

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

**MUNICIPIO DE SAN GERMAN
AUDITORÍA 2013-2014
30 DE JUNIO DE 2014**



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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN**

***BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY
INFORMATION AND INDEPENDENT
AUDITORS' REPORT
(WITH ADDITIONAL REPORTS REQUIRED
UNDER THE OMB CIRCULAR A-133)***

***AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2014***



H. Isidro Negrón Irizarry
**Hon. Isidro Negrón Irizarry
Mayor**

Wanda Rodríguez Rivera
**Wanda Rodríguez Rivera
Finance Director**

Wanda

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Member of the
Municipal Assembly
San Germán, 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 San Germán, 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 San Germán, Puerto Rico**, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 54 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:

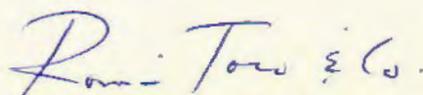
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of San Germán, Puerto Rico's** basic financial statements. The financial data schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The financial data schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and others records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the financial data schedule is fairly stated in all material aspects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015, on our consideration of the **Autonomous Municipality of San Germán, 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 **Autonomous Municipality of San Germán, 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 26, 2015

Stamp #E149041 was affixed to
the original report.

MUNICIPALITY OF SAN GERMAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

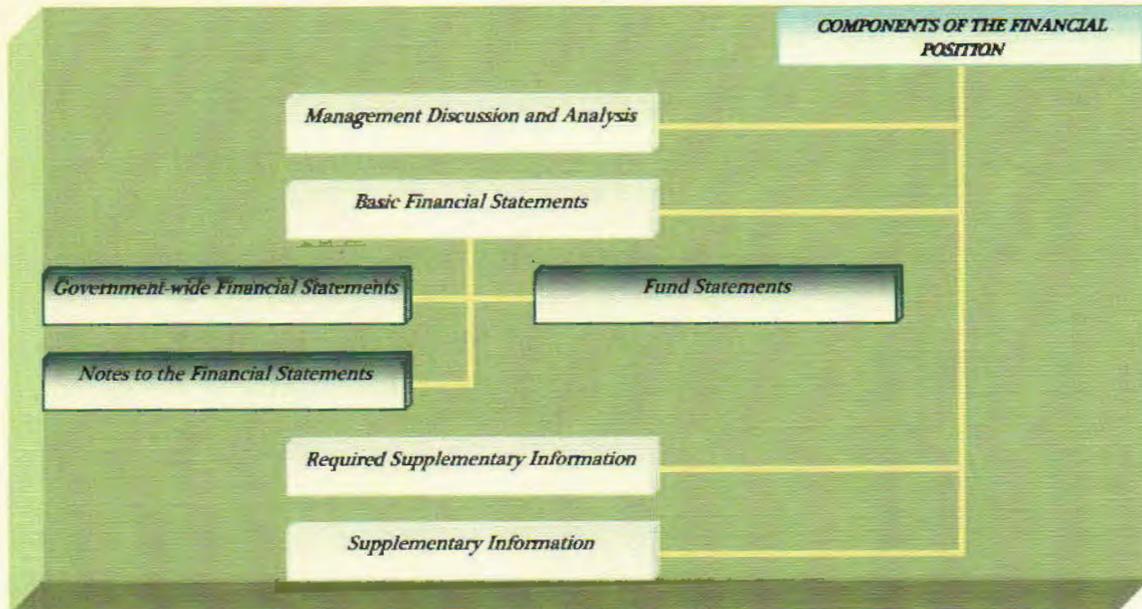
As management of the Municipality of San German ("the Municipality"), we offer readers of the Municipality's financial statements this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our basic financial statements presented in this report.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2014 by \$40,977,070 (net position), a decrease of 1% in comparison with 2013. Of this amount, the Municipality presented an unrestricted net position (deficit) of \$(5,363,737).
- Revenues increased 13% and expenses increased 12% when compared with fiscal year 2013. Net position decreased \$503,712 in 2014.
- A positive net change in the fund balances of the Municipality's governmental funds of \$1,765,770 in the fiscal year 2014 resulted in reported ending fund balances of \$13,648,117 increasing 15% with respect to 2013 year. Approximately -20% of the total fund balances is unrestricted (unassigned).
- For the fiscal year 2014, the General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources (deficit) of (\$422,553). The unassigned fund balance deficit amounts to \$2,656,873 or 11% increase over the 2013 year deficit.
- The investment in capital assets as of June 30, 2014 was \$65,813,271 (net of depreciation).
- Long-term debt (total primary government) increased to \$42,432,770 or approximately 38% with respect to the prior year.
- On a budgetary basis, actual expenditures and other financing uses exceeded actual revenues and other financing sources by \$481,991 (deficiency).

