Municipality of Quebradillas**

**Management's Discussion and Analysis**

**Year Ended June 30, 2014**

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**Infrastructure Assets**

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

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Municipality's net position of governmental activities totaled \$31.5 million at the end of 2014, compared to \$29.4 million at the end of the previous year. The business-type activities' net position totaled \$2.6 million at the end of 2014, compared to \$2.5 of previous year.

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

**Commonwealth of Puerto Rico  
Municipality of Quebradillas**

**Management's Discussion and Analysis**

**Year Ended June 30, 2014**

The unrestricted deficit of governmental activities is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences and claims and judgments among others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations. The restricted portion consists of monies reserved for debt service and future capital expenditures.

Municipality of Quebradillas  
Condensed Statement of Net Assets  
June 30, 2014 and 2013

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 15,031,572	\$ 12,974,029	\$ 278,433	\$ 117,998	\$ 15,310,005	\$ 13,092,027
Capital assets	33,467,118	33,525,708	2,364,494	2,412,904	35,831,612	35,938,612
Total assets	48,498,690	46,499,737	2,642,927	2,530,902	51,141,617	49,030,639
Current liabilities	3,811,592	3,469,796	11,920	31,917	3,823,512	3,501,713
Deferred inflows of resources	537,641	548,983	-	-	537,641	548,983
Noncurrent liabilities	12,621,620	13,049,178	-	-	12,621,620	13,049,178
Total liabilities	16,970,853	17,067,957	11,920	31,917	16,982,773	17,099,874
Invested in capital assets, net of related debt	30,331,654	30,105,244	2,364,494	2,412,904	32,696,148	32,518,148
Restricted	2,936,475	2,826,687	-	-	2,936,475	2,826,687
Unrestricted	(1,740,292)	(3,500,151)	266,513	86,081	(1,473,779)	(3,414,070)
Total net assets	\$ 31,527,837	\$ 29,431,780	\$ 2,631,007	\$ 2,498,985	\$ 34,158,844	\$ 31,930,765

**Changes in Net Position – Governmental Activities**

The Municipality's net position increased by \$2,096,057, thirty (30%) percent of the Municipality's total revenue came from taxes generated by the General Fund. Federal Grants was twenty (20%) percent, while the State Contributions made forty-two (42%) percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and public safety.

**Commonwealth of Puerto Rico  
Municipality of Quebradillas**

**Management's Discussion and Analysis**

**Year Ended June 30, 2014**

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**Changes in Net Position – Business-type Activities**

The Municipality's net position increased by \$132,022; the total revenues came from charges of services of the operating activities of busyness-type.

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

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

**Governmental Funds**

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$10,975,179 an increase of \$1,744,929 in comparison with the prior year. There are reservations of fund balance amounting to \$5,524,488.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2014, the general fund has a balance of \$5,537,652. The prior year surplus of \$1,827,059 was increased by \$1,383,183 during fiscal year 2014.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

Revenues of the current year had increased by \$1,159,970 compared with the prior year. The increase in fund balance is related to a transfer-in from Debt Services Fund and increases in revenues. The actual revenues increased the revised budget revenues by \$300,000. The most significant variances were the property and municipal taxes with \$237,358 and 227,146 on surplus, respectively.

**Commonwealth of Puerto Rico  
Municipality of Quebradillas**

**Management's Discussion and Analysis**

**Year Ended June 30, 2014**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2014, amounted to \$46.5 million, net of accumulated depreciation of \$13.0 million, leaving a net book value of \$33.5 million. These investments in capital assets included land, buildings and buildings improvements, equipment, intangibles, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

The Municipality acquired a total of \$1,325,313 of capital assets during the fiscal year 2013-2014. Capital assets acquired during the year were as follows:

- Construction in Progress - \$912,496
- Building and building improvements - \$309,572
- Acquisition of Equipment and Vehicles - \$103,245

Other projects related to repair and maintenance of roads (not capitalized) was development during the year 2014.

**Debt Administration**

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

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

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes.

**Commonwealth of Puerto Rico  
Municipality of Quebradillas**

**Management's Discussion and Analysis**

**Year Ended June 30, 2014**

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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

**FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact CPA Mariannet Padín Cubero, Chief Financial Officer on the Finance Offices in the Central Town, Quebradillas, Puerto Rico.

