
COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF RIO GRANDE

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

YEAR ENDED JUNE 30, 2014



Municipality of Río Grande
P.O. Box 847, Río Grande, Puerto Rico 00745

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Río Grande, Puerto Rico (Municipality)** 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.

Auditor's Responsibility

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

An audit includes involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 financial statements.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinions

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

Other Matters

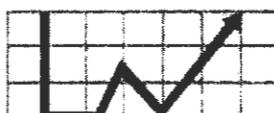
Required Supplementary Information

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 through 13 and 58 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 the 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 Río Grande's** basic financial statements. The accompanying supplementary information – Financial Data Schedules shown in pages 60 and 61 are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages 63 and 64 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

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



López-Vega, CPA, PSC

Chartered Public Accountants - Management Accountants

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2015, on our consideration of Municipality of Río Grande's 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 this 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 Río Grande's** internal control over financial reporting and compliance.


LOPEZVEGA, CPA, PSC

San Juan, Puerto Rico
March 30, 2015

Stamp No. 2705439 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

This discussion and analysis of the **Municipality of Rio Grande** (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2014. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2013. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provides for an evaluation of its financial condition as of the end of fiscal year 2013-2014 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2014 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$86,831,313 which represents an increase of 4% compared to prior fiscal year.
2. At the end of fiscal year 2014, total liabilities amounted to \$39,894,272. Out of said amount, \$34,161,983 corresponded to long-term liabilities of which \$30,969,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which were paid from self-generated revenues.
3. Total Net Position of the Municipality amounted to \$46,937,041 which represents an increase of 17% compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$29,935,803 derived from the following sources: \$45,303 from charges for services; \$3,296,097 from operating grants and contributions; \$4,660,176 from capital grants and contributions obtained from other sources, and \$21,934,227 from general revenues available.
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$23,267,313.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to increase in the Net Position figure by \$6,668,490.

FINANCIAL HIGHLIGHTS (CONTINUED)

7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$4,909,388.
8. At the end of the current fiscal year, the Municipality's general fund deficit amounted to \$3,382,489 compared to a fund deficit of \$4,532,540 in the prior fiscal year 2012-2013.
9. The actual General Fund budgetary activities resulted in an unfavorable balance of \$677,710.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2014. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Position reflects information of the Municipality as a whole on a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year.

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.

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.

GOVERNMENT – WIDE FINANCIAL STATEMENTS

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

The Statement of Activities presents information showing how the Municipality's Net 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.

FUND FINANCIAL STATEMENTS

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

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

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

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure-roads, bridges, 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 demonstrated 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.

INFRASTRUCTURE ASSETS (CONTINUED)

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

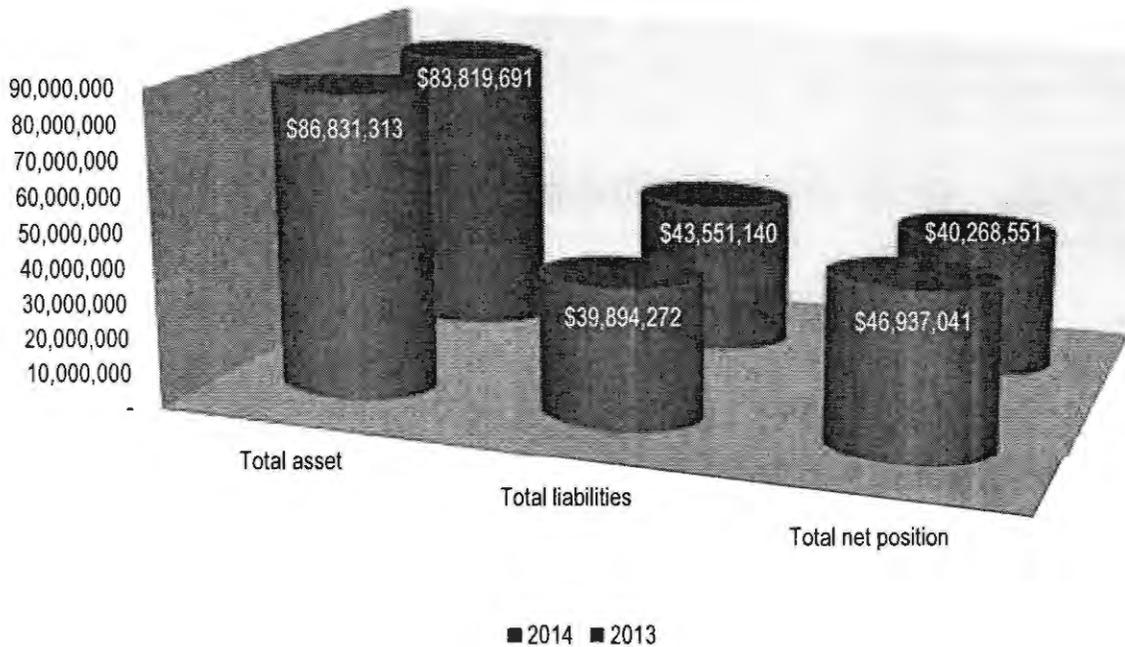
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

The Statement of Net Position serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Rio Grande, primary government assets exceeded total liabilities by \$46,937,041 at the end of 2014, as compared with \$40,268,551, which reflect an increase of \$6,668,490 over previous fiscal year. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis the most important components of the \$6,668,490 increase reflected in the Net Position figure.

Condensed Statement of Net Position	2014	2013	Change	%
Current and other assets	\$ 8,858,000	\$ 10,341,929	\$ (1,483,929)	(14%)
Capital assets	77,973,313	73,477,762	4,495,551	8%
Total assets	86,831,313	83,819,691	3,011,622	4%
Current and other liabilities	5,732,289	7,823,650	2,091,361	27%
Long-term liabilities	34,161,983	35,727,490	1,565,507	4%
Total liabilities	39,894,272	43,551,140	3,656,868	8%
Invested in capital assets, net of related debt	53,876,330	49,253,762	4,622,568	9%
Restricted	8,267,902	5,345,962	2,921,940	55%
Unrestricted deficit	(15,207,191)	(14,331,173)	876,018	6%
Total Net Position	\$ 46,937,041	\$ 40,268,551	\$ 6,668,490	17%

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)



