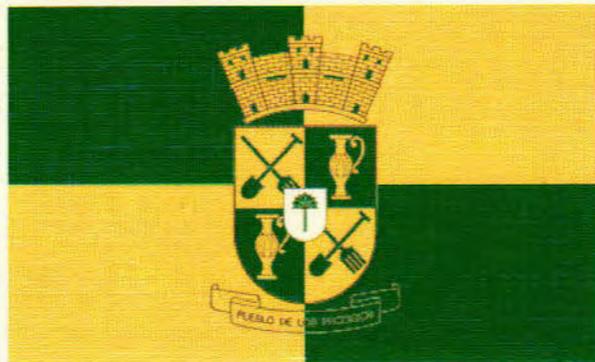


**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES  
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL  
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE SABANA GRANDE  
AUDITORÍA 2013-2014  
30 DE JUNIO DE 2014**



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

**BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION**

**FISCAL YEAR ENDED JUNE 30, 2014**



62

15-03-0197

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2014

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TABLE OF CONTENTS

**PART I – FINANCIAL:**

Independent Auditors' Report .....	1-2
Required Supplementary Information (Part I): Management's Discussion and Analysis .....	3-9

**BASIC FINANCIAL STATEMENTS:**

**Governmental Wide Financial Statements:**

Statement of Net Position.....	10
Statement of Activities.....	11

**Governmental Funds Financial Statements:**

Balance Sheet.....	12
Statement of Revenues, Expenditures and Changes in Fund Balances .....	13
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Position.....	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities.....	15
Notes to the Basic Financial Statements .....	16-49
Required Supplementary Information:	
Required Supplementary Information (Part II): Budgetary Comparison Schedule – General Fund.....	50
Notes to Budgetary Comparison Schedule – General Fund.....	51-52

## 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, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

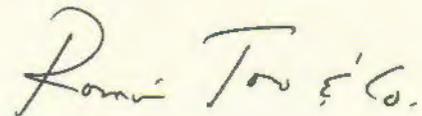
**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 50 through 52 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 6, 2015, 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 6, 2015

Stamp #E149036 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, 2014**

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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, 2014. 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 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, 2014 by \$25,404,817, and at June 30, 2013 by \$24,042,895;
- ❖ The Municipality's total net position increase by \$1,361,922 during fiscal year 2013-2014;
- ❖ As of June 30, 2014, the Municipality's governmental funds reported combined ending fund balances of \$6,636,645, a decrease of \$764,523 from the prior year;
- ❖ At June 30, 2014, the unrestricted deficit was \$7,383,780;
- ❖ The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets net of depreciation as of June 30, 2014 was \$31,025,158;
- ❖ The investment in capital assets for this year was \$2,231,661;
- ❖ Loans principal payments were \$798,000 and \$736,000 in 2014 and 2013, 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, 2014**

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**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, 2014**

**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 \$25,404,817 as of June 30, 2014 versus \$24,042,895 as of June 30, 2013. Our analysis below focuses on the net position (**Table 1**) and changes in net position of the Municipality's governmental activities.

<b>Table 1</b>		
<b>Statement of Net Position</b>	<b>2014</b>	<b>2013</b>
Current and non-current assets	\$ 9,566,065	\$ 10,881,298
Capital assets	31,025,158	29,882,524
<b>Total Assets</b>	<b>40,591,223</b>	<b>40,763,822</b>
Current liabilities	2,747,444	3,365,672
Long-term liabilities	12,256,986	13,277,004
<b>Total Liabilities</b>	<b>15,004,430</b>	<b>16,642,676</b>
<b>Deferred Inflows of Resources</b>	<b>181,976</b>	<b>78,251</b>
Net position:		
Investment in capital assets, net of related debt	25,701,074	25,264,866
Restricted	7,087,523	7,068,292
Deficit	(7,383,780)	(8,290,263)
<b>Total Net Position</b>	<b>\$ 25,404,817</b>	<b>\$ 24,042,895</b>

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 \$25,404,817. The unrestricted deficit was \$7,383,780 at June 30, 2014, a decrease of \$1,361,922 from prior year.

**GOVERNMENTAL ACTIVITIES**

Governmental activities increased the Municipality's net position. Key elements of this increase are as follows: the Municipality's governmental activities had net expenses of \$10,967,072. 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 covered net expenses and there was a net change of \$1,361,922. In addition, 2014 revenues increased \$1,639,267 in comparison with 2013 revenues. In the other hand expenses were \$506,326 less compare to 2013 expenses.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**GOVERNMENTAL ACTIVITIES (CONTINUED)**

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

<b>Table 2</b>			
<b>Statement of Activities</b>	<b>2014</b>	<b>2013</b>	
<b>Revenues</b>			
Grants and contributions	\$ 10,404,315	\$ 9,567,848	
<b>General revenues:</b>			
Property taxes	2,631,891	2,565,169	
Volume of business taxes	1,142,498	1,125,533	
Sales taxes	1,305,113	1,314,682	
Intergovernmental	6,282,670	5,716,782	
Rent	84,335	91,223	
Construction Excise Taxes	408,105	220,233	
Miscellaneous	474,382	310,420	
Charges for services	<u>2,208,082</u>	<u>2,390,234</u>	
Total revenues	<u>24,941,391</u>	<u>23,302,124</u>	
<b>Expenses</b>			
Mayor and municipal legislature	2,479,546	2,761,683	
General government	3,583,325	3,174,256	
Public safety	495,697	541,310	
Public works	2,905,566	2,989,713	
Culture and recreation	561,101	527,724	
Health and sanitation	2,615,536	2,456,110	
Human services and welfare	2,928,107	3,815,554	
Urban development	1,089,682	1,206,678	
Education	6,415,194	6,151,426	
Interest on long-term debts	<u>505,715</u>	<u>461,341</u>	
Total expenses	<u>23,579,469</u>	<u>24,085,795</u>	
Changes in net position	1,361,922	(783,671)	
Net position – beginning	<u>24,042,895</u>	<u>24,826,566</u>	
<b>Net position – ending</b>	<b><u>\$ 25,404,817</u></b>	<b><u>\$ 24,042,895</u></b>	