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's basic financial statements comprise four components: (1) management's discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information and (4) other supplementary information.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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

Basic Financial Statements

- ***Government-Wide Financial Statements***

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the *statement of net position* presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in the Municipality's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement – the *statement of activities* – presents information showing how the net position changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

The government-wide statements report as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, and community development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- ***Fund Financial Statements***

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

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

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that comply with a minimum criterion that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users. Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Basic Financial Statements (continued)

- *Notes to the financial statements*
The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Supplementary information

The supplementary information includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

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

TABLE 1

<i>Summary Statement of Net Position As of June 30,</i>		
	Governmental Activities	
	2014	2013
Assets		
Current and other assets	\$ 26,697,784	\$ 20,376,935
Capital assets	65,813,271	56,735,879
Total assets	\$ 92,511,055	\$ 77,112,814
Liabilities		
Current and other liabilities	\$ 9,101,215	\$ 4,838,998
Long term liabilities	42,432,770	30,793,034
Total liabilities	51,533,985	35,632,032
Net Position		
Net investment in capital assets	39,079,282	40,102,889
Restricted	7,261,525	5,493,393
Unrestricted (deficit)	(5,363,737)	(4,115,500)
Total net position	\$ 40,977,070	\$ 41,480,782

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) serve as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. At June 30, 2014, assets exceeded its liabilities by \$40,977,070. Of this amount, \$(5,363,737) represents unrestricted net position (deficit). This deficit primarily arises from long-term obligations such as compensated absences and other operational debts, for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a "pay as you go" basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as net investment in capital assets. Therefore, they are reported as part of the unrestricted net position section. Restricted net position represents resources that are subject to external restrictions on how they may be used.

The largest portion of the Municipality's net position reflects its investment in capital assets (land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

Net position reported a decrease of 1% with respect to fiscal period 2013. The most significant transaction that causes this negative variance was the issuance of \$11,110,000 in long term debt to finance the construction of a water park.

Changes in net position

The following table summarizes the changes in net assets for the years ended June 30, 2014 and 2013:

TABLE 2

<i>Summary of Changes in Net Position As of June 30,</i>		
	Governmental Activities	
	2014	2013
Program revenues:		
Fees, fines and charges for services	\$ 8,457,405	\$ 7,180,394
Operating grants and contributions	2,420,467	1,798,221
Capital grants and contributions	3,076,305	2,081,796
General revenues:		
Property taxes	4,357,629	4,593,002
Municipal license taxes	2,550,494	2,792,058
Sales and use taxes	2,242,534	2,364,361
Grants and contributions not restricted to specific programs	5,741,827	4,876,575
Interest	713,244	429,715
Other	282,207	243,155
Total revenues	\$ 29,842,112	\$ 26,359,277

