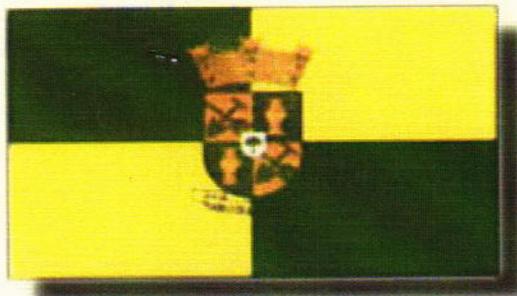


**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE SABANA GRANDE
AUDITORÍA 2012-2013
30 DE JUNIO DE 2013**



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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2013



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14-04-0006

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Member of the
Municipal Assembly
Sabana 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 Municipality of Sabana Grande, Puerto Rico, as of and for the year ended June 30, 2013, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material 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 of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Sabana Grande, Puerto Rico, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

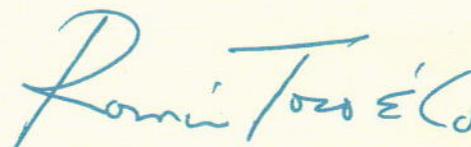
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 49 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2014, on our consideration of the Municipality of Sabana Grande, Puerto Rico'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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality of Sabana Grande, Puerto Rico's internal control over financial reporting and compliance.



ROMAN TORO & CO., CPA, C.S.P.
LICENSE # 35 – IN FORCE

Yauco, Puerto Rico
March 10, 2014

Stamp #E93372 was affixed to
the original report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The management of **Municipality of Sabana Grande**, Puerto Rico (**Municipality**) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2013. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2003-2004. 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:

- ❖ a broader basis in focusing important issues;
- ❖ acknowledgement of an overview of the Municipality's financial activities;
- ❖ provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
- ❖ identification of uses of funds in the financing of the Municipality's variety of activities and;
- ❖ assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- ❖ The assets of the Municipality exceeded its liabilities at June 30, 2013 by \$24,847,988, and at June 30, 2012 by \$25,525,437;
- ❖ The Municipality's total net position decrease by \$677,449 during fiscal year 2012-2013;
- ❖ As of June 30, 2013, the Municipality's governmental funds reported combined ending fund balances of \$7,507,390, a decrease of \$1,002,304 from the prior year;
- ❖ At June 30, 2013, the unrestricted deficit was \$8,184,041;
- ❖ The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets net of depreciation as of June 30, 2013 was \$30,581,395;
- ❖ The investment in capital assets for this year was \$2,769,969;
- ❖ Loans principal payments were \$736,000 and \$623,000 in 2013 and 2012, respectively.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The Statement of Net Position presents information on all of the Municipality's assets and liabilities, with the difference between the two 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 this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include general government, public safety, public works, culture and recreation, health and sanitation, solid waste disposal, human services and welfare, urban development and education. Property taxes, municipal license tax, state and federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS

GOVERNMENTAL NET POSITION

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, net position exceeded liabilities by \$24,847,988 as of June 30, 2013 versus \$25,525,437 as of June 30, 2012. Our analysis below focuses on the net position (**Table 1**) and changes in net position of the Municipality's governmental activities.

Table 1		
Statement of Net Position	2013	2012
Current and non-current assets	\$ 10,987,520	\$ 11,498,571
Capital assets	<u>30,581,395</u>	<u>28,881,453</u>
Total Assets	<u>41,568,915</u>	<u>40,380,024</u>
Current liabilities	3,365,672	2,372,561
Long-term liabilities	<u>13,277,004</u>	<u>12,210,521</u>
Total Liabilities	<u>16,642,676</u>	<u>14,583,082</u>
Deferred Inflows of Resources	<u>78,251</u>	<u>271,505</u>
Net position:		
Investment in capital assets, net of related debt	25,963,737	25,316,863
Restricted	7,068,292	7,215,819
Deficit	<u>(8,184,041)</u>	<u>(7,007,245)</u>
Total Net Position	<u>\$ 24,847,988</u>	<u>\$ 25,525,437</u>

The largest portion of the Municipality's net position reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Municipality's net position represents resources that are subject to external restrictions on how they may be used.

Total net position of the Municipality's governmental activities were \$24,847,988. The unrestricted deficit was \$8,184,041 at June 30, 2013, an increase of \$1,176,796 from prior year.

GOVERNMENTAL ACTIVITIES

Governmental activities decreased the Municipality's net position. Key elements of this decrease are as follows: the Municipality's governmental activities had net expenses of \$12,021,491. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues did not covered net expenses by \$677,449.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Table 2 presents the cost of each of the Municipality's largest programs.

Table 2			
Statement of Activities	2013	2012	
Revenues			
Grants and contributions	\$ 9,567,848	\$ 9,265,369	
General revenues:			
Property taxes	2,565,169	2,777,346	
Volume of business taxes	1,125,533	1,234,097	
Sales taxes	1,314,682	1,264,009	
Intergovernmental	5,716,716	5,540,660	
Rent	91,223	130,849	
Licenses and permits	220,233	124,456	
Miscellaneous	310,420	572,308	
Charges for services	2,390,234	2,286,052	
Total revenues	<u>23,302,124</u>	<u>23,195,146</u>	
Expenses			
Mayor and municipal legislature	2,655,461	2,500,385	
General government	3,174,256	3,116,643	
Public safety	541,310	481,876	
Public works	2,989,713	2,967,330	
Culture and recreation	527,724	466,936	
Health and sanitation	2,456,110	2,399,096	
Human services and welfare	3,815,554	3,188,849	
Urban development	1,206,678	1,176,282	
Education	6,151,426	5,933,057	
Interest on long-term debts	461,341	300,689	
Total expenses	<u>23,979,573</u>	<u>22,531,143</u>	
Changes in net position	(677,449)	664,003	
Net position – beginning	<u>25,525,437</u>	<u>24,861,434</u>	
Net position – ending	<u>\$ 24,847,988</u>	<u>\$ 25,525,437</u>	

GOVERNMENT FUND FINANCIAL ANALYSIS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT FUND FINANCIAL ANALYSIS (CONTINUED)

Table 3			
Balance Sheet		2013	2012
Assets:			
Total assets – Major Funds	\$	11,370,484	\$ 11,798,400
Total assets – Other Funds		1,991,138	1,869,069
Combined total assets		<u>13,361,622</u>	<u>13,667,469</u>
Liabilities:			
Total liabilities – Major Funds		4,868,851	4,077,270
Total liabilities – Other Funds		870,923	464,189
Combined total liabilities		<u>5,739,774</u>	<u>4,541,459</u>
Deferred Inflows of Resources:			
Total Deferred Inflows – Major Funds		36,207	344,811
Total Deferred Inflows – Other Funds		78,251	271,505
Combined total deferred inflows of resources		<u>114,458</u>	<u>616,316</u>
Fund Balances:			
Restricted		10,723,634	11,345,827
Unassigned		(3,216,244)	(2,836,133)
Combined total fund balances		<u>7,507,390</u>	<u>8,509,694</u>
Total liabilities and fund balances	\$	<u>13,361,622</u>	\$ <u>13,667,469</u>