**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, 2014**

**GOVERNMENT FUND FINANCIAL ANALYSIS (CONTINUED)**

<b>Table 3</b>			
<b>Balance Sheet</b>		<b>2014</b>	<b>2013</b>
<b>Assets:</b>			
Total assets – Major Funds	\$	10,319,281	\$ 11,264,262
Total assets – Other Funds		<u>1,870,496</u>	<u>1,991,138</u>
Combined total assets		<u>12,189,777</u>	<u>13,255,400</u>
<b>Liabilities:</b>			
Total liabilities – Major Funds		4,753,781	4,868,851
Total liabilities – Other Funds		<u>617,375</u>	<u>870,923</u>
Combined total liabilities		<u>5,371,156</u>	<u>5,739,774</u>
<b>Deferred Inflows of Resources:</b>			
Total Deferred Inflows – Major Funds		-	36,207
Total Deferred Inflows – Other Funds		<u>181,976</u>	<u>78,251</u>
Combined total deferred inflows of resources		<u>181,976</u>	<u>114,458</u>
<b>Fund Balances:</b>			
Restricted		9,675,037	10,723,634
Unassigned		<u>(3,038,392)</u>	<u>(3,322,466)</u>
Combined total fund balances		<u>6,636,645</u>	<u>7,401,168</u>
<b>Total liabilities and fund balances</b>	<b>\$</b>	<b><u>12,189,777</u></b>	<b>\$ <u>13,255,400</u></b>

<b>Table 4</b>			
<b>Changes in Fund Balances</b>		<b>2014</b>	<b>2013</b>
<b>Revenues:</b>			
Total revenues – Major Funds	\$	17,889,391	\$ 16,968,574
Total revenues – Other Funds		<u>7,088,207</u>	<u>6,642,154</u>
Combined total revenues		<u>24,977,598</u>	<u>23,610,728</u>
<b>Expenditures:</b>			
Total expenditures – Major Funds		18,955,152	19,459,014
Total expenditures – Other Funds		<u>6,786,969</u>	<u>6,735,240</u>
Combined total expenditures		<u>25,742,121</u>	<u>26,194,254</u>
Excess of revenues over (expenditures)		<u>(764,523)</u>	<u>(2,583,526)</u>
<b>Other financing sources (uses):</b>			
Proceed from issuance of bonds		-	1,475,000
Transfer – In		945,515	423,894
Transfer – Out		<u>(945,515)</u>	<u>(423,894)</u>
Combined other financing sources (uses), net		<u>-</u>	<u>1,475,000</u>
Net changes in fund balance		<u>(764,523)</u>	<u>(1,108,526)</u>
Fund Balance – beginning		<u>7,401,168</u>	<u>8,509,694</u>
<b>Fund Balance – ending</b>	<b>\$</b>	<b><u>6,636,645</u></b>	<b>\$ <u>7,401,168</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**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, 2014, the Municipality's governmental funds reported combined ending fund balances of \$6,636,645, a decrease of \$764,523 from the prior year.

The Municipality has an unassigned fund deficit of \$3,038,392 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 (\$813,540) and (b) for other restricted purposes (\$8,861,497).

**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 2014 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, 2014 amounted to \$31,025,158 (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 \$2,231,661. 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.

<b>Table 5</b>	
<b>Capital Assets</b>	<b>Amount</b>
Construction in progress	\$ 3,131,412
Land	2,371,028
Buildings	15,116,205
Infrastructure	9,477,693
Machinery and equipment	447,604
Motor vehicles	481,216
<b>Total Assets</b>	<b>\$ 31,025,158</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**LONG-TERM DEBT**

At June 30, 2014 the Municipality had a total of \$12,256,986 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$9,158,000 comprises debt backed by the full faith and credit of the government and \$3,098,986 is other obligations.

<b>Table 6</b>	
<b>Long Term Debts</b>	<b>Amount</b>
General obligations	\$ 9,158,000
Others	<u>3,098,986</u>
<b>Total Long Term Debts</b>	<b><u>\$ 12,256,986</u></b>

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 2014 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, 2014

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Investments	\$ 4,821,742
Cash with Fiscal Agent	3,902,947
Receivables (net):	
Property Taxes	10,455
Sales Taxes	120,588
Intergovernmental	80,505
Federal Grants	140,660
Others	489,168
	<u>9,566,065</u>
Capital Assets:	
Property, Plant and Equipment	44,923,302
Accumulated Depreciation	(13,898,144)
Total Capital Assets	<u>31,025,158</u>
<b>TOTAL ASSETS</b>	<b><u>40,591,223</u></b>
 <b>LIABILITIES</b>	
Accounts Payable and Accrued Expense	680,756
Bonds Payable	502,000
Accrued Interest	183,048
Due to Governmental Units	743,909
Unearned Revenues:	
Volume of Business Tax	637,731
Long-Term Liabilities:	
Due within One Year	1,086,689
Due in More than One Year	11,170,297
<b>Total Liabilities</b>	<b><u>15,004,430</u></b>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	 <b><u>181,976</u></b>
 <b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	25,701,074
Restricted for:	
Debt Service	813,540
Others Purposes	6,273,983
Unrestricted (Deficit)	(7,383,780)
<b>TOTAL NET POSITION</b>	<b><u>\$ 25,404,817</u></b>

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, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature	\$ 2,479,546	\$ -	\$ -	\$ -	\$ (2,479,546)
General Government	3,583,325	-	-	-	(3,583,325)
Public Safety	495,697	-	-	-	(495,697)
Public Works	2,905,566	-	25,000	-	(2,880,566)
Culture and Recreation	561,101	-	-	-	(561,101)
Health and Sanitation	2,615,536	2,208,082	5,234	-	(402,220)
Human Services and Welfare	2,928,107	-	1,462,172	-	(1,465,935)
Urban Development	1,089,682	-	-	2,304,214	1,214,532
Education	6,415,194	-	6,607,695	-	192,501
Interest on Long-Term Debt	505,715	-	-	-	(505,715)
<b>Total Governmental Activities</b>	<b>\$ 23,579,469</b>	<b>\$ 2,208,082</b>	<b>\$ 8,100,101</b>	<b>\$ 2,304,214</b>	<b>(10,967,072)</b>