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

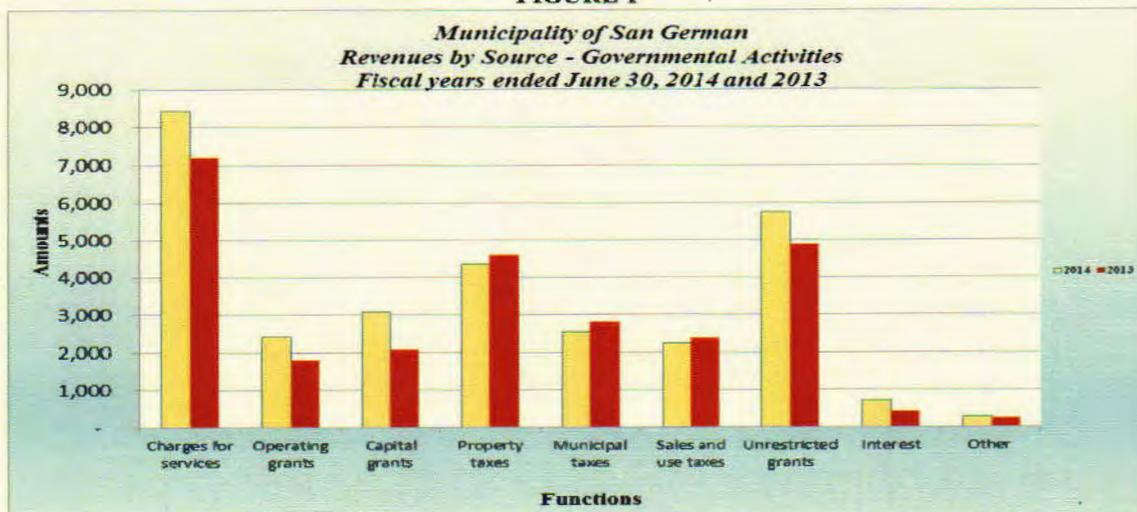
TABLE 2 (continued)
*Summary of Changes in Net Position
As of June 30,*

	Governmental Activities	
	2014	2013
Expenses:		
General government	9,824,769	6,451,932
Public safety	1,658,207	1,631,323
Public works	12,020,274	12,758,939
Sanitation	284,157	283,543
Health	786,763	786,763
Welfare	2,777,057	2,840,221
Culture and recreation	641,718	531,532
Education	1,324,964	811,986
Interest on long term debt	1,027,915	901,010
Total expenses	30,345,824	26,997,249
Change in net position	(503,712)	(637,973)
Net position - beginning of year	41,480,782	42,118,755
Net position - end of year	\$ 40,977,070	\$ 41,480,782

Approximately 28% of the Municipality's revenues came from fees and charges for services, 19% from unrestricted grants, 15% from property taxes, 10% from capital grants and 9% from municipal license taxes. Program revenues of the Municipality covered 47% of total expenses.

With respect to prior year, revenues reported a net increase of approximately 13%. This net increase is primarily the result of: (1) a 48% increase in capital grants due to the receipt of \$647,000 in legislative resolutions and an accrual of \$400,000 from DTOP for the cooperative agreement for the construction of a water tank at La Tea sector, (2) a 35% increase in operating grants because of increased funding received for the Early Head Start program, (3) a 18% increase in charges for services due to an increase of over \$1,200,000 in the compensation in lieu of taxes revenues from the Puerto Rico Electric Power Authority, and (4) a 18% increase in unrestricted grants due to increased subsidy received from the Commonwealth government. These increases were partially offset due to decreases municipal license taxes, property taxes and sales and use taxes mainly due to deterioration of the local economy. The following **Figure 1** illustrates the revenue comparison between 2014 and 2013:

FIGURE 1

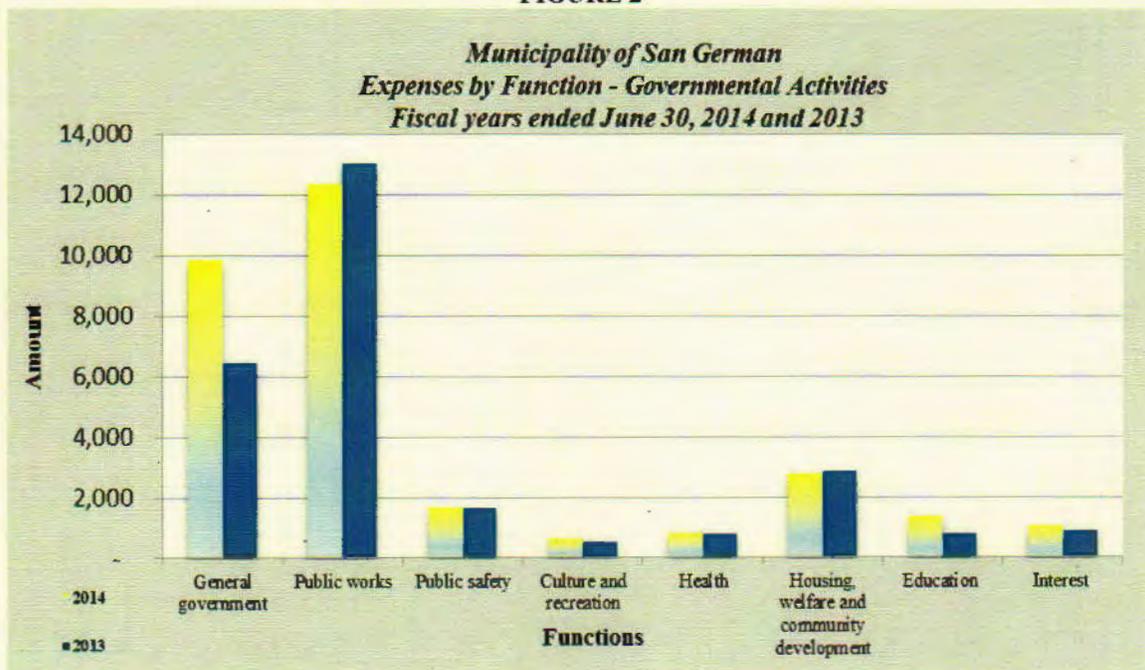


**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

The largest expenses are public works with 41%, general government representing approximately 32% and welfare 9%. Expenses increased 12% in comparison with the 2013 year. This net increase is mostly influenced by (1) a 52% increase in general government expenses due to an increase of over \$1,300,000 in charges from PREPA and an increase of over \$460,000 related to the contribution to the retirement system for the retired employees; (2) a 63% increase in education expenses due to increased services provided by the Early Head Start program; (3) a 21% increase in culture and recreation expenses; and (4) a 14% in interest expenses due to increase long term debt related costs incurred by the Municipality. The increase in expenses was partially offset by a decrease of 6% in public works expenses.

The following **Figure 2** illustrates the expenses comparison between 2014 and 2013:

FIGURE 2



The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

The following table discloses 2014 and 2013 expenses net of program revenue and the general revenues available to finance remaining costs:

TABLE 3

<i>Expenses Net of Program Revenues As of June 30,</i>		
Net expenses	2014	2013
General government	\$ (7,594,813)	\$ (4,373,078)
Public Safety	(1,598,514)	(1,592,243)
Public works	(3,528,196)	(6,484,507)
Sanitation	(284,157)	(283,543)
Health	(786,763)	(786,763)
Housing, welfare and community development	(940,484)	(1,074,952)
Culture and recreation	(623,739)	(493,898)
Education	(7,066)	53,156
Interest on long term debt	(1,027,915)	(901,010)
Total expenses, net of program revenues	(16,391,647)	(15,936,838)
General revenues		
Taxes	9,150,657	9,749,421
Grants and contributions not restricted to specific programs	5,741,827	4,876,575
Interest and other	995,451	672,870
Total general revenues	15,887,935	15,298,866
Change in net position	\$ (503,712)	\$ (637,973)

Some of the costs of governmental activities were paid by those who directly benefited from the programs (\$8,457,405) and other governments and organizations that subsidized certain programs with grants and contributions (\$5,496,772). The remaining costs were financed with general revenues. Like in the previous year, the net cost of services \$(16,391,647) was not covered by other general revenues.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party.