Changes in Net Position

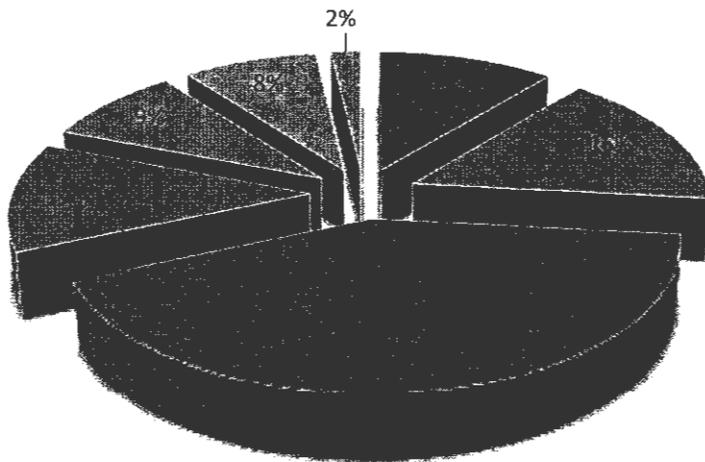
The Municipality's Net Position increased by \$6,668,490. Approximately sixty-three percent (63%) of the Municipality's total revenue came from taxes, while thirty-five percent (35%) resulted from grants and contributions, including federal aid. Charges for Services and Interest and Investment earnings provided less than one percent (.3%) and miscellaneous revenues provided two percent (2%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, culture and recreation, and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2013 and 2014. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Activities	2014	2013	Change	%
Program Revenues:				
Charge for services	\$ 45,303	\$ 53,348	\$ (8,045)	(15%)
Operating grants and contributions	3,296,097	3,836,744	(540,647)	(14%)
Capital grants and contributions	4,660,176	2,549,425	2,110,751	83%
General revenues:				
Property taxes	12,494,153	11,559,061	935,092	8%
Municipal license tax	3,667,176	2,814,288	852,888	30%
Municipal sales and use tax	2,606,437	2,596,201	10,236	.4%
Other local taxes	-	946,261	(946,261)	(100%)
Grants and contributions not restricted to specific programs	2,509,325	3,532,712	(1,023,387)	(29%)
Interest and investment earnings	96,862	247,077	(150,215)	(61%)
Miscellaneous	560,274	216,343	343,931	159%
Total revenues	29,935,803	28,351,460	1,584,343	6%
Expenses				
General government	8,957,556	6,537,151	2,420,405	37%
Public safety	2,867,590	2,591,516	276,074	11%
Public works	4,876,142	4,144,127	732,015	18%
Health and welfare	3,676,356	4,985,540	(1,309,184)	(26%)
Culture and recreation	152,229	103,679	48,550	47%
Economic development	232,257	105,216	127,041	121%
Community development	925,163	2,284,239	(1,359,076)	(59%)
Education	198,126	109,629	88,497	81%
Interest on long-term debt	1,381,894	1,395,139	(13,245)	(1%)
Total expenses	23,267,313	22,256,236	1,011,077	5%
Change in Net Position	6,668,490	6,095,224	573,266	9%
Net Position, beginning of year	40,268,551	34,173,327	6,095,224	18%
Net Position, end of year	\$ 46,937,041	\$ 40,268,551	\$ 6,668,490	17%

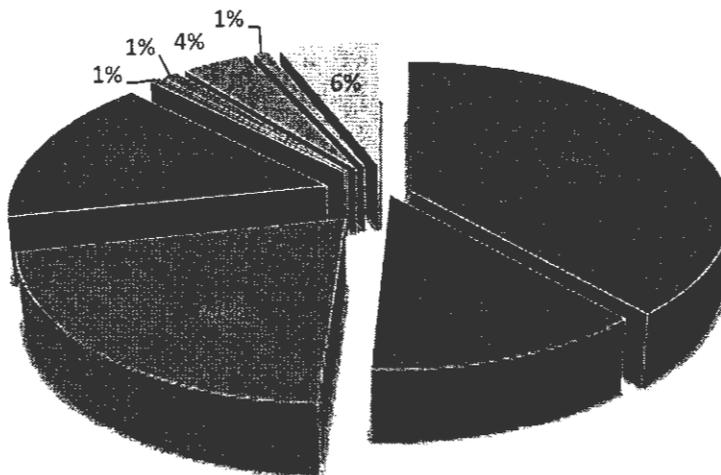
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2014



- Operating grants and contributions
- Capital grants and contributions
- Property taxes
- Municipal license tax
- Municipal sales and use tax
- Grants and contributions not restricted to specific programs
- Miscellaneous

Expenses 2014



- General government
- Public safety
- Public works
- Health and welfare
- Culture and recreation
- Economic development
- Community development
- Education
- Interest on long term debt

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 amounting to \$4,909,388, which represents a decrease of \$(1,228,163) when compared with the prior year. Out of the indicated balance, \$308,347 were classified as nonspendable; \$7,987,786 were classified as restricted for the following purposes: (1) \$5,871,553 for debt service payments; 2) \$2,114,566 to pay for capital projects; 3) \$1,667 for other purposes.

As of June 30, 2014, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of \$(3,692,016).

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2013-2014, the Municipal Legislature approved revisions to the operational budget which resulted in further increases in revenues and current expenditures which represented transactions detected during the normal course of business. Despite these budgets readjustments and as previously stated, as reflected in exhibit, Budgetary Comparison Schedule- General Fund attached hereto, budgetary analysis reflected \$677,710 of total operating expenses over current revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2014, amounted to \$114,011,605 which upon deduction of accumulated depreciation in the amount of \$36,038,292 produced a net book value attributable to capital assets in the amount of \$77,973,313. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately eight percent (8%) of net book value. Depreciation charges for the year totaled \$2,312,141.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2014, the Municipality has \$1,852,190 of proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the Capital Project Fund- Local, and State Grants.

Debt Administration

The Puerto Rico Legislative Assembly 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" as defined in Act No. 64. Such Act requires a Municipality must have sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal 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. In the particular case of the Municipality of Río Grande, 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 and state grants to carry out the governmental activities. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2014-2015.

Implementation of Acts 18 and 19 of 2014

The dispositions established by Acts 18 and 19 of 2014 related to the municipal sales and use tax became effective on July 1, 2014 (see note 3). The most significant changes are the creation of the Municipal Finance Corporation (COFIM) and, for the municipalities covered by these Acts, the new collection method of the 1% municipal sales and use tax and the establishment of a monthly advances system for the transfers of the .2% destined for the Municipal Development Fund (FDM) and of the .2% related to the Municipal Redemption Fund (FRM). For those municipalities that signed the agreement to be covered by these Acts (including the Municipality of Río Grande), the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM transfers based on the amounts collected that same month in the preceding fiscal

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM and FRM with the monthly advances made to each municipality.

If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act No. 19, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and, thereafter, 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the FRM as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act.

On September 1, 2014, the sixteen municipalities that collect their sales and use tax through the P.R. Department of Treasury (Aguadilla, Aibonito, Arroyo, Barranquitas, Ciales, Culebra, Hatillo, Juncos, Lajas, Lares, Maricao, Maunabo, Naguabo, Patillas, Peñuelas and Rincon) began participating on a pilot program for the collection of the 1% municipal sales and use tax through COFIM. In this program, a standard monthly sales and use tax return was created to be used by the retailers of these municipalities. The monthly returns were filed in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico (BPPR). BPPR would electronically process the returns and submit their data to COFIM. However, beginning November 1, 2014, the retailers also had the option of using COFIM's internet portal to electronically file and pay the return.

On the other hand, the Governing Board of COFIM has not established an implementation date for the remaining 62 municipalities. However, for those municipalities that voluntarily decided to use COFIM's internet portal or collection process through the BPPR, their implementation date was December 1, 2014. For those municipalities that want to be certified as collection agents for COFIM, the implementation date is January 1, 2015. As collection agents for COFIM, the retailers of these municipalities have the option of filing and paying the monthly sales and use tax in the municipality's Collection Office. The Collection Office's personnel have the responsibility to deposit the daily sales and use tax collections in the bank account designated by COFIM, and also submit electronically the returns' data to the agency for processing in COFIM's data base. The Municipality of Rio Grande has submitted the application to be a certified collection agent and is awaiting approval from COFIM.