General Revenues:

Taxes:

Property, levied for General Purposes	1,888,259
Property, levied for Debt Services	743,632
Volume of Business	1,142,498
Sales, levied for General Purposes	1,208,107
Sales, levied for Debt Services	97,006
Intergovernmental	6,282,670
Rent	84,335
Construction Excise Taxes	408,105
Miscellaneous	474,382
<b>Total General Revenues</b>	<b>12,328,994</b>

**CHANGE IN NET POSITION**

Net Position - Beginning of Year - Restated	24,042,895
<b>NET POSITION- END OF YEAR</b>	<b>\$ 25,404,817</b>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2014

	General Fund	Head Start Fund	State Assignment Fund	Loans Fund	Capital Project Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>								
Cash and Investments	\$ 185,713	\$ 16,521	\$ 3,399,173	\$ -	\$ 729,741	\$ -	\$ 490,594	\$ 4,821,742
Cash with Fiscal Agent	598	-	-	2,404,349	2,310	1,495,690	-	3,902,947
Receivables:								
Property Taxes	-	-	-	-	-	10,455	-	10,455
Sales Tax	100,255	-	-	-	-	20,333	-	120,588
Intergovernmental	-	-	-	-	-	-	80,505	80,505
Federal Grants	-	2,494	-	-	-	-	138,166	140,660
Due from Other Funds	333,421	-	521,451	-	729,301	-	1,039,539	2,623,712
Others	367,476	-	-	-	-	-	121,692	489,168
<b>TOTAL ASSETS</b>	<b>\$ 987,463</b>	<b>\$ 19,015</b>	<b>\$ 3,920,624</b>	<b>\$ 2,404,349</b>	<b>\$ 1,461,352</b>	<b>\$ 1,526,478</b>	<b>\$ 1,870,496</b>	<b>\$ 12,189,777</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>								
<b>Liabilities</b>								
Accounts Payable and Accrued Expenses	\$ 227,637	\$ 19,015	\$ 97,571	\$ 67,433	\$ -	\$ -	\$ 269,100	\$ 680,756
Bonds and Notes Payable	-	-	-	-	-	502,000	-	502,000
Accrued Interest	-	-	-	-	-	183,048	-	183,048
Due to Governmental Units	743,909	-	-	-	-	-	-	743,909
Due to Other Funds	2,165,980	-	59,995	-	21,572	27,890	348,275	2,623,712
Unearned Revenues:								
Volume of Business Tax	637,731	-	-	-	-	-	-	637,731
<b>Total Liabilities</b>	<b>3,775,257</b>	<b>19,015</b>	<b>157,566</b>	<b>67,433</b>	<b>21,572</b>	<b>712,938</b>	<b>617,375</b>	<b>5,371,156</b>
<b>Deferred Inflows of Resources</b>								
<b>Unavailable Revenues:</b>								
Federal Grants	-	-	-	-	-	-	181,976	181,976
<b>Fund Balances</b>								
Restricted	250,598	-	3,763,058	2,336,916	1,439,780	813,540	1,071,145	9,675,037
Unassigned	(3,038,392)	-	-	-	-	-	-	(3,038,392)
<b>Total Fund Balances</b>	<b>(2,787,794)</b>	<b>-</b>	<b>3,763,058</b>	<b>2,336,916</b>	<b>1,439,780</b>	<b>813,540</b>	<b>1,071,145</b>	<b>6,636,645</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 987,463</b>	<b>\$ 19,015</b>	<b>\$ 3,920,624</b>	<b>\$ 2,404,349</b>	<b>\$ 1,461,352</b>	<b>\$ 1,526,478</b>	<b>\$ 1,870,496</b>	<b>\$ 12,189,777</b>