For the fiscal year ended June 30, 2014, the governmental funds reported combined ending fund balances of \$13,648,117, a net increase of 15% in comparison with the prior year. This increase was caused primarily by a net change in the Surf and Fun Water Park Fund of \$ 1,682,541 due mainly to the net proceeds of long term debt, \$435,715 in the Other Governmental Funds and \$70,069 in the Debt Service Fund. These increases were partially offset by a decrease of \$422,553 in the General Fund. Of the total combined fund balances, a net deficit of \$2,796,092 (or -20%) constitutes unassigned fund balance. A deficit of \$3,042,459 in unassigned fund balance represents (-22%) of total fund balance. The remainder of the fund balances is restricted to indicate that it is not available for new spending. Following is a summary of the financial analysis of the Municipality's major funds:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

- **General Fund**

The general fund is the operating fund of the Municipality. The fund balance (deficit) of the general fund represents approximately -11% of total ending fund balances. The amount of \$860,860 of the fund balance of the general fund is non spendable and represents advances provided to other funds, which are expected to be recovered after the next fiscal year. Unassigned fund balance (deficit) increased 11% with respect to the prior year.

For the year ended June 30, 2014, the fund balance of the general fund decreased by \$422,553 in comparison with the prior year. There was a 5% net increase in revenues due to increases in (1) intergovernmental revenues; (2) rent and charges for services; (3) and property taxes revenues. This increase was partially offset by decreases in license tax and sales and use tax revenues, and by a decrease in interest revenue due to decrease in the balance of certificate of deposits of the general fund. There was a net increase of 6% in the general fund expenditures due to increases in (1) general government due the increase electric power utilities expense and increase in the Municipality's contribution to the retirement system for the retired employees; (2) interest expense due to the payment of interest expenditures related to the revenue bonds acquired by the Municipality. These increases were partially offset by a decrease in the expenditure for public works.

- **Debt Service Fund**

The debt service fund had an increase in fund balance during the current year of \$70,069 to bring the year end fund balance to \$2,382,773 which represents 17% of total fund balances. The increase results from an increase of \$506,734 in property tax revenues and the decrease of \$86,070 in debt service principal and interest expenditures. These increases were partially offset by a decrease of \$70,220 in sales and use taxes revenues of the Municipal Redemption fund and by an increase of \$185,354 in transfers-out when compared to the prior year.

- **Surf and Fun Water Park**

This fund report revenue sources mostly from loans provided for the construction and future operation of a water park. During the 2014 the fund balance increased to \$8,067,034. This increase was mostly affected by a \$11,110,000 proceed from bonds and notes issuance and interest revenue of \$601,161 generated during the year. These proceeds were partially offset by capital outlays expenditures of \$9,805,386.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2013-2014 presented a decrease of 2% with respect to prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year, budget revenues were increased by \$299,468 mainly in intergovernmental revenues (\$165,120), municipal license tax revenues (\$46,210) and other revenues (\$88,138). Actual revenues were short of revised budget by \$918,372 (net) mainly due to unrealized charges for services revenues. The Municipality reported a positive variance of \$454,116 between revised budgeted appropriations and actual expenditures. This positive variance was due mainly to savings of \$219,753 in public works and \$212,284 in general government expenditures.

Actual expenditures and other financing uses exceeded actual revenues and other financing sources by \$481,991 (deficiency).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$65,813,271 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of approximately 16% from the prior year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

The following table discloses the capital assets balances as of June 30, 2014:

TABLE 4

<i>Capital Assets, net As of June 30,</i>		
	Governmental Activities	
	2014	2013
Non-depreciable assets:		
Land	\$ 8,214,356	\$ 8,214,356
Construction in progress	17,951,573	8,392,971
Depreciable assets:		
Buildings and Buildings Improvements	24,946,584	25,190,652
Equipment	3,607,927	3,729,362
Roads	6,543,619	6,623,047
Bridges	4,549,212	4,585,491
Total	<u>\$ 65,813,271</u>	<u>\$ 56,735,879</u>

The Municipality's major capital projects that were still in construction and the related construction in progress cost as of June 30, 2014 are as follows:

1. "San German Surf and Fun Water Park," with \$16,835,498 costs incurred as of year-end. Costs incurred in prior years for a total amount of \$1,115,291 of Villa Parafso ward and related to land improvements and other infrastructure transferred to this project were included within this amount. This construction is being financed through general and special obligation bonds and notes.
2. "Sabana Eneas Baseball Park," with \$831,830 costs incurred as of year-end. Project is currently financed through Commonwealth's agencies grants and long-term debt issuance.