Table 4			
Changes in Fund Balances		2013	2012
Revenues:			
Total revenues – Major Funds	\$	16,968,574	\$ 16,405,447
Total revenues – Other Funds		6,642,154	6,587,067
Combined total revenues		<u>23,610,728</u>	<u>22,992,514</u>
Expenditures:			
Total expenditures – Major Funds		19,352,792	17,331,594
Total expenditures – Other Funds		6,735,240	5,896,414
Combined total expenditures		<u>26,088,032</u>	<u>23,228,008</u>
Excess of revenues over (expenditures)		<u>(2,477,304)</u>	<u>(235,494)</u>
Other financing sources (uses):			
Proceed from issuance of bonds		1,475,000	3,200,000
Transfer – In		423,894	1,087,848
Transfer – Out		(423,894)	(1,087,848)
Combined other financing sources (uses), net		<u>1,475,000</u>	<u>3,200,000</u>
Net changes in fund balance		<u>(1,002,304)</u>	<u>2,964,506</u>
Fund Balance – beginning		8,509,694	5,545,188
Fund Balance – ending	\$	<u>7,507,390</u>	\$ <u>8,509,694</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 its fiscal year. At June 30, 2013, the Municipality's governmental funds reported combined ending fund balances of \$7,507,390, a decrease of \$1,002,304 from the prior year.

The Municipality has an unassigned fund deficit of \$3,216,244 in its General Fund. The remainder of the balance is restricted to indicate that it is not available for new spending because it has already been segregated; (a) to pay debt service (\$989,167) and (b) for other restricted purposes (\$9,734,467).

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds.

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances and other unanticipated revenues. Differences between the original 2013 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ The original budget was amended to increase expenditures between expenditures accounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2013 amounted to \$30,581,395 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, highways, and bridges. The total increase in the Municipality's investment in capital assets for the current fiscal year was \$2,769,969. Additions during the fiscal year was principally for building construction, purchase of new vehicles and machinery and equipment, necessary to provides services to our citizens. **Table 5** present the major classes of capital assets.

Table 5	
Capital Assets	Amount
Construction in progress	\$ 3,863,151
Land	2,171,028
Buildings	14,008,832
Infrastructure	9,473,601
Machinery and equipment	532,779
Motor vehicles	532,004
Total Assets	\$ 30,581,395

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

LONG-TERM DEBT

At June 30, 2013 the Municipality had total of \$13,277,004 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$9,956,000 comprises debt backed by the full faith and credit of the government and \$3,321,004 is other obligations.

Table 6	
Long Term Debts	Amount
General obligations	\$ 9,956,000
Others	<u>3,321,004</u>
Total Long Term Debts	<u>\$ 13,277,004</u>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave and advances of property taxes. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, sales taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors were considered in preparing the Municipality's budget for the 2013 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at (787) 873-2060.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**STATEMENT OF NET POSITION
June 30, 2013**

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 4,326,077
Cash with Fiscal Agent	5,306,731
Receivables (net):	
Property Taxes	48,019
Sales Taxes	111,064
Intergovernmental	167,549
Federal Grants	301,470
Others	726,610
	<u>10,987,520</u>
Capital Assets:	
Property, Plant and Equipment	43,390,512
Accumulated Depreciation	<u>(12,809,117)</u>
Total Capital Assets	<u>30,581,395</u>
TOTAL ASSETS	<u><u>41,568,915</u></u>
 LIABILITIES	
Bank Overdraft	234,000
Accounts Payable and Accrued Expense	958,350
Bonds Payable	462,000
Accrued Interest	173,385
Due to Governmental Units	569,508
Unearned Revenues:	
Volume of Business Tax	968,429
Long-Term Liabilities:	
Due within One Year	1,014,215
Due in More than One Year	<u>12,262,789</u>
Total Liabilities	<u><u>16,642,676</u></u>
 DEFERRED INFLOWS OF RESOURCES	 <u><u>78,251</u></u>
 NET POSITION	
Invested in Capital Assets, Net of Related Debt	25,963,737
Restricted for:	
Debt Service	989,167
Others Purposes	6,079,125
Unrestricted (Deficit)	<u>(8,184,041)</u>
TOTAL NET POSITION	<u><u>\$ 24,847,988</u></u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 2,655,461	\$ -	\$ -	\$ -	\$ (2,655,461)
General Government	3,174,256	-	29,559	-	(3,144,697)
Public Safety	541,310	-	35,517	-	(505,793)
Public Works	2,989,713	-	112,669	-	(2,877,044)
Culture and Recreation	527,724	-	58,370	-	(469,354)
Health and Sanitation	2,456,110	2,390,234	37,610	-	(28,266)
Human Services and Welfare	3,815,554	-	1,606,499	-	(2,209,055)
Urban Development	1,206,678	-	-	1,583,245	376,567
Education	6,151,426	-	6,104,379	-	(47,047)
Interest on Long-Term Debt	461,341	-	-	-	(461,341)
Total Governmental Activities	\$ 23,979,573	\$ 2,390,234	\$ 7,984,603	\$ 1,583,245	(12,021,491)

General Revenues:

Taxes:

Property, levied for General Purposes	1,821,879
Property, levied for Debt Services	743,290
Volume of Business	1,125,533
Sales, levied for General Purposes	1,228,999
Sales, levied for Debt Services	85,683
Intergovernmental	5,716,782
Rent	91,223
Licences and Permits	220,233
Miscellaneous	310,420
Total General Revenues	11,344,042

CHANGE IN NET POSITION

Net Position - Beginning of Year - Restated	25,525,437
NET POSITION - END OF YEAR	\$ 24,847,988

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Head Start Fund	State Assignment Fund	Loans Fund	Capital Project Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and Investments	\$ -	\$ 4,787	\$ 3,138,084	\$ -	\$ 714,537	\$ -	\$ 468,669	\$ 4,326,077
Cash with Fiscal Agent	598	-	-	3,697,786	3,988	1,604,359	-	5,306,731
Receivables:								
Property Taxes	36,207	-	-	-	-	11,812	-	48,019
Sales Tax	102,683	-	-	-	-	8,381	-	111,064
Intergovernmental	-	-	149,084	-	-	-	18,465	167,549
Federal Grants	-	25,730	-	-	-	-	275,740	301,470
Due from Other Funds	270,451	-	519,729	-	714,792	-	869,130	2,374,102
Others	367,476	-	-	-	-	-	359,134	726,610
TOTAL ASSETS	\$ 777,415	\$ 30,517	\$ 3,806,897	\$ 3,697,786	\$ 1,433,317	\$ 1,624,552	\$ 1,991,138	\$ 13,361,622
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE								
Liabilities								
Bank Overdraft	\$ 234,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 234,000
Accounts Payable and Accrued Expenses	205,377	30,517	174,431	42,444	6,368	-	499,213	958,350
Bonds and Notes Payable	-	-	-	-	-	462,000	-	462,000
Accrued Interest	-	-	-	-	-	173,385	-	173,385
Due to Governmental Units	569,508	-	-	-	-	-	-	569,508
Due to Other Funds	1,979,540	-	22,852	-	-	-	371,710	2,374,102
Unearned Revenues:								
Volume of Business Tax	968,429	-	-	-	-	-	-	968,429
Total Liabilities	3,956,854	30,517	197,283	42,444	6,368	635,385	870,923	5,739,774
Deferred Inflows of Resources								
Unavailable Revenues:								
Property Taxes	36,207	-	-	-	-	-	-	36,207
Federal Grants	-	-	-	-	-	-	78,251	78,251
Total Deferred Inflows of Resources	36,207	-	-	-	-	-	78,251	114,458
Fund Balances								
Restricted	598	-	3,609,614	3,655,342	1,426,949	989,167	1,041,964	10,723,634
Unassigned	(3,216,244)	-	-	-	-	-	-	(3,216,244)
Total Fund Balances	(3,215,646)	-	3,609,614	3,655,342	1,426,949	989,167	1,041,964	7,507,390
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 777,415	\$ 30,517	\$ 3,806,897	\$ 3,697,786	\$ 1,433,317	\$ 1,624,552	\$ 1,991,138	\$ 13,361,622