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 668,375
Cash with fiscal agent	6,884,737
Accounts receivable:	
Municipal License tax	249,340
Others	120,114
Due from:	
Commonwealth government	935,434
Capital assets	
Land, improvements, and construction in progress	34,627,059
Other capital assets, net of depreciation	43,346,254
Total capital assets	<u>77,973,313</u>
Total assets	<u>86,831,313</u>
Liabilities:	
Accounts payable and accrued liabilities	2,553,260
Due to other governmental entities	763,652
Unearned revenues:	
Municipal license tax	1,582,829
Federal grant revenues	152,902
Other	14,940
Interest payable	664,706
Noncurrent liabilities:	
Due within one year	2,556,586
Due in more than one year	31,605,397
Total liabilities	<u>39,894,272</u>
Net Position:	
Net investment in capital assets	53,876,330
Restricted for:	
Capital projects	2,114,566
Debt service	5,871,553
Other purposes	1,667
Unrestricted (deficit)	<u>(14,927,075)</u>
Total net position	<u>\$ 46,937,041</u>

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets
					Governmental Activities
General government	\$ 8,957,556	\$ 18,121	\$ 395,661	\$ -	\$ (8,543,774)
Public safety	1,867,590	15,856	130,394		(1,721,340)
Public works	4,876,142	11,326	521,577	3,262,123	(1,081,116)
Health and welfare	3,676,356		1,596,492		(2,079,864)
Culture and recreation	1,152,229		391,183		(761,046)
Economic development	232,257		260,790		28,533
Community development	925,163			1,398,053	472,890
Education	198,126				(198,126)
Interest on long-term debt	1,381,894				(1,381,894)
Total governmental activities	\$ 23,267,313	\$ 45,303	\$ 3,296,097	\$ 4,660,176	\$ (15,265,737)
General revenues:					
					12,494,153
					3,667,176
					2,606,437
					2,509,325
					96,862
					560,274
					<u>21,934,227</u>
					6,668,490
					40,268,551
					<u>\$ 46,937,041</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALTY OF RIO GRANDE**

**Balance Sheet - Governmental Funds
For the Year Ended June 30, 2014**

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ -	\$ 122,384	\$ 800,728	\$ -	\$ 596,641	\$ 1,519,753
Cash with fiscal agent			1,051,462	5,830,516	2,759	6,884,737
Accounts receivable:						
Sales and use tax	249,340					249,340
Others		118,380	1,734			120,114
Advances from other funds	309,347					309,347
Due from:						
Commonwealth Government		779,238		41,037	115,159	935,434
Other funds	780,403	49,843	493,320		487	1,324,053
Other assets						
Total assets	1,339,090	1,069,845	2,347,244	5,871,553	715,046	11,342,778
Liabilities, deferred inflows of resources and fund balances						
Liabilities						
Bank overdraft	851,378					851,378
Accounts payable and accrued liabilities	1,030,400	52,769	212,748		3,500	1,299,417
Due to other governmental entities	763,652					763,652
Advances from other funds		309,347				309,347
Due to other funds	493,320	614,563	19,930		196,240	1,324,053
Unearned revenues:						
Municipal license tax	1,582,829					1,582,829
Federal grant revenues		49,479			103,423	152,902
Other					14,940	14,940
Total liabilities	4,721,579	1,026,158	232,678		318,103	6,298,518
Deferred Inflows of Resources						
Unavailable revenues-						
Commonwealth Government					115,160	115,160
Unavailable revenue- Federal grants		19,712				19,712
Fund balances						
Nonspendable	308,347					308,347
Restricted	1,180		2,114,566	5,871,553	487	7,987,786
Unassigned	(3,692,016)	23,975			281,296	(3,386,745)
Total fund balances	(3,382,489)	23,975	2,114,566	5,871,553	281,783	4,909,388
Total liabilities, deferred inflows of resources and fund balances	\$ 1,339,090	\$ 1,069,845	\$ 2,347,244	\$ 5,871,553	\$ 715,046	\$ 11,342,778

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

**Statement of Revenues, Expenditures and Changes
in Fund Balances Governmental Funds
For the Year Ended June 30, 2014**

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 9,235,269	\$ -	\$ -	\$ 3,258,884	\$ -	\$ 12,494,153
Municipal license taxes	2,606,437					2,606,437
Municipal sales and use tax	3,045,035			622,141		3,667,176
Licenses, permits and other local taxes	541,598					541,598
Intergovernmental	3,700,197		1,128,382		2,340,923	7,169,502
Fines and forfeitures	11,740					11,740
Rent of property	45,303					45,303
Interest	96,862					96,862
Federal grants		2,079,753			528,133	2,607,886
Miscellaneous	560,274					560,274
Total revenues	\$ 19,842,715	\$ 2,079,753	\$ 1,128,382	\$ 3,881,025	\$ 2,869,056	\$ 29,800,931
Expenditures						
Current:						
General government	12,072,663				15,936	12,088,599
Public safety	2,414,842	41,523				2,456,365
Public works	3,015,806	281,010	2,965,359		17,059	6,279,234
Health and welfare	1,714,421	570,664			2,359,392	4,644,477
Culture and recreation	697,048	53,467	256,083		97,236	1,103,834
Economic development					230,319	230,319
Community development		909,399				909,399
Urban development	1,180				6,667	7,847
Education		198,126				198,126
Debt service:						
Principal				1,729,000		1,729,000
Interest				1,381,894		1,381,894
Total expenditures	19,915,960	2,054,189	3,221,442	3,110,894	2,726,609	31,029,094
Excess (deficiency) of revenues over (under) expenditures	(73,245)	25,564	(2,093,060)	770,131	142,447	(1,228,163)
Other financing sources (uses)						
Transfers in	1,574,790	11,449	5,236	74,841	276,653	1,942,969
Transfers out	(351,494)	(13,038)	(1,359,361)	(75,716)	(143,360)	(1,942,959)
Total other financing sources (uses)	1,223,296	(1,589)	(1,354,125)	(875)	133,293	-
Net change in fund balances	1,150,051	23,975	(3,447,185)	769,256	275,740	(1,228,163)
Fund balance, beginning	(4,532,540)		5,561,751	5,102,297	6,043	6,137,551
Fund balance, ending	\$ (3,382,489)	\$ 23,975	\$ 2,114,566	\$ 5,871,553	\$ 281,783	\$ 4,909,388

The notes to the financial statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
For the Year Ended June 30, 2014**

Total Fund Balances - Governmental Funds \$ 4,909,388

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

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

Non-depreciable capital assets	\$ 34,627,059	
Depreciable capital assets	79,384,546	
Accumulated depreciation	<u>(36,038,292)</u>	
Total Capital Assets		77,973,313

Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:

Due from Commonwealth Government:		
P.R. Department of Labor - Law Num. 52	115,160	
Federal grants	<u>19,712</u>	
		134,872

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds:

General obligation bonds and notes	(30,969,000)	
Property Tax - Treasury Department	(160,987)	
Property tax - Law 146	(731,716)	
Compensated Absences	(2,178,332)	
Claims and judgments	<u>(121,948)</u>	
Total Long-Term Liabilities		(34,161,983)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:

Accounts payable - net change	(1,253,843)	
Accrued interest - net change	<u>(664,706)</u>	
		(1,918,549)

Total Net Position of Governmental Activities \$ 46,937,041

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
For the Year Ended June 30, 2014**

Net Change in Fund Balances - Total Governmental Funds \$ (1,228,163)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Expenditures for capital assets	\$ 15,409,989	
Less: current-year depreciation	<u>(2,312,141)</u>	13,097,848

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

P.R. Department of Labor - Law No. 52	115,160	
Federal grants	<u>19,712</u>	134,872

Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Position, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities.

(8,602,297)

Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

General obligation bonds and notes	1,729,000	
Other long-term liabilities	<u>1,055,777</u>	2,784,777

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:

Property tax - Treasury Department	(854,661)	
Claims and judgments	(180,300)	
Compensated absences	<u>(184,309)</u>	(1,219,270)

Accounts payable change is reported in the Government-Wide Statement of Activities and Changes in Net Position but not reported as in the Governmental Funds because they do not require the use of current financial resources. This is the amount reported in the current period.

1,700,723

Change in Net Position of Governmental Activities \$ 6,668,490

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Río Grande** (the Municipality) was founded on the year 1840. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units.

A. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Autonomous Municipality of Rio Grande (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if it meets any of the following three conditions:

1. The primary government appoints a voting majority of the entity's governing body, and either:
 - A financial benefit/ burden exist between the primary government and the entity or
 - The primary government can impose its will on the entity.
2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

In addition, "special criteria" applies when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial reporting entity (continued)

2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Legally separate, tax-exempt organizations that do not meet the above special criteria should still be included as a component unit if the financial statements of the primary government would be misleading without them.