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, 2014

	General Fund	Head Start Fund	State Assignment Fund	Loans Fund	Capital Project Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>								
Property Taxes	\$ 1,888,259	\$ -	\$ -	\$ -	\$ -	\$ 743,632	\$ -	\$ 2,631,891
Sales Taxes	1,208,107	-	-	-	-	97,006	-	1,305,113
Volume of Business Taxes	1,142,498	-	-	-	-	-	-	1,142,498
Federal Assistances	-	4,433,821	-	-	-	-	4,268,480	8,702,301
Intergovernmental	6,282,670	-	1,088,733	-	-	-	336,970	7,708,373
Construction Excise Taxes	408,105	-	-	-	-	-	-	408,105
Rent	84,335	-	-	-	-	-	-	84,335
Charges for Services	-	-	-	-	-	-	2,428,107	2,428,107
Miscellaneous	510,589	-	1,522	-	114	-	54,650	566,875
<b>Total Revenues</b>	<b>11,524,563</b>	<b>4,433,821</b>	<b>1,090,255</b>	<b>-</b>	<b>114</b>	<b>840,638</b>	<b>7,088,207</b>	<b>24,977,598</b>
<b>EXPENDITURES</b>								
Current:								
Mayor and Municipal Legislature	2,695,682	-	-	-	-	-	-	2,695,682
General Government	3,044,966	-	284,503	9,675	-	-	56,671	3,395,815
Public Safety	403,816	-	-	-	-	-	34,666	438,482
Public Works	2,697,127	-	72,924	-	1,678	-	96,087	2,867,816
Culture and Recreation	355,355	-	64,513	-	-	-	49,125	468,993
Health and Sanitation	338,592	-	-	-	-	-	2,222,269	2,560,861
Human Services and Welfare	1,239,265	-	-	-	-	-	1,566,882	2,806,147
Urban Development	-	-	727,018	899,639	58,607	-	705,900	2,391,164
Education	-	4,433,821	7,550	-	-	-	1,973,823	6,415,194
Capital Outlay	-	-	54,232	262,474	-	-	81,546	398,252
Debt Service:								
Principal	-	-	-	-	-	798,000	-	798,000
Interest and Other Charges	-	-	-	-	-	505,715	-	505,715
<b>Total Expenditures</b>	<b>10,774,803</b>	<b>4,433,821</b>	<b>1,210,740</b>	<b>1,171,788</b>	<b>60,285</b>	<b>1,303,715</b>	<b>6,786,969</b>	<b>25,742,121</b>
Excess (deficiency) of revenues over (under) expenditures	749,760	-	(120,485)	(1,171,788)	(60,171)	(463,077)	301,238	(764,523)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers - In	191,449	-	273,929	-	73,002	315,340	91,795	945,515
Transfers - Out	(407,135)	-	-	(146,638)	-	(27,890)	(363,852)	(945,515)
<b>Total Other Financing Sources and Uses</b>	<b>(215,686)</b>	<b>-</b>	<b>273,929</b>	<b>(146,638)</b>	<b>73,002</b>	<b>287,450</b>	<b>(272,057)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>534,074</b>	<b>-</b>	<b>153,444</b>	<b>(1,318,426)</b>	<b>12,831</b>	<b>(175,627)</b>	<b>29,181</b>	<b>(764,523)</b>
Fund Balance - Beginning as Restated	(3,321,868)	-	3,609,614	3,655,342	1,426,949	989,167	1,041,964	7,401,168
<b>Fund Balances - Ending</b>	<b>\$ (2,787,794)</b>	<b>\$ -</b>	<b>\$ 3,763,058</b>	<b>\$ 2,336,916</b>	<b>\$ 1,439,780</b>	<b>\$ 813,540</b>	<b>\$ 1,071,145</b>	<b>\$ 6,636,645</b>

*OR TORO  
3/20/15*

**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, 2014**

**Total Fund Balances – Governmental Funds..... \$ 6,636,645**

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 .....	\$ 44,923,302	
Accumulated Depreciation .....	(13,898,144)	
<b>Total Capital Assets .....</b>		<b>31,025,158</b>

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.....	(9,158,000)	
Compensated Absences .....	(1,970,152)	
Property Tax Debt – Law 42 .....	(329,429)	
Property Tax Debt – Law 146 .....	(26,141)	
Property Tax Debt – 2013-2014 Final Settlement .....	(107,861)	
State Health Insurance Administration.....	(665,403)	
<b>Total Long-Term Liabilities.....</b>		<b>(12,256,986)</b>

**Total Net Position of Governmental Activities..... \$ 25,404,817**

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, 2014**

<b>Net Change in Fund Balances – Total Governmental Funds .....</b>		<b>\$ (764,523)</b>
<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 .....	\$ 2,231,661	
Depreciation Expense.....	<u>(1,089,027)</u>	
Excess of Capital Outlay over Depreciation Expense .....		1,142,634
<p>Revenues in the governmental funds that correspond to prior year resources are not recorded as revenue in the Statement of Activities .....</p>		
		(36,207)
<p>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.....</p>		
		798,000
<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 .....	176,237	
Decrease in Property Tax Debt – Law 42.....	9,763	
Decrease in Property Tax Debt – Law 146.....	1,452	
Decrease in Health Insurance Administration.....	142,427	
Increase in Property Tax Debt- 2013-2014 Final Settlement.....	<u>(107,861)</u>	
Total Change in Expenditures .....		<u>222,018</u>
<b>Change in Net Position of Governmental Activities.....</b>		<b><u>\$ 1,361,922</u></b>

See accompanying Notes to Basic Financial Statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**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, 2014, 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)**

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**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, 2014, 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, 2014, 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)

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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, 2014, 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)**

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**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)**

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**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:

<b>Capital Assets</b>	<b>Years</b>
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, 2014.

<u>BALANCE</u> <u>JULY 1, 2013</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS AND CURRENT MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2014</u>	<u>CURRENT PORTION</u>	<u>LONG-TERM PORTION</u>
\$ 2,146,389	\$ _____	\$ 176,237	\$ 1,970,152	\$ 205,000	\$ 1,765,152

**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)**

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**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, 2014 amounted to \$210,066. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$192,599 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, 2014:

- ❖ 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. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.
- ❖ 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. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions and transfers of operations.
- ❖ GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.
- ❖ 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 objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

The impact of these Statements on the Municipality's basic financial statements has not yet determined by the Municipality's management.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

**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.

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

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

**Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014. Therefore, the Municipality's management has concluded that at June 30, 2014 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)**

The Municipality's bank balances in commercial banks of \$185,713 in the General Fund, \$16,521 in the Head Start Fund, \$3,399,173 in the State Assignment Fund and \$729,741 in the Capital Project Fund, were fully collateralized at June 30, 2014. In the Other Governmental Funds there were deposits with commercial banks of \$490,594 that were fully collateralized.

The deposits at GDB of \$598 in the General Fund, the \$2,404,349 in the Loans Fund, the \$2,310 in the Capital Projects Fund and the \$1,495,690 in the Debt Service, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**NOTE 3 – RECEIVABLES**

**A. Property Taxes Receivables**

Property taxes receivable in the Debt Service Fund represents amounts earned in from fiscal year 2013-2014, not collected by the Municipality at June 30, 2014. Following is a detail of the property taxes receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 10,455
<b>Total</b>	<b>\$ 10,455</b>

**B. Sales Tax Receivables**

As described below in Note 12, 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 20<sup>th</sup> day of each month based on tax collected in the preceding month. Therefore, sales tax receivable of \$100,255 in the General Fund and \$20,333 in the Other Governmental Funds represents the amount due by the taxpayers at June 30, 2014.