**PART I – FINANCIAL SECTION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Primary Government
<b><u>Assets</u></b>			
Cash in bank (Notes 2 and 4)	\$ 7,220,943	\$ 278,433	\$ 7,499,376
Cash with fiscal agent (Notes 2 and 4)	4,890,420		4,890,420
Accounts receivable:			
Property taxes	7,855		7,855
Sales and use taxes	131,956		131,956
Proprietary fund	11,920		11,920
Due from other agencies (Note 8)	2,768,478		2,768,478
Capital assets, net (Note 10)	33,467,118	2,364,494	35,831,612
Total assets	<u>48,498,690</u>	<u>2,642,927</u>	<u>51,141,617</u>
<b><u>Liabilities, Deferred Inflows of Resources, and Net Position</u></b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	479,463	11,920	491,383
Due to other agencies (Note 11)	2,777,398		2,777,398
Matured bonds and interest payable	536,891		536,891
Claims and judgments	17,840		17,840
Noncurrent liabilities (Note 14):			
Due within one year	498,012		498,012
Due in more than one year	11,538,199		11,538,199
Accrued interest	585,409		585,409
Total liabilities	<u>16,433,212</u>	<u>11,920</u>	<u>16,445,132</u>
<b>Deferred Inflows of Resources (Notes 6 and 12)</b>			
Unearned revenue from:			
Municipal license tax (Note 12)	537,641	-	537,641
Total deferred inflows of resources	<u>537,641</u>	<u>-</u>	<u>537,641</u>
<b>Net Position</b>			
Investment in capital assets, net of related debt	30,331,654	2,364,494	32,696,148
Restricted for:			
Debt service	1,411,939		1,411,939
Capital projects	1,524,536		1,524,536
Unrestricted (deficit)	(1,740,292)	266,513	(1,473,779)
Total net position	<u>\$ 31,527,837</u>	<u>\$ 2,631,007</u>	<u>\$ 34,158,844</u>

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	
				Governmental Activities	Business-Type Activities
<b>Governmental activities:</b>					
General government	\$ 6,192,972	\$ 346,578	\$ -	\$ (5,846,394)	\$ -
Public safety	1,481,096			(1,481,096)	
Culture and recreation	493,658		1,046,947	553,289	
Health and welfare	3,419,842		2,193,496	(1,226,346)	
Public work	3,133,148			(2,844,310)	
Interest on long-term debt	465,770			(465,770)	
Total governmental activities	15,186,486	346,578	3,240,443	(11,310,627)	-
<b>Business-Type Activities:</b>					
Aquatic Park	244,424	376,446	-	-	132,022
<b>Total primary government</b>	<b>\$ 15,430,910</b>	<b>\$ 723,024</b>	<b>\$ 3,240,443</b>	<b>\$ (11,310,627)</b>	<b>\$ 132,022</b>
General revenues:					
Property taxes (Note 5)				2,718,919	-
Municipal license taxes (Note 6)				817,146	
Sales and use taxes (Note 7)				1,427,026	
Grants and contributions not restricted to specific programs				7,223,441	
Interest, fines, and penalties				159,660	
Miscellaneous				1,060,492	
Total general revenues				13,406,684	
Change in net position				2,096,057	132,022
Net position at beginning of year				29,431,780	2,498,985
Net position at end of year				\$ 31,527,837	\$ 2,631,007

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2014

<u>Assets</u>	General	Debt Service	Head Start Program	Loan \$3,635,000	Other Governmental Funds	Total Governmental Funds
Cash in bank (Notes 2 and 4)	\$ 6,106,492	\$ -	\$ 13,273	\$ -	\$ 1,101,178	\$ 7,220,943
Cash with fiscal agent (Notes 2 and 4)		2,147,325		1,524,536	1,218,559	4,890,420
Accounts receivable:						
Property taxes		7,855				7,855
Sales and use taxes	45,111	86,845				131,956
Proprietary fund	11,920					11,920
Due from other agencies (Note 8)	2,700,098				68,380	2,768,478
Due from other funds (Note 9)	346,873				195,125	541,998
Total assets	<u>\$9,210,494</u>	<u>\$2,242,025</u>	<u>\$ 13,273</u>	<u>\$1,524,536</u>	<u>\$ 2,583,242</u>	<u>\$ 15,573,570</u>