There are two methods of presentation of the component unit in the financial statements: (a) *blending* the financial data of the component units' balances and transactions and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government ("*blended component units*"). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as blended if meets any of the following criteria:

1. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
 - A financial benefit/ burden exist between the primary government and the entity or
 - Management of the primary government has operational responsibility for the primary government.
2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
3. The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units does not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government ("*discretely component units*"). Legally separate, tax-exempt organizations that meet the special criteria should be included as *discretely component units*

Based on the above criteria, there are no potential component units which should be included as part of the financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation, measurement focus and basis of accounting

The financial report of the Municipality consists of the Management's Discussion and Analysis (MD&A), basic financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

Management's Discussion and Analysis

It provides a narrative introduction and analytical overview of the Municipality's financial activities.

Basic financial statements

The basic financial statements include both the government-wide and fund financial statements. Both sets of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

Government-wide Financial Statements (GWFS)

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the *economic resources* measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the *accrual basis of accounting*. Revenues are recognized in the period earned and expenses in the period in which the associated liability is incurred, regardless of the timing of related cash flows. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. As a policy, indirect expenses are not allocated in the Statement of Activities. Program revenues must be directly associated with the function.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

The types of transactions included as program revenues are: charges for services, fees, rent, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

The Municipality reports unearned revenues in the government-wide statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred).

In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

Fund Financial Statements (FFS)

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criteria, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

General Fund – is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Special Revenue Funds - State and Federal Grants – is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

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

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

The other governmental funds of the Municipality account for grants and other resources whose use is restricted to a particular purpose.

The FFS are accounted for using the *current financial resources* measurement focus and the *modified-accrual basis of accounting*. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both *measurable* and *available*).

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

Revenues susceptible to accrual include property taxes, recognized as revenue in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met; and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases, revenues are recognized at the time of receipt or earlier, if the susceptible-to-accrual criterion is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible-to-accrual criterion is met.

The Municipality reports unearned revenues in the governmental funds statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants, if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due and (2) vested compensated absences, claims and judgments and special termination benefits, which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the GWFS, the expense and related accrual liability for long-term portions of debt must be included).

Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds of the FFS. Likewise, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are also not accounted for in the FFS.

Since the FFS are presented on a different measurement focus and basis of accounting than the GWFS, reconciliation is necessary to explain the adjustments needed to transform the FFS into the GWFS. This reconciliation is part of the financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

Notes to financial statements

The notes to financial statements provide information that is essential to an user's understanding of the basic financial statements.

Required Supplementary Information (RSI)

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund – Is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

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

Capital Projects Fund – is a governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial reporting presentation (continued)

other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

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

D. Deposits and investments

The Municipality's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the GDB.

E. Restricted assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Receivables and due from governmental entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from Commonwealth government in the general and debt service funds represent property tax revenues of the current fiscal year collected by the CRIM on the subsequent fiscal year. Amounts due from Commonwealth and federal governments reported in the special revenue or capital project funds represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

G. Interfund receivables and payables

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

Advances between funds, as reported in the fund financial statements, if any, are reported as "nonspendable" in the fund balance section of the Balance Sheet to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Position, as management believes is not significant.

I. Capital assets

Capital assets reported in the governmental activities in the Statement of Net Position include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items). The Municipality defines capital assets (except infrastructure assets) as assets with an individual cost of more than \$100 and an estimated useful life in excess of one year. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital assets (continued)

<u>Description</u>	<u>Useful Life</u>
Buildings and site improvements	30 to 50 years
Infrastructure	20 to 50 years
Works of art	10 years
Vehicles	8 years
Furniture and fixtures	5 to 20 years
Machinery and equipment	5 to 20 years

J. Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet of the governmental funds and in the government-wide Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
2. **Unavailable revenue reported under the modified-basis of accounting** – Amounts collected or to be collected after the availability period are recognized as *unavailable revenue* in the governmental funds Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

K. Long-term obligations

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Long-term obligations (continued)

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

L. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave.

Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

M. Claims and judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Net position

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted net position: The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

Unrestricted net position: Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

O. Net position flow assumption

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund balances

The GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54") establish accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

- Nonspendable:** Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted:** Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
- Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action it employed to commit those amounts.
- Assigned:** Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances.
- Unassigned:** Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund balances (continued)

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

Q. Fund balance flow assumptions

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

R. Accounting for pension costs

The Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No. 27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing define benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the Commonwealth's financial reporting entity.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Interfund and intra-entity transactions

The Municipality has the following types of transactions among funds:

- a. **Operating transfers** - Legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.
- b. **Intra-entity transactions** - Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

T. Risk financing

The Municipality carries commercial insurance that consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Under Law Num. 63 of June 21, 2010, the Legislature of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The Municipality's commercial insurance and health plan coverages are procured and negotiated through a single insurance broker. The broker obtains quotes from the different insurance companies and the Municipality's management makes the selection based on coverage and price. The total cost of the annual premiums is financed through a payment plan made with an insurance financing company, and the monthly payments are deducted from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. The annual premium is also deducted from the monthly advances by the CRIM.

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

The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks by each employee covered by law.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Use of Estimates

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

V. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

1. **GASB Statement No. 68 "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).
2. **GASB Statement No. 69 "Government Combinations and Disposals of Government Operations."** The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis (fiscal year ended June 30, 2015).
3. **GASB Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees."** The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013 (fiscal year ended June 30, 2015).
4. **GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date."** The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 (fiscal year ended June 30, 2015).

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

2. CASH AND CASH EQUIVALENTS

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

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

2. CASH AND CASH EQUIVALENTS(CONTINUED)

Credit risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2014.

Interest rate risk - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2014, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2014, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2014, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk - In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized.

However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014. Therefore, the Municipality's management has concluded that at June 30, 2014, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk - The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2014. Under Commonwealth of 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).

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Deposits - The Municipality's bank balances in commercial banks of \$122,384 in the special revenue fund- other federal grants, \$800,728 in the capital projects funds – state and federal grants and \$596,641 in the others governmental funds were fully collateralized at June 30, 2014.

The deposits at GDB of \$5,830,516 in the debt service fund, \$1,051,462 in the capital projects fund – state and federal grants and \$2,759 in the others governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. Municipal License Tax- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2014, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15.

Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2014, net of allowance for uncollectible accounts. Municipal license taxes, collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

B. Municipal Sales and use taxes

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

On July 29, 2007, the Commonwealth Legislature approved Act No. 80 (Act 80) which amends Act No. 117 of July 4, 2006 to impose 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% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

3. RECEIVABLES (CONTINUED)

B. Sales and use taxes (continued)

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .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

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80. Effective January 1, 2011, the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050, the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue \$3,045,035 in the general fund corresponding to the 1% imposition and \$622,141 in the debt service fund corresponding to the Municipal Redemption Fund.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10th day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable of \$249,340 represents the tax collected on June 30, 2014.

On June 30, 2013, the Commonwealth approved Act No. 40 which among other things reduces the municipal sales and use tax from 1.5% to 1% and increasing the Commonwealth sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014, the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. As a result of this legislation, the municipalities of Puerto Rico may improve their credit capacity along with maintaining sufficient resources for operations.

3. RECEIVABLES (CONTINUED)

B. Sales and use taxes (continued)

Act No. 18 of January 24, 2014

The purpose of this Act is to create a special fund called Municipal Administration Fund (FAM) under custody of the Government Development Bank of Puerto Rico (GDB) that permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

The 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds, during a transitory period from February 1, 2014 to June 30, 2014, the Commonwealth will deposit \$43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

After July 1, 2014 the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds, the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The Municipality of Rio Grande signed the agreement to be covered.