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	Head Start Fund	State Assignment Fund	Loans Fund	Capital Project Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES								
Property Taxes	\$ 1,821,879	\$ -	\$ -	\$ -	\$ -	\$ 743,290	\$ -	\$ 2,565,169
Sales Taxes	1,228,999	-	-	-	-	85,683	-	1,314,682
Volume of Business Taxes	1,125,533	-	-	-	-	-	-	1,125,533
Federal Assistances	-	4,868,167	1,590	-	-	-	3,034,772	7,904,529
Intergovernmental	5,716,782	-	430,771	-	-	-	1,138,154	7,285,707
Licenses and Permits	220,233	-	-	-	-	-	-	220,233
Rent	91,223	-	-	-	-	-	-	91,223
Charges for Services	-	-	-	-	-	-	2,392,961	2,392,961
Miscellaneous	619,024	-	12,862	-	2,538	-	76,267	710,691
Total Revenues	10,823,673	4,868,167	445,223	-	2,538	828,973	6,642,154	23,610,728
EXPENDITURES								
Current:								
Mayor and Municipal Legislature	2,644,112	-	-	-	-	-	-	2,644,112
General Government	3,015,958	-	-	11,716	-	-	-	3,027,674
Public Safety	425,443	-	1,590	-	-	-	49,336	476,369
Public Works	2,729,894	-	60,075	-	-	-	121,298	2,911,267
Culture and Recreation	383,590	-	-	-	-	-	74,322	457,912
Health and Sanitation	307,761	-	-	6,662	-	-	2,138,410	2,452,833
Human Services and Welfare	1,516,578	-	-	2,637	-	-	1,761,124	3,280,339
Urban Development	-	-	287,233	1,261,088	66,490	-	1,152,360	2,767,171
Education	-	4,868,167	-	-	-	-	1,283,259	6,151,426
Capital Outlay	-	-	12,325	554,132	-	-	155,131	721,588
Debt Service:								
Pincipal	-	-	-	-	-	736,000	-	736,000
Interest and Other Charges	-	-	-	-	-	461,341	-	461,341
Total Expenditures	11,023,336	4,868,167	361,223	1,836,235	66,490	1,197,341	6,735,240	26,088,032
Excess (deficiency) of revenues over (under) expenditures	(199,663)	-	84,000	(1,836,235)	(63,952)	(368,368)	(93,086)	(2,477,304)
OTHER FINANCING SOURCES (USES)								
Proceed of Bond	-	-	-	1,475,000	-	-	-	1,475,000
Transfers - In	121,723	-	8,000	-	-	293,503	668	423,894
Transfers - Out	(302,171)	-	-	(121,723)	-	-	-	(423,894)
Total Other Financing Sources and Uses	(180,448)	-	8,000	1,353,277	-	293,503	668	1,475,000
Net Change in Fund Balances	(380,111)	-	92,000	(482,958)	(63,952)	(74,865)	(92,418)	(1,002,304)
Fund Balance - Beginning	(2,835,535)	-	3,517,614	4,138,300	1,490,901	1,064,032	1,134,382	8,509,694
Fund Balances - Ending	\$ (3,215,646)	\$ -	\$ 3,609,614	\$ 3,655,342	\$ 1,426,949	\$ 989,167	\$ 1,041,964	\$ 7,507,390

See accompanying Notes to Basic Financial Statements.

Handwritten signature and date:
07/12/13

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Total Fund Balances – Governmental Funds..... \$ 7,507,390

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:

Capital Assets	\$ 43,390,512	
Accumulated Depreciation	<u>(12,809,117)</u>	
 Total Capital Assets		 30,581,395

Some of the Municipality's revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditures and therefore, are deferred in the funds:

Municipal Revenue Collection Center	36,207
---	--------

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

General Bonds and Notes Payable	(9,956,000)	
Compensated Absences	(2,146,389)	
Property Tax Debt – Law 42	(339,192)	
Property Tax Debt – Law 146	(27,593)	
State Health Insurance Administration	<u>(807,830)</u>	
 Total Long-Term Liabilities		 <u>(13,277,004)</u>

Total Net Position of Governmental Activities..... \$ 24,847,988

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Net Change in Fund Balances – Total Governmental Funds	\$ (1,002,304)
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:</p>	
Urban Development and Capital Outlay	\$ 2,769,969
Depreciation Expense.....	<u>(1,070,027)</u>
Excess of Capital Outlay over Depreciation Expense	1,699,942
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.....	36,207
Revenues in the governmental funds that correspond to prior year resources are not recorded as revenue in the Statement of Activities	(344,811)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long- term liabilities in the Statement of Net Position. In the current period, these amounts are:</p>	
Bonds and Notes Payable	(1,475,000)
Repayment of debt proceeds principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. In the current year the repayments were.....	736,000
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:</p>	
Decrease in Compensated Absences	70,099
Decrease in Property tax Debt – Law 42.....	9,186
Decrease in Property tax Debt – Law 146.....	1,452
Increase in Health Insurance Administration.....	(428,607)
Decrease in State Department of Labor- Unemployment	<u>20,387</u>
Total Additional Expenditures.....	<u>(327,483)</u>
Change in Net Position of Governmental Activities.....	<u>\$ (677,449)</u>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of **Sabana Grande**, Puerto Rico (Municipality) was founded in the year 1813, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of fourteen Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

The accompanying basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units.

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASBS No. 34 as well as other statements referred to below as of July 1, 2004. They require new information and restructure much of the information that governments have presented in the past.

As previously mentioned, other GASB Statements and Interpretations were required to be implemented in conjunction with GASBS No. 34. Therefore, the Municipality has implemented the following GASB Statements in the fiscal year 2003-2004: GASBS No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, GASBS No. 38, *Certain Financial Statement Note Disclosures*, GASB No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2013, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the Municipality's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Municipality.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the Municipality as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2013, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

B. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus and Basis of Accounting (Continued)

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

In applying the “susceptible to accrual” concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the Municipality may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For some grants, funds must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- ❖ Employee’s vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2013, has been reported only in the government-wide financial statements.

C. Financial Statement Presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the Municipality as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-Wide Financial Statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information of all the activities of the Municipality. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the Statement of Net Position is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement, for the first time, combines and consolidates governmental fund’s current financial resources (short-term expendable resources) with capital assets and long-term obligations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

The Statement of Net Position presents the reporting entities' assets and liabilities, with the difference reported as net position. Net position are reported in three categories:

- ❖ **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ❖ **Restricted Net Position** – These results when constraints are placed on net position use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ❖ **Unrestricted Net Position** – These consists of net position which do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources that are imposed by management, but can be removed or modified.