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
BALANCE SHEET-GOVERNMENTAL FUNDS (CONTINUED)  
JUNE 30, 2014

<u>Liabilities and Fund Balances</u>	General	Debt Service	Head Start Program	Loan \$3,635,000	Other Governmental Funds	Total Governmental Funds
<b>Liabilities</b>						
Accounts payable and accrued liabilities	\$ 162,678	-	\$ 960	-	\$ 40,825	\$ 204,463
Due to other funds (Note 9)	195,125	293,195			53,678	541,998
Due to other agencies (Note 11)	2,777,398					2,777,398
General obligations: (Note 14)						
Bonds		345,000				345,000
Interest		191,891				191,891
Total liabilities	<u>3,135,201</u>	<u>830,086</u>	<u>960</u>	<u>-</u>	<u>94,503</u>	<u>4,060,750</u>
<b>Deferred Inflows of Resources</b>						
Unearned revenue from:						
Municipal license tax (Note 12)	537,641	-	-	-	-	537,641
Total deferred inflows of resources	<u>537,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>537,641</u>
<b>Fund Balances</b>						
Restricted		1,411,939	12,313		1,354,242	2,778,494
Committed				1,524,536	1,131,444	2,655,980
Assigned	89,640				374	90,014
Unassigned	5,448,012				2,679	5,450,691
Total fund balances	<u>5,537,652</u>	<u>1,411,939</u>	<u>12,313</u>	<u>1,524,536</u>	<u>2,488,739</u>	<u>10,975,179</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$9,210,494</u>	<u>\$2,242,025</u>	<u>\$ 13,273</u>	<u>\$1,524,536</u>	<u>\$ 2,583,242</u>	<u>\$ 15,573,570</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014**

Total fund balances - governmental funds \$ 10,975,179

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

• Capital assets, net, used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 33,467,118

• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. **(Note 3)** (12,914,460)

Net position of governmental activities \$ 31,527,837

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General	Debt Service	Head Start Program	Loan	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				<b>\$3,635,000</b>		
Property taxes (Note 5)	\$ 2,088,254	\$ 630,665	\$ -	\$ -	\$ -	\$ 2,718,919
Municipal license taxes (Note 6)	817,146					817,146
Sales and use taxes (Note 7)	926,372	500,654				1,427,026
Licenses, permits, and other local taxes	297,508					297,508
Charges for services	49,070					49,070
<b>Intergovernmental revenues (Note 13):</b>						
Federal grants and contributions	6,300,188		2,193,496		1,335,785	3,529,281
State contributions	156,168	1,995			923,253	7,223,441
Interest, fines, and penalties	1,037,703				1,497	159,660
Other revenues	11,672,409	1,133,314	2,193,496		22,789	1,060,492
<b>Total revenues</b>	<b>11,672,409</b>	<b>1,133,314</b>	<b>2,193,496</b>	<b>-</b>	<b>2,283,324</b>	<b>17,282,543</b>
<b>EXPENDITURES</b>						
Current:						
General government	5,844,446				185,995	6,030,441
Public safety	1,406,325				24,638	1,430,963
Health and welfare	547,708		2,542,999		326,219	3,416,926
Culture and recreation	261,616				129,270	390,886
Public works	2,302,348				1,015,741	2,302,348
Capital outlays						
Debt service:						
Principal		523,884				523,884
Interest and other		426,425				426,425
Total expenditures	10,362,443	950,309	2,542,999	-	1,681,863	15,537,614
Excess (deficiency) of revenues over (under) expenditures	1,309,966	183,005	(349,503)	-	601,461	1,744,929
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	294,428	221,211				515,639
Transfers out	(221,211)	(294,428)				(515,639)
Total other financing sources (uses)	73,217	(73,217)	-	-	-	-
Net change in total fund balances	1,383,183	109,788	(349,503)		601,461	1,744,929
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	4,154,469	1,302,151	361,816	1,524,536	1,887,278	9,230,250
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 5,537,652</b>	<b>\$ 1,411,939</b>	<b>\$ 12,313</b>	<b>\$ 1,524,536</b>	<b>\$ 2,488,739</b>	<b>\$ 10,975,179</b>



The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
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 - total governmental funds	\$ 1,744,929
Amounts reported for governmental activities in the statement of activities are different because:	
• Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	1,015,741
• Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.	(1,074,331)
• Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities.	523,884
• Change in accrued interest expense which does not require the use of current financial resources.	(39,345)
• Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	<u>(74,821)</u>
Changes in net position of governmental activities	<u>\$ 2,096,057</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF QUEBRADILLAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2014**

	<b>Aquatic Park Fund</b>
<b><u>Assets</u></b>	
Cash in bank (Notes 2 and 4)	\$ 278,433
Capital assets, net (Note 10)	2,364,494
Total assets	2,642,927
<b><u>Liabilities and Net Position</u></b>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	11,920
Total liabilities	11,920
<b>Net Position</b>	
Net investment in capital assets	2,364,494
Unrestricted	266,513
Total net position	\$ 2,631,007

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<b>Aquatic Park Fund</b>
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 376,446
Total operating revenues	376,446
<b>OPERATING EXPENSES:</b>	
Salaries	99,784
Fringe benefits	9,903
Insurance	12,684
Office materials	515
Equipment	887
Maintenance materials	52,748
Miscellaneous	11,018
Utilities	6,495
Bank charges	1,980
Depreciation ( <b>Note 10</b> )	48,410
Total operating expenses	244,424
<b>CHANGE IN NET POSITION</b>	132,022
<b>TOTAL NET POSITION, BEGINNING</b>	2,498,985
<b>TOTAL NET POSITION, ENDING</b>	\$ 2,631,007