For municipalities covered by the agreement, the .5% will be distributed as follows:

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

3. RECEIVABLES (CONTINUED)

B. Sales and use taxes (continued)

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long-term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

Act No. 19 of January 24, 2014

The purpose of this Act is to create the Municipal Finance Corporation (COFIM), a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

C. Other accounts receivable- The \$120,114 reported as other accounts receivable consists of the following:

<u>Description</u>	<u>Amount</u>
Child Care and Development Block Grant	\$ 118,380
Commonwealth of Puerto Rico- Department of Labor and Human Resources	1,734
Total	<u>\$ 120,114</u>

4. DUE FROM (TO) GOVERNMENTAL ENTITIES

A. Amounts due from governmental entities as of June 30, 2014 are as follows:

	<u>Commonwealth Government</u>
<u>Special Revenue Fund Other Federal Grants</u>	
Child Care and Development Block Grant	\$ 183,179
Community Development Block Grant – Entitlement Grant	62,668
Community Services Block Grant	57,068
Even Start – State Educational Agencies	84,400
Special Program for Aging – Title III, Part B-ARRA	15,393
Community Oriented Policing Services	25,612
Federal Emergency Management Administration – Storm Irene	259,624
Energy Efficiency Conservation Grant-ARRA	8,236
Special Program for Aging – Title III, Part B	21,932
Others	61,126
<u>Debt Service Fund</u>	
Municipal Revenue Collection Center “CRIM”	41,037
<u>Other Governmental Funds</u>	
Commonwealth of Puerto Rico- Department of Labor and Human Resources	115,159
Total	<u>\$ 935,434</u>

B. Amounts due to governmental entities as of June 30, 2014 are as follows:

<u>General Fund</u>	<u>Amount</u>
Puerto Rico Telephone Company	\$ 32,710
Puerto Rico Aqueduct and Sewer Company	429,326
General Services Administration	2,012
Retirement System Administration	251,109
Commonwealth of P. R. Employee Association	48,495
Total	<u>\$ 763,652</u>

5. INTERFUND TRANSACTIONS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds” (i.e., current portion of interfund loans).

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

5. INTERFUND TRANSACTIONS (CONTINUED)

1. Due from/to other fund and advances from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund – Other Federal Grant	Payroll and related accruals paid and reimbursed expenditures	\$ 564,233
Capital Projects Fund – State and Local Grants	General Fund	Reimbursable expenditures	493,320
General Fund	Special Revenue Fund – State and Local Grants	Payroll and related accruals paid and reimbursed expenditures	188,558
Special Revenue Fund – Other Federal Grant	Special Revenue Fund – State and Local Grants	Payroll and related accruals paid and not reimbursed	49,843
General Fund	Capital Projects Fund – State and Local Grants	Payroll and related accruals paid and reimbursed expenditures	19,930
General Fund	Special Revenue Fund – Section 8 Program	Payroll and related accruals paid and not reimbursed	7,682
Special Revenue Fund – Section 8 Program	Capital Projects Fund – State and Local Grants	Payroll and related accruals paid and not reimbursed	487
Total			\$ 1,324,053

2. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Capital Projects Fund – State and Local Grants	General Fund	Transfer of funds for special funds outlays	\$ 1,431,430
Capital Projects Fund – State and Local Grants	Special Revenue Fund – State and Local Grants	Transfer of funds for capital outlays	276,653
Special Revenue Fund – State and Local Grants	General Fund	Transfer of funds for special funds outlays	80,000
General Fund	Special Revenue Fund – Section 8 Program	Transfer of funds for special funds outlays	74,842
Debt Service Fund	General Fund	Transfer of funds for capital outlays	63,360
Special Revenue Fund – State Federal Grants	Special Revenue Fund – State and Local Grants	Transfer of funds for special funds outlays	12,073
Special Revenue Fund – State and Local Grants	Capital Projects Fund – State and Local Grants	Transfer of funds for capital outlays	3,646
Special Revenue Fund – State Federal Grants	Capital Projects Fund – State and Local Grants	Transfer of funds for special funds outlays	965
Total			\$ 1,942,969

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014 are summarized as follows:

Description	General Fund	Special Revenue Fund – Other Federal Grants	Capital Projects Fund – State & Local Grants	Other Governmental Fund	Total
Accounts payable	\$ 869,556	\$ 52,769	\$ 212,748	\$ 3,500	\$ 1,138,573
Accrued liabilities	160,844	-	-	-	160,844
Total	\$ 1,030,400	\$ 52,769	\$ 212,748	\$ 3,500	\$ 1,299,417

7. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund's financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	Commonwealth Government	Federal Government
Major fund – Special revenue fund:		
Housing and Urban Development		11,476
Energy Efficiency and Conservation Block Grant Program (EECBG)		8,236
P.R. Department of Labor - Law Num. 52	115,160	
	\$ 115,160	\$ 19,712

8. UNEARNED REVENUES

The amounts reported as unearned revenues as of June 30, 2014 are detail as follows:

	Amount
Major fund – General fund:	
Municipal license taxes collected in the fiscal year 2013-2014 that correspond to the 2014-2015 fiscal year budget	\$ 1,582,829
Special Revenue Fund – State & Federal Grants:	
Wildlife Restoration	49,479
Housing Opportunities for Persons with AIDS	103,423
Others	14,940
Total	\$ 1,750,671

9. FUND BALANCE (DEFICIT)

As of June 30 2014, fund balance (deficit) is comprised of the following:

<u>Fund Balance</u>	<u>General Fund</u>	<u>Special Revenue Fund Other Federal Grants</u>	<u>Capital Projects Fund-State & Local Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:						
Interfund loans receivable	\$ 308,347	\$ -	\$ -	\$ -	\$ -	\$ 308,347
Restricted for:						
General government	1,180					1,180
Health and welfare					487	487
Capital projects						
Public works			2,114,566			2,114,566
Debt service				5,871,553		5,871,553
Unassigned	<u>(3,692,016)</u>	<u>23,975</u>			<u>281,296</u>	<u>(3,386,745)</u>
Total Fund Balance	<u>\$ (3,382,489)</u>	<u>\$ 23,975</u>	<u>\$ 2,114,566</u>	<u>\$ 5,871,553</u>	<u>\$ 281,783</u>	<u>\$ 4,909,388</u>

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10. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2014, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital asset, not being depreciated:				
Land	\$ 17,894,937	\$ 734,697	\$ -	\$ 18,629,634
Construction in progress	23,422,607	1,177,115	(8,602,297)	15,997,425
Total capital assets not being depreciated	41,317,544	1,911,812	(8,602,297)	34,627,059
Capital assets, being depreciated:				
Buildings & Buildings Improvements	25,528,639	12,401,684		37,930,323
Infrastructure	15,361,844	432,729		15,794,573
Infrastructure Improvements	15,383,692	570,758		15,954,450
Equipment	3,225,284	65,050		3,290,334
Furnishing	145,613	700		146,313
Work of Art	4,625			4,625
Computers	183,711	27,256		210,967
Vehicles	6,052,961			6,052,961
Total capital assets being depreciated	65,886,369	13,498,177	-	79,384,546
Less accumulated depreciation for:				
Buildings & Buildings improvements	(9,315,167)	(994,455)		(10,309,622)
Infrastructure	(8,000,173)	(524,412)		(8,524,585)
Infrastructure Improvements	(7,510,346)	(557,632)		(8,067,978)
Equipment	(2,815,278)	(93,265)		(2,908,543)
Furnishing	(107,434)	(14,399)		(121,833)
Work of Art	(3,041)	(463)		(3,504)
Computers	(169,297)	(18,797)		(188,094)
Vehicles	(5,805,415)	(108,718)		(5,914,133)
Total accumulated depreciation	(33,726,151)	(2,312,141)		(36,038,292)
Total capital assets being depreciated, net	32,160,218	11,186,036		43,346,254
Governmental activities capital assets, net	\$ 73,477,762	\$ 13,097,848	\$ (8,602,297)	\$ 77,973,313

10. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 447,947
Public safety	91,994
Public works	979,600
Health and welfare	53,033
Culture and recreation	524,933
Economic development	1,938
Education	550
Community development	212,148
Total depreciation expense-governmental activities	<u>\$ 2,312,141</u>

11. LONG-TERM LIABILITIES

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 26,928,000	\$ -	\$ (1,289,000)	\$ 25,639,000	\$ 1,393,000
Notes payable	5,770,000		(440,000)	5,330,000	470,000
Property Tax-Treasury Department	-	854,661	(693,674))	160,987	160,987
Compensated absences	2,207,630	184,309	(213,607)	2,178,332	370,000
Claims and judgments	25,000	180,300	(83,352)	121,948	121,948
Property Tax- Law 146	796,860	-	(65,144)	731,716	40,651
	<u>\$ 35,727,490</u>	<u>\$ 1,219,270</u>	<u>\$ (2,784,777)</u>	<u>\$ 34,161,983</u>	<u>\$ 2,556,586</u>

- 1. Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.
- 2. Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2014 are as follows:

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2014
1995 Public improvement bond for infrastructure's construction with an original amount of \$1,187,000 due in annual installments of \$61,000 to \$91,000, through January 1, 2019, with interest of 4.5%	\$ 406,000
1996 Public improvement bond for infrastructure's construction with an original amount of \$1,045,000 due in annual installments of \$45,000 to \$90,000 through January 1, 2020, with interest ranging from 4.70% to 6.63%	505,000
1996 Public improvement bond for infrastructure's construction with an original amount of \$1,715,000 due in installments of \$75,000 to \$150,000, through July 1, 2020, with interest ranging from 4.70% to 6.63%	845,000
2002 General obligation bond for payment of operational debts with an original amount of \$5,105,000 due in installments of \$140,000 to \$445,000, through July 1, 2026, with interest ranging from 5% to 8%	3,780,000
2002 Public improvement bond for infrastructure's construction with an original amount of \$1,400,000 due in installments of \$105,000 to \$155,000, through July 1, 2016, with interest ranging from 2.70% to 8.00%	425,000
2003 General obligation bond for infrastructure's construction with an original amount of \$4,746,000 due in installments of \$133,000 to \$366,000, through July 1, 2027, with interest ranging from 5.00% to 7.25%	3,508,000
2003 General obligation bond for infrastructure's construction and/or the acquisition of a capital asset with an original amount of \$1,175,000 due in installments of \$35,000 to \$95,000, through July 1, 2027, with interest ranging from 5.00% to 6.50%	835,000
2008 General obligation bond for infrastructure's construction and or the acquisition of a capital asset with an original amount of \$985,000 due in installments of \$45,000 to \$105,000, through July 1, 2023, with interest ranging from 3.93% to 7.50%	715,000
2009 General obligation bond for land acquisition with an original amount of \$700,000 due in installments of \$10,000 to \$60,000, through July 1, 2033, with interest ranging from 4.75% to 7.50%	645,000
2010 General obligation bond for infrastructure's construction and or the acquisition of a capital asset with an original amount of \$6,995,000 due in installments of \$170,000 to \$640,000, through July 1, 2030, with interest ranging from 4.75% to 7.50%	6,285,000
2012 Special obligation bond for operational debts payment with an original amount of \$870,000 due in installments of \$10,000 to \$75,000, through July 1, 2035, with interest ranging from 6.50% to 7.50%	840,000
2012 General obligation bond for waste disposal debt payment with an original amount of \$1,525,000 due in installments of \$175,000 to \$270,000, through July 1, 2017, with interest ranging from 6.00% to 7.50%	965,000
2012 General obligation bond for capital improvement debt payment with an original amount of \$3,550,000 due in installments of \$90,000 to \$335,000, through July 1, 2030, with interest ranging from 6.00% to 7.50%	3,365,000
2013 General obligation bond for waste disposal and recycling debt payment with an original amount of \$2,555,000 due in installments of \$35,000 to \$215,000, through July 1, 2037, with interest ranging from 6.00% to 7.50%	2,520,000
Total	<u>\$ 25,639,000</u>

11. LONG-TERM LIABILITIES (CONTINUED)

These bonds, except the 2003 Series \$1,175,000 bond, are payable from the special ad valorem property tax of 2.0% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2003 Series \$1,175,000 bond is payable with General Fund resources. The Series 2012, amounting 870,000 is payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,393,000	\$ 1,216,488
2016	1,488,000	1,686,661
2017	1,609,000	1,615,143
2018	1,571,000	1,503,759
2019	1,403,000	1,398,376
2020-2024	7,152,000	5,427,889
2025-2029	7,593,000	2,617,378
2030-2034	2,515,000	661,313
2035-2039	<u>915,000</u>	<u>132,186</u>
Total	<u>\$ 25,639,000</u>	<u>\$ 16,259,193</u>

3. **Notes Payable-** The proceeds of the issuance of notes payable were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2014</u>
2009-Series	7/1/2028	4,570,000	5.00% to 7.50%	3,960,000
2010-Series	7/1/2016	320,000	6.00% to 7.50%	160,000
2012-Series	7/1/2017	1,920,000	6.00% to 7.50%	<u>1,210,000</u>
Total notes payable				<u>\$ 5,330,000</u>

The Series 2009, amounting 4,570,000, is payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

11. LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2015	\$ 470,000	\$ 317,400
2016	505,000	345,561
2017	550,000	306,000
2018	525,000	265,688
2019	200,000	238,500
2020-2024	1,265,000	930,938
2025-2029	<u>1,815,000</u>	<u>360,938</u>
Total	<u>\$ 5,330,000</u>	<u>\$ 2,765,025</u>

4. **Compensated absences-** The government-wide statement of net position includes \$987,805 of accrued sick leave benefits, and approximately \$1,190,527 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
5. **Property Taxes Debts-** These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2014 as described in Note 12.
6. **Claims and Judgments –** represent the final settlement of legal cases paid subsequent to June 30, 2014. The awarded amount will be paid with unrestricted funds.

12. PROPERTY TAXES

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

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections.

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property

12. PROPERTY TAXES (CONTINUED)

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. The CRIM issued the final liquidation noting that collections exceeded advances by \$160,987. This balance will be retained by the CRIM during fiscal year 2014-2015.

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

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

On June 26 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible.

In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables.

The loan is being paid by the municipalities through a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992.

12. PROPERTY TAXES (CONTINUED)

In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$150,000. The annual tax rate is 8.83% for real property and 6.83% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 2.0% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

13. PENSION PLAN

A. Act No. 447 and System 2000 (until June 30, 2013)

As of June 30, 2014 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The system operates under *Act 447, approved on May 15, 1951* effective on January 1, 1952 and *Act 1 of February 16, 1990* for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Act No. 305 of September 24, 1999 amended *Act. No. 447 of 1951* and *Act 1 of February 16, 1990* to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan.

There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account.

13. PENSION PLAN (CONTINUED)

The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was \$10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

The Act No. 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 11.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

B. Act No. 3 of 2013 (beginning July 1, 2013)

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").
- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act No. 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

13. PENSION PLAN (CONTINUED)

- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.
- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment)
- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.
- Increased employee contributions from 8.275% to a minimum of 10.000%.

After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.

- Retirement age was modified as follows:
 - ✓ Act No. 447 regular employees: age 58 to 61,
 - ✓ Act No. 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
 - ✓ Act No. 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).

Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).

- Due to changes to Special Laws (see note 14), the minimum monthly pension for current retirees was increased from \$400 to \$500.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 ($\$5,000 \times .25\%$).
- Survivor benefits were modified.