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

The Statement of Activities is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Governmental Fund Financial Statements

The fund financial statements (the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

Since the governmental fund statements are presented in a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and a separate explanation for each differences.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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

The new model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The Municipality reports the following major fund:

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

Head Start Fund – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness.

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primary objectives of this assignments are the development of projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

Loans Fund – This is the fund used to account for all financial resources and transactions related to the loans for construction purposes and capital outlays of the Municipality, which are financed by loans from the Government Development Bank of Puerto Rico.

Capital Projects Fund – This is the fund used to account for all grants and other restricted revenue sources related to construction projects. The uses and limitations of each capital projects fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund – This is the fund used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the Government-Wide Statement of Net Position.

D. 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 general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Reporting Presentation (Continued)

Special Revenue Fund – Local and State Grants – This is the fund used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or state statutes.

Special Revenue Fund – Section 8 Voucher Program – This is the fund used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Head Start – This is the fund used to account for revenues derived from head start program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund – This is the fund used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund – State and Local Grants – This is the fund used to account for financial resources used for the acquisition or construction of major capital facilities. The uses and limitations of each capital projects fund are specified by Municipality ordinances or state statutes.

Capital Projects Fund – Federal Grants – This is the fund used to account for revenues derived from federal grants related to capital projects. The uses and limitations of each capital projects fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

E. Fund Balances

In the fiscal year 2010-2011, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The fund balances are reported in five categories: 1) Nonspendable, 2) Restricted, 3) Committed, 4) Assigned and 5) Unassigned.

- ❖ **Nonspendable** – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- ❖ **Restricted** – Amounts are restricted by external parties (creditors, grantors, contributors or law/ regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- ❖ **Committed** – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Balances (Continued)

These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.

- ❖ **Assigned** – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.
- ❖ **Unassigned** – Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

At June 30, 2013, the accompanying fund financial statements reported fund balances as restricted and unassigned.

F. Budgetary Data

The Municipality annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts of Proprietary Funds and Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of supplemental appropriations. During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message;
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature;
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law;

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgetary Data (Continued)

4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Cash, Cash Equivalent and Investment

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

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

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. The sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

H. Receivables

Receivable are stated nets of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

I. Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Capital Assets	Years
Buildings	50
Improvement Other Than Buildings	50
Equipment and Furniture	10
Vehicles	5
Machinery	5-10
Infrastructure	10-50

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, long-term liabilities to other governmental entities.

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.

L. Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Compensated Absences (Continued)

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2013.

<u>BALANCE</u> <u>JULY 1, 2012</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2013</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$ 2,216,488	\$ -	\$ 70,099	\$ 2,146,389	\$ 205,000	\$ 1,941,389

M. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

N. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The Municipality has the following types of reciprocal and nonreciprocal interfund activities:

- ❖ **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- ❖ **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ❖ **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Claims and Judgments

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

P. Use of Estimates

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

Q. Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

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

R. Risk Financing

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2013 amounted to \$215,522. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$508,285 for workers compensation insurance covering all municipal employees.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2013:

- ❖ GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This statement is effective for periods beginning after December 15, 2012.
- ❖ GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*.
- ❖ GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement is effective for periods beginning after June 15, 2014.
- ❖ GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- ❖ GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for periods beginning after June 15, 2013.
- ❖ GASB Statement No. 71 *Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB 68*. This statement is effective for periods beginning after June 15, 2014.

The Municipality's management has concluded that the future adoption of these GASB Statements will not have a significant impact on the basic financial statements.

NEW ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2013:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING STANDARDS, Continued

GASB 62 does not have any impact on the Municipality's financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 64 ("GASB 64") *Derivative Instruments: Application of Hedge Accounting Termination Provisions* – an amendment of GASB Statement No. 53 was issued in June 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of Statement No. 64 are effective for financial statements for periods beginning after June 15, 2011 and were adopted the Municipality effective July 1, 2012 with no significant impact on the financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as revenues and expenses. The adoption of this statement require that debt issuance costs be recognized as an expenses in the period incurred.

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB 66 does not have any impact on the Municipality's financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

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

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 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, 2013.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2013, (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, 2013, 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, 2013, 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, 2013. Therefore, the Municipality's management has concluded that at June 30, 2013 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – 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, 2013.

The Municipality's bank balances in commercial banks of \$4,787 in the Head Start Fund, \$3,138,084 in the State Assignment Fund and \$714,537 in the Capital Project Fund, were fully collateralized at June 30, 2013. In the Other Governmental Funds there were deposits with commercial banks of \$468,669 that were fully collateralized.

The deposits at GDB of \$598 in the General Fund, the \$3,697,786 in the Loans Fund, the \$3,988 in the Capital Projects Fund and the \$1,604,359 in the Debt Service, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – RECEIVABLES

A. Property Taxes Receivables

Property taxes receivable in General Fund represents contributions from the Traditional and Electronic Lottery of the fiscal year 2012-2013, not collected by the Municipality at June 30, 2013. Following is a detail of the property taxes receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 36,207
Total	\$ 36,207

In the governmental funds, this receivable was classified as deferred inflows of resources, because was not available to pay liabilities of the current period.

Property taxes receivable in the Other Governmental Funds represents advances for the Debt Service Fund from fiscal year 2012-2013, not collected by the Municipality at June 30, 2013. Following is a detail of the property taxes receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 11,812
Total	\$ 11,812

B. Sales Tax Receivables

As described below in Note 13, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. Therefore, sales tax receivable of \$102,683 in the General Fund and \$8,381 in the Other Governmental Funds represents the amount due by the taxpayers at June 30, 2013.

C. Intergovernmental Receivables

Intergovernmental receivable of \$149,084 in the State Assignment represent expenditures incurred, of state grants, not yet reimbursed by the state agencies. Following is a detail of the state government receivables in other governmental funds:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Labor and Human Resources – Law 52	\$ 18,465

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – RECEIVABLES (CONTINUED)

D. Federal Grants Receivables

Intergovernmental receivable in the Head Start Fund, represents expenditures incurred not yet reimbursed by the federal agencies. Following is a detail of the intergovernmental receivables in the Other Governmental Funds:

<u>Description</u>	<u>Amount</u>
Community Development Block Grant	\$ 232,699
Title III	13,025
Public and Indian Housing	23,833
Homeland Security Grant	<u>6,183</u>
Total	<u>\$ 275,740</u>

E. Due From Other Funds

Interfund receivables and payables at June 30, 2013 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed	\$ 247,599
General Fund	State Assignment Fund	Payrolls paid and not reimbursed	22,852
State Assignment Fund	General Fund	Reimbursable expenditures	519,729
Capital Project Fund	General Fund	Cash pool in same bank account	674,792
Capital Project Fund	Other Governmental Funds	Reimbursable expenditures	40,000
Other Governmental Funds	General Fund	Cash pool in same bank account	<u>869,130</u>
Total			<u>\$ 2,374,102</u>