**C. Intergovernmental Receivables**

Intergovernmental receivable of \$149,084 in the Other Governmental Funds 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	\$ 80,505

**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	\$ 88,771
Homeland Security Grant	<u>49,395</u>
<b>Total</b>	<b><u>\$ 138,166</u></b>

**E. Due From Other Funds**

Interfund receivables and payables at June 30, 2014 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	\$ 273,426
General Fund	State Assignment Fund	Payrolls paid and not reimbursed	59,995
State Assignment Fund	General Fund	Reimbursable expenditures	438,709
State Assignment Fund	Other Governmental Funds	Reimbursable expenditures	82,742
Capital Project Fund	General Fund	Cash pool in same bank account	689,301
Capital Project Fund	Other Governmental Funds	Reimbursable expenditures	40,000
Other Governmental Funds	General Fund	Cash pool in same bank account	<u>1,039,539</u>
<b>Total</b>			<b><u>\$ 2,623,712</u></b>

**F. Other Receivables**

Other receivables for the amount of \$489,168, represent \$367,476 from the 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), \$26,206 from Section 8 Housing Choice Vouchers receivables at June 30, 2014, resulting from fraud recoveries and \$95,486 from medical insurances invoices billed and not received in the Municipal Hospital Fund at June 30, 2014.

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

<b>Governmental Activities</b>	<b>Balance July 1, 2013, as restated</b>	<b>Additions</b>	<b>Retirements / Reclassifications</b>	<b>Balance June 30, 2014</b>
Capital asset, not being depreciated:				
Land	\$ 2,171,028	\$ 200,000	\$ -	\$ 2,371,028
Construction in progress	<u>3,164,280</u>	<u>1,189,298</u>	<u>(1,222,166)</u>	<u>3,131,412</u>
<b>Total capital assets not being depreciated</b>	<u>5,335,308</u>	<u>1,389,298</u>	<u>(1,222,166)</u>	<u>5,502,440</u>
Capital assets, being depreciated:				
Buildings	17,245,653	213,351	1,222,166	18,681,170
Infrastructure	12,810,330	430,760	-	13,241,090
Machinery and equipment	2,821,162	84,603	-	2,905,765
Motor vehicles	<u>4,479,188</u>	<u>113,649</u>	<u>-</u>	<u>4,592,837</u>
<b>Total capital assets being depreciated</b>	<u>37,356,333</u>	<u>842,363</u>	<u>1,222,166</u>	<u>39,420,862</u>
<b>Total cost basis of capital assets</b>	<u>42,691,641</u>	<u>2,231,661</u>	<u>-</u>	<u>44,923,302</u>
Less accumulated depreciation for:				
Buildings	(3,236,821)	(328,144)	-	(3,564,965)
Infrastructure	(3,336,729)	(426,668)	-	(3,763,397)
Machinery and equipment	(2,288,383)	(169,778)	-	(2,458,161)
Motor vehicles	<u>(3,947,184)</u>	<u>(164,437)</u>	<u>-</u>	<u>(4,111,621)</u>
<b>Total accumulated depreciation</b>	<u>(12,809,117)</u>	<u>(1,089,027)</u>	<u>-</u>	<u>(13,898,144)</u>
<b>Total capital assets being depreciated, net</b>	<u>24,547,216</u>	<u>(246,664)</u>	<u>1,222,166</u>	<u>25,522,718</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 29,882,524</u>	<u>\$ 1,142,634</u>	<u>\$ -</u>	<u>\$ 31,025,158</u>

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

<b>Governmental activities</b>	<b>Amount</b>
General Government	\$ 187,510
Urban Development	531,927
Mayor and Municipal	5,882
Public Safety	57,215
Public Works	37,750
Culture and Recreation	92,108
Sanitation	54,675
Human Services and Welfare	<u>121,960</u>
<b>Total depreciation expenses</b>	<u>\$ 1,089,027</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 2013-2014, and not paid by the Municipality at June 30, 2014. Following is a detail of these accounts payable and accrued liabilities:

<b>Major Governmental Funds</b>	<b>Accounts Payable</b>	<b>Accrued Liabilities</b>	<b>Total</b>
General Fund	\$ 143,424	\$ 84,213	\$ 227,637
Head Start Fund	19,015	-	19,015
State Assignment Fund	97,571	-	97,571
Loans Fund	67,433	-	67,433
Other Governmental Funds	<u>269,100</u>	-	<u>269,100</u>
<b>Total</b>	<b><u>\$ 596,543</u></b>	<b><u>\$ 84,213</u></b>	<b><u>\$ 680,756</u></b>

**NOTE 6 – DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2014, balance due to other governmental units consists of the following:

<b>Governmental Agency</b>	<b>Amount</b>
Puerto Rico Aqueduct and Sewer Authority	\$ 135,972
General Service Administration	603,682
State Department of Labor	<u>4,255</u>
<b>Total</b>	<b><u>\$ 743,909</u></b>

**NOTE 7 – DEFERRED INFLOWS OF RESOURCES**

A. **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	\$ 1,122
Child & Adult Care Food Program	90,371
Child Care Development Block Grant	15,432
School Improvement Grant	58,275
Others	<u>16,776</u>
<b>Total</b>	<b><u>\$ 181,976</u></b>

**NOTE 8 – GENERAL LONG-TERM DEBTS**

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 9,956,000	\$ -	\$ (798,000)	\$ 9,158,000	\$ 762,000
Compensated absences	2,146,389	-	(176,237)	1,970,152	205,000
Property Tax Debt – Law 42	339,192	-	(9,763)	329,429	10,376
Property Tax Debt – Law 146	27,593	-	(1,452)	26,141	1,452
State Health Insurance Administration	807,830	-	(142,427)	665,403	-
Property Tax Debt – 2013-2014 Final Settlement	<u>-</u>	<u>107,861</u>	<u>-</u>	<u>107,861</u>	<u>107,861</u>
<b>Total</b>	<b><u>\$ 13,277,004</u></b>	<b><u>\$ 107,861</u></b>	<b><u>\$ (1,127,879)</u></b>	<b><u>\$ 12,256,986</u></b>	<b><u>\$ 1,086,689</u></b>