During the year the Municipality completed the construction of the "Skate Plaza" park with a total cost of \$267,567, the multipurpose center in Las Lomas ward with a total cost of \$140,734, the remodeling of the former (antique) Dominguez Pharmacy with a total cost of \$104,102 and the construction of "Laracuente" and "Los Brujos" bridges with total costs of \$74,968 and 66,019 respectively. Finally, the Municipality acquired equipment amounting to \$375,502, composed mainly of vehicles for \$34,249, heavy equipment items for \$81,500, over \$61,000 in furniture and equipment for the Early Head Start program, and meteorological system equipment for \$20,685.

The Municipality's fiscal year 2013-2014 capital budget calls for a significant amount of projects including the continuance of the construction of the Surf and Fun Water Park, with an estimated total cost of over \$23,000,000; the continuance of the construction of the Sabana Eneas baseball park, with an estimated total cost of \$1,120,000; and the construction of the Santa Maria Recreational Area with an estimated total cost of over \$75,000.

More detailed information about the Municipality's capital assets is presented in Note G to the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Long-term debt

The following is a summary of the Municipality's outstanding debt as of June 30, 2014 and 2013:

TABLE 5

	<i>Outstanding Long-term Debts</i>	
	<i>As of June 30,</i>	
	Governmental Activities	
	2014	2013
General and special obligation bonds and notes	\$ 35,300,000	\$ 25,199,000
General obligation bond anticipation note	435,968	435,968
Note payable to CRIM – prior years delinquent accounts	86,798	91,620
Compensated absences	3,596,371	3,415,064
Christmas Bonus	368,640	351,851
Claims and judgments	-	8,500
Note payable to P.R. Department of Labor	-	3,965
Payable to CRIM-property tax advances current	564,862	-
Payable to PREPA	2,080,131	1,287,066
Total	\$ 42,432,770	\$30,793,034

At year-end, the Municipality maintains an outstanding balance of \$35,300,000 in general and special bonds and notes, an increase of 38% with respect to prior year. During the year 2013-2014 the Municipality entered into loan agreements with the Governmental Development Bank of P.R. ("GDB") which provides for the issuance of special obligation bond for \$11,110,000 for the water park construction. In addition, the increase in amount payable to the Puerto Rico Electric Power Authority (PREPA) is the result of an excess of the annual energy charges incurred by the Municipality over the contribution in lieu of taxes ("CELFI") for the fiscal year 2012-2013, which was recorded both as a long term debt and a receivable from the agency.

More detailed information about the Municipality's long-term liabilities is presented in Note I to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2014-2015 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 17.2%, which compares with the Commonwealth rate of 12.8%.

The Municipality applied a conservative approach in development budget estimates. Amount available for appropriations in the General Fund for the fiscal year 2014-2015 is \$19,213,098, an increase of approximately 4% with respect to prior year estimates. Budgeted expenditures are expected to be reduced accordingly to the decrease of budgeted revenues. In addition to the estimated budget for the general fund, the Municipality has submitted Federal and Commonwealth funds proposals for welfare as well as for capital improvements and public works funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