F. Other Receivables

Other receivables for the amount of \$726,610, represent \$367,476 from General Service Administration, resulting from the amount paid in excess during prior years for the purchase of gasoline, (this amount will be reimbursed to the Municipality by a credit in future purchases or in a cash reimbursement), \$26,515 from Section 8 Housing Choice Vouchers receivables at June 30, 2013, resulting from fraud recoveries and \$332,619 from medical insurances invoices billed and not received in the Municipal Hospital Fund at June 30, 2013.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – CAPITAL ASSETS

Capital assets; those with an estimated useful live 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 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

Governmental Activities	Balance July 1, 2012	Additions	Retirements / Reclassifications	Balance June 1, 2013
Capital asset, not being depreciated:				
Land	\$ 2,098,028	\$ 73,000	\$ -	\$ 2,171,028
Construction in progress	<u>4,544,290</u>	<u>744,865</u>	<u>(1,426,004)</u>	<u>3,863,151</u>
Total capital assets not being depreciated	<u>6,642,318</u>	<u>817,865</u>	<u>(1,426,004)</u>	<u>6,034,179</u>
Capital assets, being depreciated:				
Buildings	15,413,042	406,607	1,426,004	17,245,653
Infrastructure	11,913,420	896,910	-	12,810,330
Machinery and equipment	2,613,333	207,829	-	2,821,162
Motor vehicles	<u>4,038,430</u>	<u>440,758</u>	-	<u>4,479,188</u>
Total capital assets being depreciated	<u>33,978,225</u>	<u>1,952,104</u>	<u>1,426,004</u>	<u>37,356,333</u>
Total cost basis of capital assets	<u>40,620,543</u>	<u>2,769,969</u>	-	<u>43,390,512</u>
Less accumulated depreciation for:				
Buildings	(2,931,495)	(305,326)	-	(3,236,821)
Infrastructure	(2,932,876)	(403,853)	-	(3,336,729)
Machinery and equipment	(2,116,428)	(171,955)	-	(2,288,383)
Motor vehicles	<u>(3,758,291)</u>	<u>(188,893)</u>	-	<u>(3,947,184)</u>
Total accumulated depreciation	<u>(11,739,090)</u>	<u>(1,070,027)</u>	-	<u>(12,809,117)</u>
Total capital assets being depreciated, net	<u>22,239,135</u>	<u>882,077</u>	<u>1,426,004</u>	<u>24,547,216</u>
Governmental activities capital assets, net	<u>\$ 28,881,453</u>	<u>\$ 1,699,942</u>	<u>\$ -</u>	<u>\$ 30,581,395</u>

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

Governmental activities	Amount
General Government	\$ 247,706
Urban Development	487,888
Mayor and Municipal	11,349
Public Safety	64,941
Public Works	78,446
Culture and Recreation	69,812
Sanitation	3,277
Human Services and Welfare	<u>106,608</u>
Total depreciation expenses	<u>\$ 1,070,027</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES LIABILITIES

Accounts payable and accrued expenses liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2012-2013, and not paid by the Municipality at June 30, 2013. Following is a detail of these accounts payable and accrued liabilities:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 90,845	\$ 114,532	\$ 205,377
Head Start Fund	30,517	-	30,517
State Assignment Fund	174,431	-	174,431
Loans Fund	42,444	-	42,444
Capital Project Fund	6,368	-	6,368
Other Governmental Funds	<u>499,213</u>	<u>-</u>	<u>499,213</u>
Total	<u>\$ 843,818</u>	<u>\$ 114,532</u>	<u>\$ 958,350</u>

NOTE 6 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2013, balance due to other governmental units consists of the following:

Governmental Agency	Amount
Puerto Rico Aqueduct and Sewer Authority	\$ 50,516
State Employees Association	15,410
General Service Administration	473,283
State Department of Treasury	<u>30,299</u>
Total	<u>\$ 569,508</u>

NOTE 7 – DEFERRED INFLOWS OF RESOURCES

- A. **Property Taxes** – the deferred inflows of resources of \$36,207 in the General Fund are the property taxes that represents advances from fiscal year 2012-2013, not collected by the Municipality at June 30, 2013.
- B. **Federal Grants** – the deferred inflows of resources presented in Other Governmental Funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred inflows of resources from the federal government are as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – DEFERRED INFLOWS OF RESOURCES (CONTINUED)

<u>Program Description</u>	<u>Amount</u>
Early Head Start	\$ 4,069
Child & Adult Care Food Program	31,409
Homeland Security- Public Assistance	35,910
Others	<u>6,863</u>
Total	<u>\$ 78,251</u>

NOTE 8 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2013, 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	\$ 9,217,000	\$ 1,475,000	\$ (736,000)	\$ 9,956,000	\$ 798,000
Compensated absences	2,216,488	-	(70,099)	2,146,389	205,000
Property Tax Debt – Law 42	348,378	-	(9,186)	339,192	9,763
Property Tax Debt – Law 146	29,045	-	(1,452)	27,593	1,452
State Health Insurance Administration	379,223	428,607	-	807,830	-
State Department of Labor – Unemployment	<u>20,387</u>	<u>-</u>	<u>(20,387)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 12,210,521</u>	<u>\$ 1,903,607</u>	<u>\$ (837,124)</u>	<u>\$ 13,277,004</u>	<u>\$ 1,014,215</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS

The Municipality issues general and special obligation bonds, principally, to provide funds for the acquisition and construction of major capital facilities. General obligations bonds and notes as of June 30, 2012, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$1,305,000, Series 2003, for construction purposes, payable in annual installments ranging from \$20,000 to \$100,000, excluding interests from 4.17% to 5.31%, through July 1, 2027.	\$ 970,000
\$735,000 Series 2001, for construction purposes, payable in annual installments ranging from \$15,000 to \$75,000, excluding interests from 2.78% to 6.13%, through July 1, 2020.	395,000
\$1,760,000 Series 2001, for purchase of building, payable in annual installments ranging from \$25,000 to \$160,000, excluding interests from 5.00% to 8.00%, through July 1, 2025.	1,240,000
\$755,000 Series 2001, for operation purposes, payable in annual installments ranging from \$10,000 to \$65,000, excluding interests from 5.00% to 8.00%, through July 1, 2025.	535,000
\$60,000, Series 2000, for construction purposes, payable in annual installments ranging from \$1,000 to \$6,000, excluding interests from 5.17% to 7.29%, through July 1, 2024.	39,000
\$454,000, Series 2002 (previously \$600,000, Series 2000), payable in annual installments ranging from \$9,000 to \$29,000, excluding interests at 4.50%, through January 1, 2027 (Water & Waste Disposal Loans & Grants).	315,000
\$140,000, Series 1999, for construction purposes, payable in annual installments ranging from \$5,000 to \$10,000, excluding interests from 4.865% to 6.56%, through July 1, 2023.	65,000
\$230,000, Series 1998, for construction purpose, payable in annual installments ranging from \$5,000 to \$20,000, excluding interests from 4.865% to 6.56%, through July 1, 2022.	135,000
\$121,000, Series 2000, for operation purposes, payable in annual installments ranging from \$3,000 to \$8,000, excluding interests at 4.50%, through January 1, 2023.	68,000
\$310,000, Series 1997, for construction purposes, payable in annual installments ranging from \$5,000 to \$30,000, excluding interests from 4.70% to 6.63%, through July 1, 2021.	170,000
\$222,000 Series 1999, for construction purposes, payable in annual installments ranging from \$6,000 to \$16,000, excluding interests at 4.50% (Water & Waste Disposal Loans & Grants), through January 1, 2021.	110,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS (CONTINUED)