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<b>Aquatic Park Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 376,446
Payments to employees of services	(99,784)
Payment for insurance	(12,684)
Payments to suppliers	(103,543)
Net cash provided by operating activities:	160,435
<b>NET INCREASE IN CASH</b>	160,435
<b>CASH AT BEGINNING OF YEAR</b>	117,998
<b>CASH AT ENDING OF YEAR</b>	\$ 278,433
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 132,022
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	48,410
Decrease in accounts payable	(19,997)
Total adjustments	28,413
Net cash provided by operating activities	\$ 160,435

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**1. ORGANIZATION**

The Municipality of Quebradillas, Puerto Rico (Municipality) was founded in 1823. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, separate and independent from the central government of the Commonwealth of Puerto Rico. 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 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 members of these branches are elected every four years in the Puerto Rico general elections.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

- Management's Discussion and Analysis - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- Government - Wide Financial Statements - The reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- Statement of Net Position - The statement of net position is designed to display the financial position of the Municipality, including capital assets and infrastructure.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF QUEBRADILLAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The net position of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

**a. Reporting Entity**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. 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 financially accountable.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable, but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on the Municipality.

- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2014.

**b. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the activities of the Municipality.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The effect of all inter-fund activities (assets, liabilities, revenues, expenditures and other financing sources/uses among governmental funds) have been eliminated from the governmental-wide financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF QUEBRADILLAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Separate fund financial statements are provided for governmental funds and proprietary funds. Major governmental funds are reported on separate columns to segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

**c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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.

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurements focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a 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. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Property taxes, sales taxes, franchise taxes, licenses, and interests 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 when the amount is received during the period or within the availability period for this revenue source (within 60 days or year-end). 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). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The Municipality reports the following major governmental funds:

1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

2) Debt Service Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

3) Head Start Program

This fund account for revenue sources to provide essential human services such as improving maternal and infant health, pre-school education and services, prevent child abuse and domestic violence and medical and social science research including the prevention of the outbreak of infectious disease and immunization services.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

4) Loan \$3,635,000

The Loan \$3,635,000 fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements which are not financed by other funds.

The government reports the following major proprietary fund:

*The Aquatic Park* accounts for the operation, maintenance, administration of aquatic park facilities. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets.

**d. Cash and Cash with Fiscal Agent**

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

Cash with fiscal agent in the capital projects fund consists of unused proceeds from appropriations from the Legislature Assembly of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections withheld by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

**e. Interfund Receivables and Payables**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

**f. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets' sidewalks, and drainage system), are reported in the applicable governmental or component units columns in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Infrastructure	20-50 years
Buildings and building improvements	20-50 years
Furniture and fixtures	5-20 years
Vehicles and equipment	5-20 years

**g. Fund Balances**

The Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipality's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Negative fund balance amounts are amounts assigned reduced to eliminate the deficit. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that indicate the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established any formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2014.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54.

**h. Risk Financing**

The Municipality carries insurance to cover 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. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2014 amounted to \$372,453. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$261,811 for workers' compensation insurance covering all municipal employees.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**i. Compensated Absences**

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

**j. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**k. Future Adoption of Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Municipality has not yet adopted:

Statement Number	Statement Name	Adoption Required in Fiscal Year
68	Accounting and Financial Reporting for Pensions - and amendment of GASB Statement No. 27	2014-15
71	Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68	2014-15

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

**l. Deferred Inflows**

The Municipality adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63).

In the GFFS, deferred inflows arise when one of the following situations occur:

- Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (reported as *earned but unavailable revenue* in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2014 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as *unearned revenue* in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

criterion is met, the liability for deferred inflows is removed and revenue is recognized.

Deferred inflows at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as *“unearned revenue”* in the accompanying statement of net position). No *“earned but unavailable revenue”* is accounted for in the accompanying statement of net position.

**3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$12.9 million differences are as follows:

Bonds payable	\$ 4,660,000
Compensated absences	1,205,503
Notes payable	5,825,400
Accrued interest	585,409
Other long-term liabilities	363,148
Christmas bonus	<u>275,000</u>
Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities	<u>\$ 12,914,460</u>

**4. DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The deposits at GDB of approximately \$2,743,095 are restricted principally for capital projects, and the \$2,147,325 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its investments in one bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

**5. PROPERTY TAXES**

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.83% for real property and 6.83% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	2.00%	2.00%
Discounts made by state to tax payer	<u>(.20%)</u>	<u>(.20%)</u>
	<u>8.83%</u>	<u>6.83%</u>

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2013-14, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Based on the preliminary settlement already received, during the year ended June 30, 2014, the amount advanced by CRIM exceeded the amount collected by CRIM from taxpayers and charges for the same period by approximately \$183,868. Such amount is presented as due from CRIM in the accompanying financial statements. (See note 14).