The Commonwealth of Puerto Rico is facing a financial crisis due to limited liquidity, general fund deficit, a sizeable amount of debt, an underfunded government pension system and an economic recession since 2006. As a result of these matters, credit ratings agencies have been consistently downgrading the Commonwealth's and certain public corporation's general obligation bonds ratings. In order to address these matters the Commonwealth began to make legislation to reform its governmental pension system, provide liquidity to the Governmental Development Bank of Puerto Rico ("GDB"), its fiscal agent, and strength sinking funds to assess financial markets. The Commonwealth estimates that these corrective actions, along others to be implemented, will have a positive impact on the Commonwealth itself, GDB, the municipalities and its citizens. Among other actions, as more fully described in Note C, on January 24, 2014 the Commonwealth approved Act No. 18 and 19. Those Act's provides for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

Subsequent to June 30, 2014 Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") respectively, lowered its ratings on the Commonwealth of Puerto Rico's general obligation (GO) debt. Current credit ratings as of March 1, 2015 are B/Negative (S&P), Caa1/Negative (Moody's) and BB-/Negative (Fitch).

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Director of Finance at P.O. Box 85, San German, Puerto Rico 00683.

MUNICIPALITY OF SAN GERMAN

BASIC FINANCIAL STATEMENTS

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

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ -
Receivables (net of allowance for uncollectibles):	
Municipal license taxes	38,126
Sales and use taxes	129,655
Rents and construction permits	695,729
Due From:	
Commonwealth Government	3,188,947
Federal Government	125,794
Restricted Assets:	
Cash and cash equivalents	6,143,349
Cash with fiscal agents	16,376,184
Capital assets:	
Land and construction in progress	26,165,929
Other capital assets, net	39,647,342
Total capital assets, net	65,813,271
Total assets	\$ 92,511,055
<u>LIABILITIES</u>	
Accounts payable and accrued liabilities	\$ 6,387,686
Interest payable	393,294
Due to:	
Commonwealth Government	241,220
Federal Government	1,419
Unearned revenues	2,077,597
Long term liabilities:	
Due within one year	2,889,646
Due in more than one year	39,543,124
Total liabilities	51,533,985
<u>NET POSITION</u>	
Net investment in capital assets	39,079,282
Restricted for:	
Capital projects	3,860,781
Debt service	3,138,825
Other specified purposes	261,919
Unrestricted (deficit)	(5,363,737)
Total net position	\$ 40,977,070

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Change in Net Position
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 9,824,769	\$ 1,931,746	\$ 298,210	\$ -	\$ (7,594,813)
Public safety	1,658,207	-	59,693	-	(1,598,514)
Public works	12,020,274	5,382,198	33,575	3,076,305	(3,528,196)
Sanitation	284,157	-	-	-	(284,157)
Health	786,763	-	-	-	(786,763)
Welfare	2,777,057	1,143,461	693,112	-	(940,484)
Culture and recreation	641,718	-	17,979	-	(623,739)
Education	1,324,964	-	1,317,898	-	(7,066)
Interest on long-term debt	1,027,915	-	-	-	(1,027,915)
Total government activities	\$ 30,345,824	\$ 8,457,405	\$ 2,420,467	\$ 3,076,305	\$ (16,391,647)

General Revenues:

Taxes:

Property taxes	4,357,629
Municipal license taxes	2,550,494
Sales and use taxes	2,242,534
Grants and contributions not restricted to specific programs	5,741,827
Interest	713,244
Other	282,207

Total general revenues 15,887,935

Change in net position (503,712)