DESCRIPTION	AMOUNT
\$350,000 Series 1999, for construction purposes, payable in annual installments ranging from \$14,000 to \$29,000, excluding interests at 4.75% (Community Facilities Loan), through January 1, 2016	84,000
\$350,000 Series 1998, for construction purposes, payable in annual installments ranging from \$13,000 to \$31,000, excluding interests at 5.25%, through January 1, 2015 (Community Facilities Loan)	60,000
\$605,000, Series 2005, for operation purposes, payable in annual installments ranging from \$25,000 to \$60,000 excluding interest from 5.00% to 6.00%, through July 1, 2018.	260,000
\$330,000, Series 2009, for purchase of equipments, payable in annual installments ranging from \$45,000 to \$65,000 excluding interest from 3.93% to 7.50%, through July 1, 2014.	65,000
\$590,000, Series 2009, for purchase of equipments, payable in annual installments ranging from \$10,000 to \$50,000 excluding interest from 2.43% to 7.25%, through July 1, 2033.	540,000
\$925,000, Series 2005, for operation purposes, payable in annual installments ranging from \$40,000 to \$85,000, excluding interests from 5.50% to 7.50%, through July 1, 2020.	525,000
\$305,000, Series 2011, for purchase of equipments, payable in annual installments ranging from \$25,000 to \$35,000 excluding interest from 6.00% to 7.50%, through July 1, 2017.	130,000
\$2,560,000, Series 2012, for construction purposes, payable in annual installments ranging from \$100,000 to \$270,000 excluding interest from 6.00% to 7.00%, through July 1, 2026.	2,355,000
\$75,000, Series 2012, for purchase of equipments, payable in annual installments of \$5,000 excluding interest from 6.00% to 7.50%, through July 1, 2026.	65,000
\$565,000, Series 2012, for construction purposes, payable in annual installments ranging from \$65,000 to \$100,000 excluding interest from 6.00% to 7.50%, through July 1, 2018.	430,000
\$335,000, Series 2013, for construction purposes, payable in annual installments ranging from \$40,000 to \$60,000 excluding interest from 6.00% to 7.50%, through July 1, 2019.	295,000
\$770,000, Series 2013, for construction purposes, payable in annual installments ranging from \$65,000 to \$100,000 excluding interest from 6.00% to 7.00%, through July 1, 2032.	750,000
\$280,000, Series 2012, for construction purposes, payable in annual installments ranging from \$65,000 to \$100,000 excluding interest from 6.00% to 7.50%, through July 1, 2037.	275,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS (CONTINUED)

\$90,000, Series 2013, for construction purposes, payable in annual installments ranging from \$65,000 to \$100,000 excluding interest from 6.00% to 7.50%, through July 1, 2019.

80,000

Total General Obligations – Bonds

\$ 9,956,000

These bonds and notes are payable with the operational resources; the special ad valorem property tax; and municipal sales taxes resources restricted for debt service.

B. BONDS AND NOTES AMORTIZATION

The annual requirements to amortize the general obligations outstanding as of June 30, 2013 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2014	\$ 798,000	\$ 555,044	\$ 1,353,044
2015	762,000	588,358	1,350,358
2016	799,000	541,495	1,340,495
2017	816,000	506,676	1,322,676
2018	839,000	452,957	1,291,957
2019-2023	3,211,000	1,562,086	4,773,086
2024-2028	2,106,000	540,202	2,646,202
2029-2033	535,000	142,675	677,675
2034-2038	<u>90,000</u>	<u>18,000</u>	<u>108,000</u>
Total	<u>\$ 9,956,000</u>	<u>\$ 4,907,493</u>	<u>\$ 14,863,493</u>

C. COMPENSATED ABSENCES

The government-wide statement of net position includes \$1,095,166 of accrued sick leave benefits, and \$1,051,223 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

D. PROPERTY TAX DEBT – LAW 42

The Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2013 amounted to \$339,192.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)

E. PROPERTY TAX DEBT – LAW 146

On September 24, 2002, the CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the CRIM at June 30, 2013 amounted to \$27,593.

F. STATE INSURANCE HEALTH ADMINISTRATION

Liabilities of \$807,830 reported in the statement of net position represent the balance owed for services provided by the State Insurance Health Administration to the Municipality and not paid at June 30, 2013.

NOTE 9 – DEBT RETIREMENT

Revenues of the debt service fund consist of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality.

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality. Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 10 – PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment. The tax rate per annum is 8.28% for real property and 6.28% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the Municipality of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 7). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 of the assessed valuation on residential units occupied by their owners. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – PROPERTY TAXES (CONTINUED)

The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 provided that net volume of business of retail business does not exceed \$150,000. The Municipal Revenue Collection Center advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center.

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipality Revenue Collection Center, the amortization of the advance at end of year was not available because is in process of verification by external auditors.

The Traditional Lottery System of the Commonwealth (the Traditional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Traditional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- ❖ Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- ❖ An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipality's Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

NOTE 11 – VOLUME OF BUSINESS TAXES

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Sabana Grande. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2011, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar or fiscal year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax return filings.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 – VOLUME OF BUSINESS TAXES (CONTINUED)

The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred revenues in the GWFS and the GFFS (See Note 7).

NOTE 12 – MUNICIPAL SALES TAXES

On July 4, 2006, the Governor of Puerto Rico signed into law the Taxpayer Justice Act (Act No.117, H.B. 2193). The new law imposes a municipal sales tax at a rate of 1.5% (effective July 1, 2006) and the Commonwealth sales tax at the rate of 5.5%, with an effective date of November 15, 2006. Conversely, the Commonwealth of Puerto Rico eliminated the excise tax of 6.6% on some imports (taxes on cigarettes, liquor, and cars are still in effect) and implemented the sales and use tax ("sales tax") system. Accordingly with this law the municipal sales tax is administered at the local level, and the Commonwealth sales tax is administered through the Puerto Rico Treasury Department. Consequently, separate registration and filing forms are required of retailers.

On November 6, 2006, the Municipal Legislature of the Municipality approved the Ordinance No. 20, Series 2006-2007 establishing a citizenship contribution of 1.5% over all business or personal transactions related to sale of goods and/or services made on the Municipalities boundaries. This Ordinance was effective on November 15, 2006 and the resources collected due to this tax assessment will be used in local activities like improvements in health services, improvements in the control and management of solid waste disposal and recycling programs, public improvements, improvements of public safety, and maintenance of all public facilities of the Municipality.

Any person/corporation is required to register with each municipality in which it conducts commercial transactions and in the Puerto Rican Treasury to obtain a Retailer's Registration Certificate, exemption certificates, and tax returns forms. The retailers are required to file and send monthly sales tax returns by the 20th day following the month in which the tax was collected.