**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, 2014, 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.	\$ 925,000
\$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.	350,000
\$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.	1,175,000
\$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.	505,000
\$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.	37,000
\$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).	298,000
\$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.	60,000
\$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.	125,000
\$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.	62,000
\$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.	155,000
\$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.	98,000

**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	57,000
\$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)	31,000
\$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.	215,000
\$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.	525,000
\$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.	460,000
\$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.	100,000
\$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.	2,240,000
\$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.	60,000
\$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.	355,000
\$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.	255,000
\$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.	730,000
\$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.	270,000
\$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.	<u>70,000</u>
<b>Total General Obligations – Bonds</b>	<b><u>\$ 9,158,000</u></b>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)**

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, 2014 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2015	\$ 762,000	\$ 540,739	\$ 1,302,739
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	736,000	402,207	1,138,207
2020-2024	3,107,000	1,346,829	4,453,829
2025-2029	1,579,000	397,827	1,976,827
2030-2034	450,000	104,850	554,850
2035-2039	<u>70,000</u>	<u>11,250</u>	<u>81,250</u>
<b>Total</b>	<b><u>\$ 9,158,000</u></b>	<b><u>\$ 4,304,830</u></b>	<b><u>\$ 13,462,830</u></b>

**C. COMPENSATED ABSENCES**

The government-wide statement of net position includes \$1,008,287 of accrued sick leave benefits, and \$961,865 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, 2014 amounted to \$329,429.

**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, 2014 amounted to \$26,141.

**F. STATE INSURANCE HEALTH ADMINISTRATION**

Liabilities of \$665,403 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, 2014.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**G. PROPERTY TAX DEBT – 2013-2014 FINAL SETTLEMENT**

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the final liquidation noting that the advances exceeded collections by \$107,861.

**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.

Effective February 1, 2014, Commonwealth Act 19 of 2014 created the Municipal Financing Corporation (COFIM, by Spanish acronyms) to which resources from the Municipality's sales and use tax revenues will fund COFIM's issuance, payment of principal and interest, and retirement of debt related to the Municipality.

**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)**

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**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)**

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**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**

Since 2007, the Puerto Rico Internal Revenue Code provides for a sales and use tax to be imposed by the Commonwealth Government and each municipal government. The uniformed the tax rate was established at 7% of which the municipalities will collect 1% and the Puerto Rico Treasury Department the other 6%; however, 0.50% of the 6% collected by the state belongs to the municipality and it is distributed through three separate funds: Municipal Development Fund (0.2%) to be distributed among all the municipalities in accordance with a formula created by the Act, Municipal Redemption Fund (0.2%) to finance loans to Municipalities and Municipal Improvements Fund (0.1%) to finance capital improvement projects as determined by the State Legislature. 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. Proceeds from such taxes are limited for financing solid waste disposal, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration. Commonwealth legislation related to this tax includes Act 117 of 2006, Act 80, of 2007, and Act 1 of 2011.

The Municipality's sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax, and is specifically imposed over the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item (as defined by the municipal internal regulation) taken place within municipal limits. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax was due each 20<sup>th</sup> day of each month based on tax collected in the preceding month.

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the Commonwealth Legislature approved new changes to municipal sales and use taxes during 2013 and 2014. Act No. 40 of June 30, 2013, as amended, reduced the municipal sales and use tax from 1.5% to 1% and increased the Commonwealth sales and use tax from 5.5% to 6% effective February 1, 2014. Act 18 of January 24, 2014 created a special fund called "Municipal Administration Fund" ("FAM") under custody of the Governmental Development Bank of Puerto Rico ("GDB") that permits Municipalities to guarantee and pay long term debt and provide funds for its general operations. Effective February 1, 2014, after complying with the requirements imposed under Act 91 of 2006, remaining funds collected under the new law by the Commonwealth shall be deposited in a special fund under management of the GDB called the Local Government Fund, to be distributed among the municipalities. After July 1, 2014, Commonwealth's sales and use tax will still be deposited in COFINA. From these funds the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. For municipalities covered by the agreement the .5% will be distributed as follows:

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 12 – MUNICIPAL SALES TAXES (CONTINUED)**

Act 19 of January 24, 2014 created the Municipal Financing Corporation (COFIM, by Spanish acronyms) under the GDB, with the power to issue, pay or refinance debt incurred by municipalities, backed by the municipal sales and use tax. Effective February 1, 2014, resources of the previous Municipal Redemption Fund were transferred to COFIM. After July 1, 2014 the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds, COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee ("RFA"). The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax or the "Municipal Transfer") will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the Municipal Transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

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

The Act provides for monthly cash advances to the Municipalities (except for the Municipalities that receive cash advances under Act 18 of 2014) within the first ten days of each month in order to maintain its cash flow until the Municipal Transfer is done. If the cash advances exceeds the amount corresponding to the Municipal Transfer (Act 19 of 2014) or exceeds the amount corresponding to Act No. 18 the excess will be deducted on a prorata basis from the next fiscal year cash advances, amount of Municipal Transfer or amount corresponding to Act 18 of 2014.

Under Act 19 of 2014, entities who collect and remit the sales and use tax will render their tax return and payment through COFIM's web site or through a bank institution beginning in early 2015.

**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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 14 – INTERFUND TRANSFERS**

Interfund transfers during the fiscal year ended at June 30, 2014, are summarized as follows:

<b>Transfer Out</b>	<b>Transfer In</b>	<b>Purpose</b>	<b>Amount</b>
General Fund	Other Governmental Fund	To cover operating expenditures	\$ 91,795
General Fund	Debt Service Fund	Debt service	315,340
Loans Fund	General Fund	To cover operating expenditures	114,559
Loans Fund	Other Governmental Fund	To cover operating expenditures	32,079
Debt Service Fund	General Fund	To cover operating expenditures	27,890
Other Governmental Fund	General Fund	To cover operating expenditures	49,000
Other Governmental Fund	State Assignment Fund	To cover operating expenditures	241,850
Other Governmental Fund	Capital Project Fund	To cover operating expenditures	<u>73,002</u>
<b>Total</b>			<b><u>\$ 945,515</u></b>

**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 contributed from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be 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 increases 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

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.