**6. MUNICIPAL LICENSE TAXES**

Municipal License Taxes receivable are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2014. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Quebradillas, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15.

The rates of municipal license in the Municipality of Quebradillas are as follows:

Savings and loans associations	=	1.00%
Financial institutions	=	1.50%
Other organizations:		
Up to \$100,000	=	.30%
\$100,000 up to \$200,000	=	.40%
Over \$200,000	=	.50%

The amounts collected in advance are recorded as deferred inflows of resources in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$537,641, corresponding to the next fiscal year municipal license.

**7. SALES AND USE TAXES**

On July 29, 2007, the Commonwealth Legislature approved Act. No. 80 ("Act. 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007, 1% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety cost. Amount collected by the Commonwealth Government will be deposited in accounts of special funds in the Government Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act.
- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act and,
- c. .1% of the .5% 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.

**8. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power Authority	\$ 2,700,098
OCAM	52,521
Administration for Children and Family (Food Program)	13,821
Puerto Rico Department of Family (ESG)	<u>2,038</u>
	<u>\$ 2,768,478</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**9. INTERFUND TRANSACTIONS**

**a. Due From/To Other Funds:**

The due from and due to other fund balances as of June 30, 2014 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service	\$ 293,195
General	Other Governmental Funds	53,678
Other Governmental	General	<u>195,125</u>
		<u>\$ 541,998</u>

The balance of \$195,125 due to the general fund from the Other Governmental Fund represents amount due from prior years related to state contributions' grants. Remaining transfers are used to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2014 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Debt Service	\$ 294,428
Debt Service	General Fund	<u>221,211</u>
		<u>\$ 515,639</u>

The transfers are used to (1) move revenues from the fund that statute or budget revenues to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection to the debt service fund as debt service payments become due, (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**10. CAPITAL ASSETS**

**a. Primary Government**

Capital asset activity for the Municipality for the year ended June 30, 2014 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,169,925	\$ -	\$ -	\$ 1,169,925
Construction in progress	199,272	912,496	309,572	802,196
Total capital assets, not being depreciated	<u>1,369,197</u>	<u>912,496</u>	<u>309,572</u>	<u>1,972,121</u>
Capital assets, being depreciated:				
Land improvement	1,552,433			1,552,433
Buildings and building improvements	33,583,266	309,572		33,892,838
Equipment	1,127,183	103,245		1,230,428
Work of arts	22,000			22,000
Vehicles	2,692,483			2,692,483
Infrastructure	5,095,898			5,095,898
Total capital assets, being depreciated	<u>44,073,263</u>	<u>412,817</u>	<u>-</u>	<u>44,486,080</u>
Less accumulated depreciation for:				
Land improvement	3,297,264	665,663		3,962,927
Buildings and building improvements	2,756,748	53,632		2,810,380
Equipment	883,781	135,238		1,019,019
Work of arts	5,500	2,750		8,250
Vehicles	2,409,097	76,623		2,485,720
Infrastructure	2,564,362	140,425		2,704,787
Total accumulated depreciation	<u>11,916,752</u>	<u>1,074,331</u>	<u>-</u>	<u>12,991,083</u>
Total capital assets, being depreciated, net	<u>32,156,511</u>	<u>(661,514)</u>	<u>-</u>	<u>31,494,997</u>
Governmental activities capital assets, net	<u>\$ 33,525,708</u>	<u>\$ 250,982</u>	<u>\$ 309,572</u>	<u>\$ 33,467,118</u>

Depreciation expense was charged to functions/programs of the Municipality as follows:

General government	\$ 87,710
Public safety	50,133
Health and welfare	2,916
Recreation	102,772
Public works	<u>830,800</u>
Total depreciation expense-governmental activities	<u>\$ 1,074,331</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**b. Business-Type Government**

<u>Business-type government</u>	<u>Balance June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Total capital assets, not being depreciated	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Capital assets, being depreciated:				
Building	2,420,514			2,420,514
Total capital assets, being depreciated	<u>2,420,514</u>	<u>-</u>	<u>-</u>	<u>2,420,514</u>
Less accumulated depreciation for:				
Building	47,610	48,410		96,020
Total accumulated depreciation	<u>47,610</u>	<u>48,410</u>	<u>-</u>	<u>96,020</u>
Total capital assets, being depreciated, net	<u>2,372,904</u>	<u>(48,410)</u>	<u>-</u>	<u>2,324,494</u>
Business type government assets	<u>\$ 2,412,904</u>	<u>\$ (48,410)</u>	<u>\$ -</u>	<u>\$ 2,364,494</u>

**11. DUE TO OTHER AGENCIES**

Puerto Rico Electric Power Authority	\$2,699,358
Puerto Rico Water and Sewer Authority	24,798
General Services Administration	23,254
Labor Department	12,000
Internal Revenue Services	9,507
State Employee Association	8,481
Total	<u>\$2,777,398</u>

**12. DEFERRED INFLOWS OF RESOURCES**

**a. Municipal License Taxes**

The deferred inflows of resources approximately \$537,641 in the general fund related to municipal license tax collected in fiscal year 2013-2014 that will be earned in fiscal year 2014-2015.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**b. Federal Government**

The deferred inflows of resources presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred.