Also, on July 29, 2007, the Governor of Puerto Rico signed into Law an amendment of Act No. 117, H.B. 2193 known as Act No. 80. The most significant amendments were: first, to uniform the tax rate at 7% of which the municipalities will collect 1% and the Puerto Rico Treasury Department the other 6%, 05% of the 6% belongs to the municipality and it is distributed through three separate funds: Municipal Development Fund, Municipal Redemption Fund and Municipal Improvements Fund; secondly the establishment of a Local Commercial Rule and the elimination of source and nexus rules to impose the sale and use tax. These funds are administered by the Government Development Bank for Puerto Rico. Finally, the Law restricts the use of the funds by the municipalities to certain specific activities.

During fiscal year 2012-2013 the Municipality earned the amount of \$1,314,682 related to this citizenship contribution program.

NOTE 13 – INTERGOVERNMENTAL REVENUES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – INTERGOVERNMENTAL REVENUES (CONTINUED)

Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

NOTE 14 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended at June 30, 2013, are summarized as follows:

Transfer Out	Transfer In	Purpose	Amount
General Fund	State Assignment Fund	To cover operating expenditures	\$ 8,000
General Fund	Debt Service Fund	Debt service	293,503
General Fund	Other Governmental Funds	To cover operating expenditures	668
Loans Fund	General Fund	To cover operating expenditures	<u>121,723</u>
Total			<u>\$ 423,894</u>

NOTE 15 – EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its instrumentality (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under Puerto Rico Law 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico, its instrumentalities, and municipalities and components units not covered by their own retirement systems.

Participation is mandatory for governmental and municipal employees, except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentality, Assistants of the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. Temporary and transitory employees are excluded from participation in the System. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service, and their hiring date. Benefits vest after ten years of plan participation.

The Municipality adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

Law Number 305 of September 24, 1999, amended Puerto Rico Law Number 447, establishing a savings program called "Retirement System 2000". All employees active in the system as of December 31, 1999 may have elected to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may have contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may have elected to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

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

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

- Up to June 30, 2013, covered employees were required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary.
- After June 30, 2013, every participant of the Hybrid Program shall compulsorily have to contribute 10% of his/her salary while he/she is an employee. The participants of the Hybrid may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. Employees who contribute to the retirement system in a special plan with the ERS in coordination with their contributions to Social Security, as defined by the ERS administrator, will be required to contribute 7% of their monthly salaries up to \$550 for FY 2014, to be increased to 8.5% for FY 2015, and finally 10% for FY 2016 and all future periods.
- The Municipality contributed to the system 9.275% of the participating employee's salaries for the fiscal year ended in June 30, 2013 and prior years. Puerto Rico Law 116 of July 6, 2011 increased the employer contribution rate required from the Municipality. The contribution rate increased from 9.275% to 20.775%, to be implemented in incremental 1% to 1.25% annual increased between those years. The same law provided that for fiscal years 2012, 2013, and 2014, the Puerto Rico Office of Management and Budget would contribute these increases for all Municipalities. Starting in fiscal year 2014-2015, the Municipality is required to contribute 12.275% of the participating employee's salaries for that period, and the rate will increase to 13.275% in FY 2016, 14.525% in FY 2017, 15.775% in FY 2018, 17.025% in FY 2019, 18.275% in FY 2020, and finally to 19.525% in FY 2021 and all future periods.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

Before July 1, 2013, all employees that did not elect to transfer for the System 2000 Savings program and who at the time of employment were 55 years old or less were eligible to participate in the defined contribution system, with pension benefits for participants as follows:

<u>YEARS OF SERVICE</u>	<u>PARTICIPANT'S AGE</u>	<u>PENSION BENEFITS</u>
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period (employees hired before April 1, 1990).
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees hired after April 1, 1990).
Less than 30, more than 10	N/A	1.5% of their average compensation for each year of credit service for the remaining years.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

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

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

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- ❖ The present value of the future pension payments was computed by using a discount of 9%.
- ❖ Future pension payments reflect an assumption of a 6% salary increase.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

Contributions in 2013 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

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

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

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2013 was approximately \$316,270. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2013. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

NOTE 16 – CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

NOTE 16 – CONTINGENCIES (CONTINUED)

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 17 – FUND DEFICIT

The Municipality has accumulated deficit of \$3,216,244 in the General Fund. The Municipality's plan adopted with 2012-2013 budget includes a balanced operating budget achieved through cost-cutting measures in the previous fiscal years. The budget does not address the cumulative General Fund deficit.

NOTE 18 – FUND BALANCE (DEFICIT)

As of June 30, 2013, the fund balance (deficit) classifications are as follows:

Fund Balance (Deficit)	General Fund	Head Start Fund	State Assignment Fund	Loans Fund	Capital Project Fund	Debt Service Fund	Other Governmental Fund	Total
Restricted for:								
General Government	\$ 598	\$ -	\$ -	\$ 211,602	\$ -	\$ -	\$ 45,138	\$ 257,338
Public Safety	-	-	-	-	-	-	380	380
Culture and Recreation	-	-	-	-	-	-	12,012	12,012
Health and Sanitation	-	-	-	-	-	-	13,717	13,717
Human Services and Welfare	-	-	-	-	-	-	104,514	104,514
Urban Development	-	-	3,609,614	3,443,740	1,426,949	-	863,594	9,343,897
Education	-	-	-	-	-	-	2,609	2,609
Debt Service	-	-	-	-	-	989,167	-	989,167
Unassigned	<u>(3,216,244)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,216,244)</u>
Total Fund Balance (Deficit)	<u>\$ (3,215,646)</u>	<u>\$ -</u>	<u>\$ 3,609,614</u>	<u>\$ 3,655,342</u>	<u>\$ 1,426,949</u>	<u>\$ 989,167</u>	<u>\$ 1,041,964</u>	<u>\$ 7,507,390</u>

19. SUBSEQUENT EVENTS

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

19. SUBSEQUENT EVENTS (CONTINUED)

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

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

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

Management has evaluated subsequent events through March 10, 2014, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2013.

END OF NOTES

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note 1)</u>	<u>Positive</u> <u>(Negative)</u>
RESOURCES (INFLOWS):				
Property Taxes	\$ 1,821,881	\$ 1,821,881	\$ 1,821,879	\$ (2)
Sales Taxes	1,250,000	1,250,000	1,228,999	(21,001)
Volume of Business Taxes	1,200,000	1,200,000	1,125,533	(74,467)
Intergovernmental Revenues	5,688,982	5,688,982	5,716,782	27,800
Licenses and Permits	305,000	305,000	220,233	(84,767)
Rent	250,100	250,100	79,414	(170,686)
Miscellaneous	<u>1,009,965</u>	<u>1,009,965</u>	<u>630,833</u>	<u>(379,132)</u>
Total Resources (Inflows)	<u>11,525,928</u>	<u>11,525,928</u>	<u>10,823,673</u>	<u>(702,255)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Current:				
Mayor and Municipal Legislature	2,562,459	2,778,146	2,685,001	93,145
General Government	3,008,043	3,206,712	2,976,763	229,949
Public Safety	450,661	426,602	425,443	1,159
Public Works	2,750,283	2,604,069	2,748,250	(144,181)
Culture and Recreation	402,227	384,259	384,132	127
Health and Sanitation	334,480	311,292	307,761	3,531
Human Services and Welfare	1,628,500	1,521,073	1,519,064	2,009
Transfer to Other Funds	<u>389,275</u>	<u>293,775</u>	<u>293,503</u>	<u>272</u>
Total changes to appropriations	<u>11,525,928</u>	<u>11,525,928</u>	<u>11,339,917</u>	<u>186,011</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (516,244)</u>	<u>\$ (516,244)</u>