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:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

<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.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

**NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

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.

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, 2014 was approximately \$294,209. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 15 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

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, 2014. 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.

**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 BALANCE (DEFICIT)**

As of June 30, 2014, 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
<b>Restricted for:</b>								
General Government	\$ 250,598	\$ -	\$ -	\$ 97,043	\$ -	\$ -	\$ 45,134	\$ 392,775
Public Safety	-	-	-	-	-	-	350	350
Public Works	-	-	-	-	-	-	85,638	85,638
Culture and Recreation	-	-	-	-	-	-	26,552	26,552
Health and Sanitation	-	-	-	-	-	-	5,234	5,234
Human Services and Welfare	-	-	-	-	-	-	57,259	57,259
Urban Development	-	-	3,763,058	2,239,873	1,439,780	-	849,960	8,292,671
Education	-	-	-	-	-	-	1,018	1,018
Debt Service	-	-	-	-	-	813,540	-	813,540
<b>Unassigned</b>	<u>(3,038,392)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,038,392)</u>
<b>Total Fund Balance (Deficit)</b>	<u>\$ (2,787,794)</u>	<u>\$ -</u>	<u>\$ 3,763,058</u>	<u>\$ 2,336,916</u>	<u>\$ 1,439,780</u>	<u>\$ 813,540</u>	<u>\$ 1,071,145</u>	<u>\$ 6,636,645</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

**NOTE 18 – FUND DEFICIT**

The Municipality has accumulated deficit of \$2,787,794 in the General Fund. The Municipality's plan adopted with 2013-2014 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 19 – ACCOUNTING CHANGES AND RESTATEMENTS**

**A. GOVERNMENTAL FUND FINANCIAL STATEMENTS**

The following restatement have been made in the Governmental Fund financial statements, which are reported as an adjustment to the beginning fund balance of the General Fund:

<u>Description</u>	<u>General Fund</u>
Fund balance, beginning	\$ (3,215,646)
Interfund adjustment	<u>(106,222)</u>
<b>Fund balance, beginning as restated</b>	<b><u>\$ (3,321,868)</u></b>

**B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS**

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

<u>Description</u>	<u>Total</u>
Net assets, beginning	\$ 24,847,988
Interfund adjustment	(106,222)
Construction in Progress adjustment	<u>(698,871)</u>
<b>Net assets, beginning as restated</b>	<b><u>\$ 24,042,895</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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**NOTE 20 – ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS**

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

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement, and to defined contribution plans that provide postemployment benefits other than pensions. The Municipality does not expect this new standard to have an effect on the Municipality's financial statements.
- GASB Statement No. 70 ("GASB 70"), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The Municipality does not expect this new standard to have an effect on the Municipality's financial statements.

**21. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 6, 2015, 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, 2014.

**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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note 1)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
<b>RESOURCES (INFLOWS):</b>				
Property Taxes	\$ 1,888,259	\$ 1,888,259	\$ 1,888,259	\$ -
Sales Taxes	1,200,000	1,200,000	1,208,107	8,107
Volume of Business Taxes	1,000,000	1,000,000	1,142,498	142,498
Intergovernmental Revenues	5,769,296	5,769,296	6,032,670	263,374
Licenses and Permits	305,000	305,000	408,105	103,105
Rent	235,000	235,000	84,335	(150,665)
Miscellaneous	<u>1,018,100</u>	<u>1,018,100</u>	<u>466,693</u>	<u>(551,407)</u>
<b>Total Resources (Inflows)</b>	<u>11,415,655</u>	<u>11,415,655</u>	<u>11,230,667</u>	<u>(184,988)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b>				
Current:				
Mayor and Municipal Legislature	2,598,400	2,922,770	2,740,360	182,410
General Government	3,151,961	3,526,794	3,045,465	481,329
Public Safety	450,497	408,254	403,816	4,438
Public Works	2,420,095	2,260,997	2,710,220	(449,223)
Culture and Recreation	404,797	369,717	355,355	14,362
Health and Sanitation	330,617	357,961	338,592	19,369
Human Services and Welfare	1,686,413	1,253,796	1,243,361	10,435
Transfer to Other Funds	<u>372,875</u>	<u>315,366</u>	<u>315,340</u>	<u>26</u>
<b>Total changes to appropriations</b>	<u>11,415,655</u>	<u>11,415,655</u>	<u>11,152,509</u>	<u>263,146</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,158</u>	<u>\$ 78,158</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, 2014**

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

	<u>GENERAL FUND</u>
<b>Sources/inflows of resources:</b>	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule (Page 50)	\$ 11,230,667
Differences-budget to GAAP:	
Prior and current adjustments to revenues	293,896
Total revenues as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances (Page 13)	<b>\$ 11,524,563</b>
<b>Uses/outflows of resources:</b>	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule (Page 50)	\$ 11,152,509
Differences-budget to GAAP:	
Prior year expenditures are not outflows of budgetary resources, but are expenditures for financial reporting purposes	43,086
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(85,569)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial reporting purposes	(315,340)
Adjustment to expenditures	(19,883)
Total expenditures as reported on the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances (Page 13)	<b>\$ 10,774,803</b>

**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, 2014

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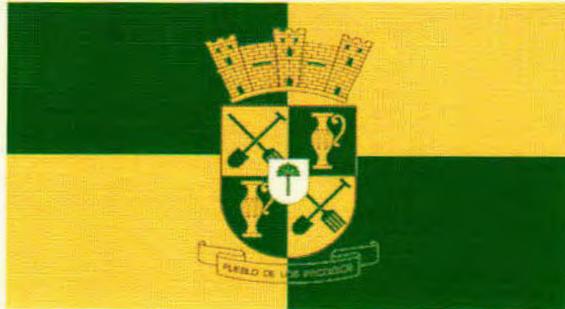
**NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**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, 2014.