The amounts were determined taking into consideration the specific years of the grant.

**13. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, and payments in lieu of taxes from the Puerto Rico Electric Power Authority.

**14. LONG-TERM DEBTS**

Bonds and other long-term liabilities outstanding at June 30, 2014 are as follows:

**Bonds**

\$570,000 series of 2002, payable in annual installments of \$10,000 to \$50,000 until July 1, 2026, interest from 2.7% to 5.6%.	\$ 385,000
\$2,000,000 series of 2001, payable in annual installments of \$20,000 to \$175,000 until July 1, 2026, interest from 5% to 7%.	1,420,000
\$638,800 series of 2002, payable in annual installments of \$10,700 to \$49,200 until July 1, 2027, interest from 5% to 7.5%.	450,400
\$670,000 series of 2003, payable in annual installments of \$10,000 to \$50,000 until July 1, 2028, interest from 5% to 7.5%.	490,000

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

\$2,135,000 series of 2005, payable in annual installments of \$65,000 to \$165,000 until July 1, 2024, interest from 4.37% to 6.5%.	\$ 1,325,000
\$455,000 series of 2004, payable in annual installments of \$15,000 to \$35,000 until July 1, 2024, interest from 3.27% to 6.5%.	280,000
\$1,110,000 series of 2008, payable in annual installments of \$25,000 to \$10,000 until July 1, 2027, interest from 6.48% to 7.5%.	885,000
\$420,000 series of 2010, payable in annual installments of \$50,000 to \$75,000 until July 1, 2016, interest from 5% to 7%.	145,000
\$1,710,000 series of 2010, payable in annual installments of \$25,000 to \$145,000 until July 1, 2034, interest from 6% to 7.5%.	1,565,000
\$100,000 series of 2010, payable in annual installments of \$5,000 to \$20,000 until July 1, 2026, interest from 6% to 7.5%.	75,000
\$3,635,000 series of 2012, payable in annual installments of \$55,000 to \$310,000 until July 1, 2036, interest from 6% to 7.5%.	<u>3,465,000</u>
Total bonds and notes payable	<u><u>\$ 10,485,400</u></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Other Long-Term Liabilities**

Note payable of \$203,419 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in annual aggregate principal installments of \$15,024 plus interest rate of 6.19%.

\$ 161,440

The annual debt service requirements for the bonds payable and notes payable at June 30, 2014, are as follows:

	<b><u>Bonds</u></b>		<b><u>Notes Payable</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2015	\$ 300,000	\$ 246,769	\$ 188,100	\$ 338,640
2016	325,000	275,410	199,600	372,238
2017	260,000	255,732	211,200	359,562
2018	275,000	239,930	237,900	346,165
2019	295,000	234,732	249,700	331,016
2020-2024	1,750,000	852,455	1,560,100	1,463,210
2025-2029	830,000	386,790	1,448,800	918,796
2030-2034	625,000	148,125	1,135,000	490,875
2035-2036			595,000	67,875
	<u>\$ 4,660,000</u>	<u>\$2,639,943</u>	<u>\$ 5,825,400</u>	<u>\$ 4,688,377</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable	\$ 4,945,000	\$ -	\$ 285,000	\$ 4,660,000	\$ 300,000
Notes payable	5,997,100		171,700	5,825,400	188,100
Total long-term debts	<u>10,942,100</u>	<u>-</u>	<u>456,700</u>	<u>10,485,400</u>	<u>488,100</u>
<b>Other Long-term Liabilities:</b>					
CRIM - Law 42	166,224		4,784	161,440	9,912
Treasury Department	49,457	12,943	62,400	-	
Claims and judgments	-	17,840		17,840	
CRIM	-	183,868		183,868	
Compensated absences	1,345,333		139,830	1,205,503	
Total other long-term liabilities	<u>1,561,014</u>	<u>214,651</u>	<u>207,014</u>	<u>1,568,651</u>	<u>9,912</u>
Total noncurrent liabilities, governmental activities	<u>\$ 12,503,114</u>	<u>\$ 214,651</u>	<u>\$ 663,714</u>	<u>\$ 12,054,051</u>	<u>\$ 498,012</u>