13. PENSION PLAN (CONTINUED)

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

Fiscal year ended:	Law No. 447	System 2000	Law No. 3
2014	\$ -	\$ -	\$ 507,205
2013	\$ 215,679	\$ 312,137	\$ -
2012	\$ 288,484	\$ 389,496	\$ -

A. Act No. 32 of 2013 (beginning July 1, 2013)

On June 25, 2013, Act No. 32 was approved in order to amend Act No. 447 of 1957 by creating a new Article 5-117 *Additional Uniform Contribution (AUC)*, with the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer.

Act No. 32 defines the concept of the AUC as follows:

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars (\$140,000,000).
- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars (\$1,000,000,000). If, for any fiscal, the certified AUD is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year.

13. PENSION PLAN (CONTINUED)

For the fiscal year 2013-2014, \$41.142 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)). For the fiscal year ended June 30, 2014, the AUC partially subsidy received by the Municipality from OMB was \$143,550, which equaled the total contribution required.

14. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 16, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from \$600 to \$200 (current retirees),
- Elimination of summer bonus of \$100 (current retirees),
- No change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 (current retirees).
- Eliminated all Special Law benefits to future retirees.

Act No. 3 also established that employers will contribute \$2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

A. Federal Grants:

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2014, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, not to be material.

15. COMMITMENTS AND CONTINGENCIES

B. Claims and lawsuits:

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$83,352 for awarded or anticipated unfavorable judgments in the Government-Wide financial statements. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

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

C. Other commitments:

At June 30, 2014, the general fund had commitments of approximately \$421,354 for executory purchase orders or contracts that will be honored during the subsequent year.

16. SUBSEQUENT EVENTS

Implementation of Acts 18 and 19 of 2014

The dispositions established by Acts 18 and 19 of 2014 related to the municipal sales and use tax became effective on July 1, 2014 (see note 3). The most significant changes are the creation of the Municipal Finance Corporation (COFIM) and, for the municipalities covered by these Acts, the new collection method of the 1% municipal sales and use tax and the establishment of a monthly advances system for the transfers of the .2% destined for the Municipal Development Fund (FDM) and of the .2% related to the Municipal Redemption Fund (FRM).

For those municipalities that signed the agreement to be covered by these Acts (including the Municipality of Rio Grande), the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM and FRM with the monthly advances made to each municipality.

If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

16. SUBSEQUENT EVENTS (CONTINUED)

If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act No. 19, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and, thereafter, 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the FRM as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act.

On September 1, 2014, the sixteen municipalities that collect their sales and use tax through the P.R. Department of Treasury (Aguadilla, Aibonito, Arroyo, Barranquitas, Ciales, Culebra, Hatillo, Juncos, Lajas, Lares, Maricao, Maunabo, Naguabo, Patillas, Peñuelas and Rincon) began participating on a pilot program for the collection of the 1% municipal sales and use tax through COFIM. In this program, a standard monthly sales and use tax return was created to be used by the retailers of these municipalities. The monthly returns were filed in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico (BPPR). BPPR would electronically process the returns and submit their data to COFIM. However, beginning November 1, 2014, the retailers also had the option of using COFIM's internet portal to electronically file and pay the return.

On the other hand, the Governing Board of COFIM has not established an implementation date for the remaining 62 municipalities. However, for those municipalities that voluntarily decided to use COFIM's internet portal or collection process through the BPPR, their implementation date was December 1, 2014. For those municipalities that want to be certified as collection agents for COFIM, the implementation date is January 1, 2015. As collection agents for COFIM, the retailers of these municipalities have the option of filing and paying the monthly sales and use tax in the municipality's Collection Office. The Collection Office's personnel have the responsibility to deposit the daily sales and use tax collections in the bank account designated by COFIM, and also submit electronically the returns' data to the agency for processing in COFIM's data base. The Municipality of Rio Grande has submitted the application to be a certified collection agent and is awaiting approval from COFIM.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

Budgetary Comparison Schedule-General Fund
For the Fiscal Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note 1)</u>	<u>Final Budget Positive</u> <u>(Negative)</u>
REVENUES:				
Property taxes	\$ 8,058,821	\$ 8,058,821	\$ 8,407,306	\$ 348,485
Municipal license tax	3,100,000	3,100,000	2,623,372	(476,628)
Sales and use tax			3,043,027	3,043,027
Licenses, permits and other local taxes	1,511,332	1,511,332	544,862	(966,470)
Intergovernmental	3,595,448	3,595,448	3,700,197	104,749
Rent of property	42,864	42,864	45,303	2,439
Fines and forfeitures	10,000	10,000	11,740	1,740
Interest	300,000	300,000	111,464	(188,536)
Miscellaneous	<u>4,436,578</u>	<u>4,436,578</u>	<u>898,341</u>	<u>(3,538,237)</u>
Total revenues	<u>21,055,043</u>	<u>21,055,043</u>	<u>19,385,612</u>	<u>(1,669,431)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	14,045,836	14,180,592	10,334,282	3,846,310
Public safety	2,670,105	2,523,516	2,439,059	84,457
Health and Welfare	1,889,161	1,721,961	1,707,031	14,930
Public Work	1,579,165	1,800,197	4,779,272	(2,979,075)
Culture and recreation	679,268	612,268	598,828	13,440
Community development	<u>191,508</u>	<u>216,509</u>	<u>204,850</u>	<u>11,659</u>
Total expenditures, encumbrances and other financing uses	<u>21,055,043</u>	<u>21,055,043</u>	<u>20,063,322</u>	<u>991,721</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (677,710)</u>	<u>\$ (677,710)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 19,385,612
Differences-budget to USGAAP:				
Non-budgeted transfer in				1,574,790
USGAAP adjustment to revenues				<u>457,103</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 21,417,505</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 20,063,322
Differences-budget to USGAAP:				
Non-budgeted expenditures				272,527
Prior year encumbrances recorded as current year expenditures for USGAAP basis				1,465
Current year encumbrances recorded as expenditures for budgetary purposes				(421,354)
Non-budgeted transfer out				<u>351,494</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 20,267,454</u>

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2014 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2014.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
BALANCE SHEET		
Assets	Current Assets Cash	
111	Cash – Unrestricted	\$ 80,079
112	Cash – Restricted- Modernization and Development	31,026
100	Total Cash	<u>111,105</u>
121	Accounts Receivable - PHA Projects	5,473
150	Total Current Assets	<u>116,578</u>
	Non-Current Assets	
	Fixed Assets:	
164	Furniture, Equipment & Machinery - Administration	44,430
166	Accumulated Depreciation	(41,780)
160	Total Capital Assets, Net of Accumulated Depreciation	<u>2,650</u>
180	Total Non-Current Assets	2,650
190	Total Assets	<u>119,228</u>
290	Total Assets and Deferred Outflow of Resources	<u>\$ 119,228</u>
Liabilities and Equity	Liabilities	
		8,298
312	Accounts Payable <= 90 Days	3,000
313	Accounts Payable >90 Days Past Due	4,042
333	Accounts Payable – Other Government	15,340
310	Total Current Liabilities	15,340
300	Total Liabilities	15,340
400	Deferred Inflow of Resources	-
Equity	Equity	
508.4	Net Investment in Capital Assets	2,650
511.4	Restricted Net Position	29,538
512.4	Unrestricted Net position	71,700
513	Total Equity - Net Position/Position	<u>103,888</u>
600	Total Liab., Def. Inflow of Res., and Equity - Net Position/Position	<u>\$ 119,228</u>