See accompanying Notes to Required Supplementary Information

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE A – EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

	<u>GENERAL FUND</u>
Sources/inflows of resources:	
Actual amounts (budgetary basis)“available for appropriation” from the budgetary comparison schedule (Page 49)	\$ 10,823,673
Differences-budget to GAAP:	
Prior and current adjustments to revenues	_____
Total revenues as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances (Page 13)	<u>\$ 10,823,673</u>
Uses/outflows of resources:	
Actual amounts (budgetary basis)“total charges to appropriations” from the budgetary comparison schedule (Page 49)	\$ 11,339,917
Differences-budget to GAAP:	
Prior year expenditures are not outflows of budgetary resources, but are expenditures for financial reporting purposes	69,026
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(89,389)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial reporting purposes	(293,503)
Adjustment to expenditures	_____(2,715)
Total expenditures as reported on the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances (Page 13)	<u>\$ 11,023,336</u>

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

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

The Municipality prepares its annual budget including the operations of the general fund.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. BUDGETARY CONTROL (CONTINUED)

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

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SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2013



Hon. Miguel G. Ortiz Vélez
Mayor

14-04-00000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2013

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

Honorable Mayor and Members of the
Municipal Assembly
Sabana Grande, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Sabana Grande, Puerto Rico as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Municipality of Sabana Grande, Puerto Rico's basic financial statements, and have issued our report thereon dated March 10, 2014.

Internal Control Over Financial Reporting

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

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

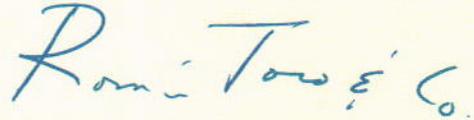
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



ROMAN TORO & CO., CPA, C.S.P.
LICENSE # 35 – IN FORCE

Yauco, Puerto Rico
March 10, 2014

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the original report



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

Honorable Mayor and Members of the
Municipal Assembly
Sabana Grande, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited Municipality of Sabana Grande, Puerto Rico'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 Sabana Grande, Puerto Rico's major federal programs for the year ended June 30, 2013. Municipality of Sabana Grande, Puerto Rico'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 Sabana Grande, Puerto Rico's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Sabana Grande, Puerto Rico's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Municipality of Sabana Grande, Puerto Rico, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality of Sabana Grande, Puerto Rico'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 Sabana Grande, Puerto Rico's internal control over compliance.

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

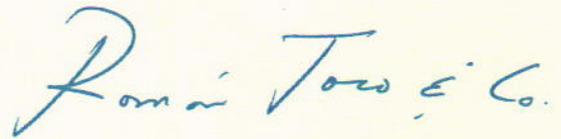
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Sabana Grande, Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Municipality of Sabana Grande, Puerto Rico's basic financial statements. We issued our report thereon dated March 10, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of this Report

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.



ROMAN TORO & CO., CPA, C.S.P.
LICENSE # 35 - IN FORCE

Yauco, Puerto Rico
March 10, 2014

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the original report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number (Note B)</u>	<u>Pass-Through Entity Identifying Number (Note C)</u>	<u>Federal Expenditures (Note A)</u>
<u>U.S. Department of Agriculture</u>			
Passed through the P.R. Department of Education: Child and Adult Care Food Program	10.558	N/AV	<u>\$527,302</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program: Section 8 Housing Choice Vouchers	14.871	N/A	<u>897,100</u>
Passed through the Office of Commissioner of Municipal Affairs:			
Community Development Block Grant - State's Program	14.228	11-AB-55 11-FC-55 10-AB-55 10-FC-55 09-AB-55 09-FC-55 08-FE-55 08-AB-55	997,026
ARRA- Community Development Block Grant - State program	14.255	08-AB-DR-55	<u>135,458</u>
Subtotal Community Development Block Grant			<u>1,132,484</u>
Passed through State- Puerto Rico Housing Administration Public and Indian Housing	14.850	RQ005009032	<u>603,748</u>
Passed through the P.R. Department of Family - Families and Children Administration: ARRA- Homelessness Prevention and Rapid Rehousing	14.257	2010-000275	<u>2,389</u>
Total U.S. Department of Housing and Urban Development			<u>2,635,721</u>
<u>U.S. Department of Homeland Security</u>			
Passed through the Commonwealth of Puerto Rico Governor Office - Public Security Affairs Office Disaster Grants - Public Assistance	97.036	Not available	<u>18,983</u>
<u>U.S. Department of Health and Human Services</u>			
Direct Program: Early Head Start	93.600	Not available	<u>554,190</u>
Head Start	93.600		
Total Head Start Cluster		241-2011-000349	<u>4,868,167</u>
			<u>5,422,357</u>
Passed through State - Elderly office Special program for Aging, Title III, Part B	93.044		<u>14,173</u>
Passed through the P.R. Department of Family - Families and Children Administration: Child Care and Development Block Grant	93.575		<u>151,993</u>
Total U.S. Department of Health and Human Services			<u>5,588,523</u>
Total Expenditures of Federal Awards			<u>\$ 8,770,529</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Sabana Grande, Puerto Rico (Municipality) and is presented on the modified accrual basis accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
- B. The financial transactions are recorded by the Municipality in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 FEDERAL CFDA NUMBER

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

NOTE 4 PASS THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass through entity and identifying number assigned by the pass through entity for federal awards received as a subrecipient. Numbers identified as N/AV are not available.

NOTE 5 MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
JUNE 30, 2013

NOTE 6 - RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Head Start Program	Other Governmental Funds
10.558	\$ -	\$ 527,302
14.871	-	897,100
14.228	-	997,026
14.255	-	135,458
14.850	-	603,748
14.257	-	2,389
97.036	-	18,983
93.600	-	554,190
93.600	4,868,167	-
93.044	-	14,173
93.575	-	151,993
Total federal awards expenditures	4,868,167	3,902,362
Total nonfederal awards expenditures	-	6,294,167
Total expenditures, fund statements	<u>\$4,868,167</u>	<u>\$10,196,529</u>

END OF NOTES

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

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

• Significant deficiency identified? Yes None reported

• Material weakness (es) identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

• Significant deficiency identified? Yes None reported

• Material weakness (es) identified? Yes No

Type of auditor's report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.871	Section 8 Housing Choice Vouchers
14.228	Community Development Block Grant- State Program
14.255	ARRA-Community Development Block Grant –State Program
14.850	Public and Indian Housing
93.60	Early Head Start
93.60	Head Start

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

END OF SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013**

SECTION II – FINANCIAL STATEMENTS FINDINGS

NONE

END OF SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

END OF SECTION

COMMONWEALTH OF PUERTO RICO
 MUNICIPALITY OF SABANA GRANDE
 SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
 FOR THE YEAR ENDED JUNE 30, 2013

Year(s)	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
(1)	Audit Findings that have been fully corrected or not noted during our audit:	NONE			
(2)	Audit Findings not corrected or partially corrected:	NONE			
(3)	Corrective action taken is significantly different from corrective action previously reported:	NONE			
(4)	Audit findings are no longer valid:	NONE			
END OF SCHEDULE					