**15. FUND BALANCES**

	<u>General</u>	<u>Debt Service</u>	<u>Head Start Program</u>	<u>Loan \$3,650,000</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Restricted:</b>						
General government	\$ -	\$ -	\$ -	\$ -	\$ 45,223	\$ 45,223
Public safety					15,921	15,921
Public works					1,182,289	1,182,289
Health and welfare					110,809	110,809
Debt service		1,411,939				1,411,939
<b>Committed:</b>						
General government					120	120
Public works				1,524,536	1,131,324	2,655,860
Education			12,313			12,313
<b>Assigned:</b>						
General government	39,970					39,970
Public safety	32,788					32,788
Culture and recreation	4,915					4,915
Health and welfare	11,967				374	12,341
Unassigned	5,448,012				2,679	5,450,691
	<u>\$ 5,537,652</u>	<u>\$ 1,411,939</u>	<u>\$ 12,313</u>	<u>\$ 1,524,536</u>	<u>\$ 2,488,739</u>	<u>\$ 10,975,179</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**16. NET POSITION**

Net position invested in capital assets, net of related debt, is comprised of the following:

Capital assets, net of accumulated	\$33,467,118
Outstanding balance on capital related debt	(4,660,000)
Unspent capital debt proceeds	<u>1,524,536</u>
Total invested in capital assets, net of related debt	<u>\$30,331,654</u>

**17. RETIREMENT PLAN**

**a. Plan Description**

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

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

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

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

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

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

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service. No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 2000 will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

2000. The employer's contribution (12.275% of the employee's salary) will be used to fund the current plan.

**b. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 12.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2014 was approximately \$271,304. The Municipality's payroll for employees covered by ERS was approximately \$2.2 million. The Municipality total payroll for all employees was approximately \$6.5 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2014, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**18. RISK MANAGEMENT**

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

**19. LEASES**

**Operating Leases**

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place under operating lease agreements with terms ranging from one to five years.

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

- b. Total income from leases during the year ended June 30, 2014 was approximately \$43,198.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

**20. CONTINGENCIES**

The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

**21. COMMITMENTS**

The Municipality of Quebradillas had outstanding or planned construction projects as of June 30, 2014. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Other Governmental Funds that amounted to approximately \$442,217.

**22. SUBSEQUENT EVENTS**

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through October 6, 2014, the date the financial statements were available to be issued.

**PART II – REQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 509,182	\$ 509,182	\$ 746,540	\$ 237,358
Municipal license taxes	590,000	590,000	817,146	227,146
Sales and use taxes	855,500	855,500	930,146	74,646
Licenses and permits	265,500	265,500	297,508	32,008
Charges for services and rent	22,500	22,500	47,246	24,746
Intergovernmental revenues:				
State contributions	7,479,997	7,479,997	7,526,507	46,510
Interest, fines and penalties	117,000	117,000	154,069	37,069
Other revenues	108,000	108,000	243,426	135,426
Total revenues	<u>9,947,679</u>	<u>9,947,679</u>	<u>10,762,588</u>	<u>814,909</u>
<b>EXPENDITURES</b>				
Current:				
General government	5,371,026	5,814,097	5,547,025	267,072
Public safety	710,612	729,888	657,128	72,760
Public works	2,956,253	2,822,141	2,769,282	52,859
Recreation	271,799	262,600	255,683	6,917
Health and welfare	637,989	618,953	572,725	46,228
Total expenditures	<u>9,947,679</u>	<u>10,247,679</u>	<u>9,801,843</u>	<u>445,836</u>
<b>OTHER FINANCING SOURCES</b>				
Reprogramming funds	-	300,000	300,000	-
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,260,745</u>	<u>\$ 1,260,745</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 10,762,588
Differences - budget to GAAP:				
Net change in receivables				<u>909,821</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 11,672,409</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule				\$ 9,801,843
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				(245,363)
Net change in payables				716,323
Current year encumbrances recorded as expenditures for budgetary purposes				<u>89,640</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 10,362,443</u>

The accompanying note to Budgetary Comparison Schedule  
is an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTE TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 1 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Control**

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of certain appropriations within the budget known as Mayor's Executive Orders do not require the approval of the Municipal Legislature. The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. 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 fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget resolutions at June 30, 2014 representing the original budget.