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



***SINGLE AUDIT REPORT***

**YEAR ENDED JUNE 30, 2014**



**Hon. Miguel G. Ortiz Vélez  
Mayor**

15-03-0197

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**  
**SINGLE AUDIT REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2014**

**CONTENTS**

	<b>PAGE</b>
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditor's Report on Compliance for Each Major Program and On Internal Control over Compliance Required by OMB Circular A-133	3-5
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7-8
Schedule of Findings and Questioned Costs	9-11
Summary Schedule of Prior Audit Findings	12

**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, 2014, 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 6, 2015.

**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. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be significant deficiency.

**Compliance and Other Matters**

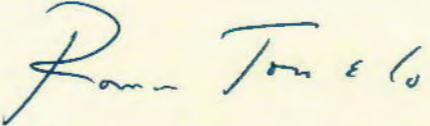
As part of obtaining reasonable assurance about whether Municipality of Sabana Grande, Puerto Rico's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Municipality of Sabana Grande, Puerto Rico's Response to Findings**

Municipality of Sabana Grande, Puerto Rico's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality of Sabana Grande, Puerto Rico's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 6, 2015

Stamp #E149037 was affixed to  
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, 2014. 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, 2014.

## **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.

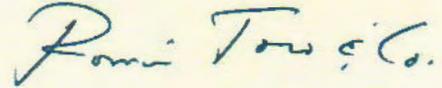
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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, 2014, 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 6, 2015, 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 6, 2015

Stamp #E149038 was affixed to  
the original report



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number (Note B)	Pass-through Entity Identifying Number (Note C)	Federal Expenditures (Note A)
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through State- P.R. Department of Education: Child and Adult Care Food Program	10.558		\$ 420,174
<b>Total U.S. Department of Agriculture</b>			<b>420,174</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Pass-through State - Office of the Commissioner of Municipal Affairs: Community Development Block Grants – State	14.228		718,440
Pass-through State – P.R. Public Housing Administration Public and Indian Housing	14.850		359,518
Direct Program: Section 8 Housing Choice Vouchers Program	14.871		809,042
<b>Total U.S. Department of Housing and Urban Development</b>			<b>1,887,000</b>
<b>U.S. DEPARTMENT OF EDUCATION:</b>			
Pass-through State- P.R. Department of Education School Improvement Grant	84.377		1,076,445
<b>Total U.S. Department of Education:</b>			<b>1,076,445</b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
Pass-through State- P.R. Governor 's Office – Public Security Affairs Office Disaster Grants - Public Assistance	97.036		79,122
<b>Total U.S. Department of Homeland Security:</b>			<b>79,122</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE</b>			
Pass-through State- P.R. Office for Pensioners and Senior Citizens Special Program for Aging, Title III, Part B	93.044		42,114
Pass-through State— Administration for Children and Families:			
Community Services Block Grant	93.569		36,925
Child Care and Development Block Grant	93.575		152,024
Family Violence Prevention and Services	93.592		49,415
Head Start	93.600		4,433,821
Direct Program: Early Head Start	93.600		525,231
<b>Total U.S. Department of Health and Human Service:</b>			<b>5,239,530</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$8,702,271</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2014**

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**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, 2014

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	\$ -	\$ 420,174
14.228	-	718,440
14.850	-	359,518
14.871	-	809,042
84.377	-	1,076,445
93.044	-	42,114
93.569	-	36,925
93.575	-	152,024
93.592	4,433,821	49,415
93.600	-	525,231
97.036	-	79,122
Total federal awards expenditures	4,433,821	4,268,450
Total nonfederal awards expenditures and transfers	-	<u>2,246,462</u>
Total expenditures and net transfers, fund statements	<u>\$4,433,821</u>	<u>\$6,514,912</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, 2014**

**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
14.850	Public and Indian Housing
84.377	School Improvement Grants
93.600	Head Start and Early 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, 2014

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**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**2014-001**

Type of finding: Federal Award.  
Situation: Significant deficiency, compliance with local regulations.  
Prior-Year(s) Audit Finding(s): None.  
Questioned Costs: None.

**Condition:**

The Municipality incurred in expenditures without first encumbering budgetary appropriations, and issued purchase orders after expenditure invoice of suppliers and contractors was received.

**Context:**

During our audit of expenditures and disbursements of the Municipality, we observed over 150 disbursements totaling over \$6.5 million in various types of expenditures. From this sample, we observed 22 expenditures for a total disbursed amount of \$540,631 for which the certification or invoice from suppliers or contractors for the service or good acquired were issued between 1 and 207 days before its respective purchase order was issued.

**Criteria:**

Chapter IV, section 2 of the Municipal Administration Manual issued by the Puerto Rico Office of the Commissioner for Municipal Affairs requires all Municipalities to encumber the appropriations before purchasing, so that available resources are reserved for the eventual expenditure, and specifically requires that the procurement of goods and services be made with its corresponding purchase order.

**Cause:**

The Municipality did not assure that, in the procurement of services and goods where sending a purchase order is not required for the activity to be procured, the purchase order was still issued in order to reserve the necessary budget amount for the eventual expenditure.

**Effect:**

Expenditures were incurred without reservation of the appropriate budget, increasing the risk that expenditures would surpass available resources.

**Auditor's Recommendation:**

The Municipality should assure that all expenditures are appropriately reserved before incurring, by issuing purchase orders where necessary, and not procuring the services until they are issued.

**Views of responsible officials and corrective actions:**

On certain occasions, emergencies may arise that require rapid remedy to continue to offer quality services to the people. For this reason, Purchase Orders may be made after services were requested and billed from suppliers. Additionally, services may be procured when resources are available but have yet to be recorded as a budget entry in the accounting system. We will implement procedures to correct this situation.

**END OF SECTION.**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SABANA GRANDE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014**

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**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, 2014

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Year(s)	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
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(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.

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END OF SCHEDULE

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