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
INCOME STATEMENT		
70600	HUD PHA Operating Grants	\$ 521,989
71500	Other Revenues	114,132
70000	Total Revenues	<u>636,121</u>
Expenses Administrative:		
91100	Administrative Salaries	44,215
91200	Auditing Fees	3,000
91500	Employee Benefit Contributions - Administrative	9,734
91000	Total Operating – Administrative	<u>56,949</u>
96200	Other General Expenses	10,742
96000	Total Other General Expenses	<u>10,742</u>
96900	Total Operating Expenses	<u>67,691</u>
97000	Excess of Operating Revenue over Operating Expenses	568,430
97300	Housing Assistance Payments	478,509
97350	HAP Portability-In	72,127
97400	Depreciation Expense	1,466
90000	Total Expenses	<u>619,793</u>
10000	Excess (Deficiency) of Total Revenues Over (Under) Total Expenses	<u>\$ 16,328</u>
Memo Account Information:		
*11030	Beginning Equity	\$ 33,049
11040	Prior Period Adjustments, Equity Transfers and Correction	\$ 54,511
*11170	Administrative Fee Equity	\$ 74,350
*11180	Housing Assistance Payments Equity	\$ 29,538
*11190	Unit Months Available	936
*11210	Number of Unit Months Available	906

1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) presents the financial position of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by the Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC) as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF RIO GRANDE**

**Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>			
Direct Program:			
Rural Housing Preservation Grant	10.433	Not Available	18,719
Pass-through the Commonwealth of Puerto Rico- Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	<u>116,337</u>
Total U.S. Department of Agriculture			<u>135,056</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
Direct Program:			
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-72-0019	915,554
Direct Program:			
Homelessness Prevention and Rapid Re-Housing (Recovery Act funded)	14.257	S09-MY-72-0023	40
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		521,989
Pass-through the Commonwealth of Puerto Rico – Municipality of San Juan:			
Housing Opportunities for Persons with Aids	14.241	Not Available	<u>80,239</u>
Total U.S. Department of Housing and Urban Development			<u>1,517,822</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Direct Program:			
Wildlife Restoration	15.611		<u>53,467</u>
Total U.S. Department of the Interior			<u>53,467</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF RIO GRANDE**

**Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Pass-through the Commonwealth of Puerto Rico Department of Justice:			
Community Oriented Policing Services	16.710	Not Available	41,523
Total U.S. Department of Justice			41,523
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Adult Education-Basic Grants to States	84.002	2013AF0108	198,126
Even Start – State Educational Agencies	84.213	Not Available	84,400
Total U.S. Department of Education			282,526
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>			
Pass-through the Commonwealth of Puerto Rico – Office of the Ombudsman for the Elderly: (Cluster of Programs)			
Special Program for Aging – Title III, Part B – Grant for Supporting Services and Senior Centers	93.044	Not Available	56,451
Pass-through the Commonwealth of Puerto Rico – Family Department:			
Child Care and Development Block Grant	93.575	Not Available	208,333
Total U.S. Department of Health and Human Services			264,784
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>			
Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR):			
Disaster Grants – Public Assistance	97.036		281,010
Total U.S. Department of Homeland Security			281,010
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,576,188

The accompanying notes are an integral part of this schedule

1. BASIS OF PRESENTATION

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

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

2. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Special Revenue Fund – Federal Grants	Others Governmental Funds	Total
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 2,054,189	\$ 521,999	\$ 2,576,188
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program		47,406	47,406
Non-federal awards expenditures	-	2,157,204	2,157,204
Total expenditures, fund statements	<u>\$ 2,054,189</u>	<u>\$ 2,726,609</u>	<u>\$ 4,780,798</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- Puerto Rico Society of Certified Public Accountants

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

**To the Honorable Mayor
and the Municipal Legislature
Municipality of Río Grande
Río Grande, Puerto Rico**

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Río Grande**, Puerto Rico, 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 March 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Municipality of Río Grande'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 of Río Grande's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Río Grande's** internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item **2014-001**, that we consider to be significant deficiencies.

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the **Municipality of Río Grande** in a separate letter dated March 30, 2015.

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.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 30, 2015

Stamp No. 2705440 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors



López-Vega, CPA, PSC

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- Puerto Rico Society of Certified Public Accountants

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

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

Report on Compliance for Each Major Federal Program

We have audited the **Municipality of Río Grande's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Río Grande's** major federal programs for the year ended June 30, 2014. **Municipality of Río Grande's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Municipality of Río Grande'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 the **Municipality of Río Grande'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 the **Municipality of Río Grande's** compliance.

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

Opinion on Each Major Federal Program

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

We noted certain other matters that we reported to management of the **Municipality of Río Grande** in a separate letter dated March 30, 2015.

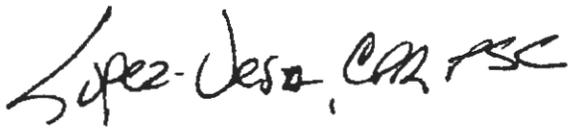


López-Vega, CPA, PSC

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

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. However, this report is a matter of public record and its distribution is not limited.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 30, 2015

Stamp No. 2705441 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No <input checked="" type="checkbox"/>
Significant deficiencies identified not considered to be material weaknesses?	Yes	None reported <input checked="" type="checkbox"/>
Noncompliance material to financial statements noted?	Yes	No <input checked="" type="checkbox"/>

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No <input checked="" type="checkbox"/>
Significant deficiencies identified not considered to be material weaknesses?	Yes	None reported <input checked="" type="checkbox"/>
<u>Type of auditor’s report issued on compliance for major programs:</u>	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	No <input checked="" type="checkbox"/>

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant – Entitlement Grant
14.871	Section 8 Housing Choice Voucher
Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
Auditee qualified as low-risk auditee?	Yes No <input checked="" type="checkbox"/>

Section II – Financial Statements Findings

Finding Reference	2014-001
Requirement	Operating deficit of general fund
Statement of Condition	The Municipality closed its fiscal year ended on June 30, 2014 with a fund balance deficiency in the general fund of \$3,382,489.
Criteria	In accordance with the "Reglamento para la Administración de Municipios" Chapter IV, Section 19, the Finance Director has the responsibility of overseeing financial operations to prevent deficits in any municipal fund.
Cause of Condition	The overstatement of estimated revenues accounts in prior years caused that the Municipality operated with a deficit.
Effect of Condition	The continued occurrence of this situation may result in possible significant fund limitations and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.
Recommendation	The Municipality should continue its efforts by revising and amending the budget as current information related to collections of budgeted revenues becomes available resources.
Questioned Costs	None
Management Response and Corrective Action	<p>The Municipality's Management concurs with the finding. The Municipality have taken aggressive action to increase revenues and will take adequate measurements in order to strengthen its procedures to assure to control the expenditures and reduce deficit.</p> <p>Implementation Date: Still in process</p> <p>Responsible Person: Mr. Isaías Rivera Estrella, Finance Director</p>

Section II – Financial Statements Findings

During our audit, we did not detect significant deficiencies, material weaknesses and instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with Government Auditing Standards.

Section III – Major Federal Award Program Findings and Questioned Costs

During our audit, we did not detect significant deficiencies, material weaknesses and instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with OMB Circular A-133.

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
13-02	14.871	<p><u>Special Test-Utility Allowance Schedule</u> The PHA did not maintain an up-to-date utility allowance schedule. For the fiscal year ended as of June 30, 2013 the PHA did not prepare the required allowance utility study.</p> <p>Corrective action was taken.</p>
13-02	14.218	<p><u>Activities Allowed – Housekeeper Activities</u> We performed an activities allowed-housekeeper activities test of five (5) participant files and we noted that the Municipality did not maintain complete and updated participant files as required by the Operational Guide for the Housekeeper Services.</p> <p>Corrective action was taken.</p>
13-03	14.218	<p><u>Davis-Bacon Act</u> During our Davis-Bacon Act test, we could not evaluate the construction contracts active during fiscal year 2013-2014. We did not find evidence that the Municipality's monitor certified the weekly payroll supplied by the contractors.</p> <p>Corrective action was taken.</p>