**PART III – SINGLE AUDIT**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Direct Programs:		
Section 8 Housing Choice Vouchers	14.871	\$ 240,731
Pass-through Commissioner Office of Municipal Affairs - Community Development Block Grant/State's Program	14.228	288,838
Neighborhood Stabilization Program (NSP1) - Recovery Act Funded	14.228	25,402
Neighborhood Stabilization Program (NSP3) - Recovery Act Funded	14.228	130,655
Pass-through Department of Family: Emergency Shelter Grants Program (Prevention)	14.231	56,220
Subtotal U.S. Department of HUD		<u>741,846</u>
<b>U.S. Department of Agriculture</b>		
Pass-through Education Department:		
Child and Adult Care Food Program-Child Care	10.558	43,573
Child and Adult Care Food Program-Head Start	10.558	241,626
Subtotal U.S. Department of Agriculture		<u>285,199</u>
<b>U.S. Department of Justice</b>		
Direct Program:		
Crime Victim Assistance	16.575	32,525
Subtotal U.S. Department of Justice		<u>32,525</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Pass-through the Puerto Rico Governor's Office (Elderly Affairs Office):		
Special Programs for the Aging, Title III, Part C	93.045	14,404
Special Programs for the Aging, Title III, Part E	93.045	26,968
Nutrition Services Incentive Program	93.053	15,943
Pass-through the Office of Administration for Children and Families: Child and Care and Development Block Grant	93.575	129,270
Pass-through the Office of Administration for Children and Families: Head Start	93.600	2,193,496
Subtotal U.S. Department of HHS		<u>2,380,081</u>
<b>U.S. Department of Energy</b>		
Pass-through the Puerto Rico Administration of Energy Affairs:		
Energy Efficiency and Conservation Block Grant Program	81.128	39,030
Subtotal U.S. Department of Energy		<u>39,030</u>
<b>TOTAL</b>		<u>\$ 3,478,681</u>

See notes to schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Quebradillas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**2. BASIS OF PRESENTATION**

The expenditures of the schedule are included in the Municipality's basic financial statements in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u><b>Expenditures</b></u>
Expenditures as per basic financial statements:	
Federal expenditures included within:	
Other governmental funds	\$ 1,285,185
Head start program	<u>2,193,496</u>
Total	<u>\$ 3,478,681</u>
Total expenditures per schedule of expenditures of federal awards	<u>\$ 3,478,681</u>

**INDEPENDENT AUDITORS' 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  
Municipal Legislature  
Municipality of Quebradillas  
Quebradillas, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Quebradillas, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated October 6, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### Compliance and Other Matters

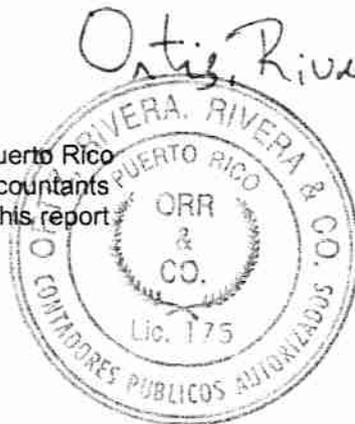
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

### Purpose of this Report

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

San Juan, Puerto Rico  
October 6, 2014

The stamp E135645 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report



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

To the Honorable Mayor  
and Municipal Legislature  
Municipality of Quebradillas  
Quebradillas, Puerto Rico

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

We have audited Municipality of Quebradillas' 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 year ended June 30, 2014. Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' 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.

### **Opinion on Each Major Federal Program**

In our opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **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.

*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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*Ortiz, Rivera, Rivera & Co.*

San Juan, Puerto Rico  
October 6, 2014

The stamp E135646 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**1. SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of auditors' report issued: Unmodified opinion

Internal control over financial reporting:

Material weakness (es) identified?	<u>    </u>	Yes	<u>  X  </u>	No
Significant deficiency (ies) identified?	<u>    </u>	Yes	<u>  X  </u>	None reported
Noncompliance material to financial statements noted?	<u>    </u>	Yes	<u>  X  </u>	No

Federal Awards

Internal control over major programs:

Material weakness (es) identified?	<u>    </u>	Yes	<u>  X  </u>	No
Significant deficiency (ies) identified?	<u>    </u>	Yes	<u>  X  </u>	None reported

Type of auditors' report issued on compliance for major programs: Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of OMB Circular A-133?	<u>    </u>	Yes	<u>  X  </u>	No
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Identification of major programs:

CFDA 93.600	Head Start Program
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Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Audited qualified as low-risk auditee?	<u>  X  </u>	Yes	<u>    </u>	No
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

**3. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM  
AUDIT**

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>Head Start CFDA No. 93.600</b>	<b>Condition 13-1</b>  The Municipality did not minimize the time elapsed between the transfer of funds from the Agency and disbursements.	Condition was corrected
<b>Head Start CFDA No. 93.600</b>	<b>Condition 13-2</b>  The Municipality did not report the financial reports on time.	Condition was corrected
<b>Head Start CFDA No. 93.600</b>	<b>Condition 13-3</b>  The Annual Report submitted does not include the Administrative Report.	Condition was corrected

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