Net position - beginning of year 41,480,782

Net position - end of year \$ 40,977,070

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

MUNICIPALITY OF SAN GERMAN
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

<u>Assets</u>	<u>Major Funds</u>				<u>Total Governmental Funds</u>
	<u>General</u>	<u>Debt Service</u>	<u>Surf and Fun Water Park</u>	<u>Other Governmental Funds</u>	
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables (net of allowance for uncollectibles):					
Municipal license taxes	38,126	-	-	-	38,126
Sales and use taxes	129,655	-	-	-	129,655
Rents and construction permits	639,786	-	-	55,940	695,727
Due from:					
Commonwealth Government	2,271,797	186,311	-	730,840	3,188,947
Federal Government	-	-	-	125,794	125,794
Other funds	1,249,148	-	-	80,612	1,329,761
Advances to other funds	860,860	-	-	-	860,860
Restricted Assets:					
Cash and cash equivalents	-	-	917,359	5,225,991	6,143,349
Cash with fiscal agents	-	3,345,806	11,056,027	1,974,350	16,376,184
Total assets	\$ 5,189,373	\$ 3,532,117	\$ 11,973,386	\$ 8,193,527	\$ 28,888,403
<u>Liabilities, Deferred Inflows of Resources and Fund Balances (deficit)</u>					
<u>Liabilities:</u>					
Accounts payable and accrued liabilities	\$ 1,608,707	\$ -	\$ 3,750,267	\$ 1,028,712	\$ 6,387,686
Matured bonds and interest payable	-	1,047,528	-	-	1,047,528
Due to:					
Commonwealth Government	241,220	-	-	-	241,220
Federal Government	-	-	-	1,419	1,419
Other funds	59,189	-	156,085	1,114,487	1,329,761
Advances from other funds	-	-	-	860,860	860,860
Unearned revenues	1,947,192	-	-	130,404	2,077,597
Total liabilities	3,856,309	1,047,528	3,906,352	3,135,882	11,946,070
<u>Deferred Inflow of Resources</u>					
Unavailable revenues - Commonwealth Government Funds	2,251,353	-	-	281,938	2,533,291
Unavailable revenues - Federal grants	-	-	-	27,751	27,751
Unavailable revenues - Other	631,357	101,816	-	-	733,173
Total deferred inflow of resources	2,882,710	101,816	-	309,689	3,294,215
<u>Fund balances (deficit):</u>					
Nonspendable	860,860	-	-	-	860,860
Restricted	-	2,382,773	8,067,034	5,133,543	15,583,349
Committed	246,367	-	-	-	246,367
Unassigned	(2,656,873)	-	-	(385,586)	(3,042,459)
Total fund balances (deficit)	(1,549,646)	2,382,773	8,067,034	4,747,957	13,648,117
Total liabilities, deferred inflows of resources and fund balances (deficit)	\$ 5,189,373	\$ 3,532,117	\$ 11,973,386	\$ 8,193,527	\$ 28,888,403

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

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

Total governmental fund balances:		\$ 13,648,117
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet		65,813,271
Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:		
Receivables, due from Commonwealth and Federal Government:		
Municipal license taxes	\$ 38,128	
Rent - properties	556,528	
Rent - land lots	36,703	
CRIM - Property taxes (Debt Service Fund)	101,816	
P.R. Department of Labor- Law No. 52 and No. 82	85,174	
P.R. Department of Treasury - Christmas bonus reimbursement	171,222	
P.R. Electric Power Authority (PREPA)	2,080,131	
OCAM - Public Order Code	196,764	
Federal Grants - FEMA	<u>27,750</u>	3,294,216
Interest liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		(68,764)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
General and special obligation bonds and notes	(34,577,000)	
General obligation bond anticipation note	(435,968)	
Compensated absences	(3,596,372)	
Note payable to CRIM - delinquent accounts	(86,798)	
Payable to PREPA	(2,080,131)	
Christmas bonus	(368,639)	
Payable to CRIM- Property taxes advances	<u>(564,862)</u>	<u>(41,709,770)</u>
Net position of governmental activities		<u><u>\$ 40,977,070</u></u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2014

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Debt Service</u>	<u>Surf and Fun Water Park</u>		
Revenues:					
Taxes:					
Property taxes	\$3,056,763	\$ 2,008,135	\$ -	\$ -	\$5,064,898
Municipal license taxes	2,550,494	-	-	-	2,550,494
Sales and use taxes	1,786,597	455,937	-	-	2,242,534
Intergovernmental:					
Commonwealth Government	5,734,029	-	-	2,795,950	8,529,979
Federal Government	-	-	-	2,907,736	2,907,736
Rental income and charges for services	6,412,023	-	-	1,214,471	7,626,494
Fines and forfeitures	25,598	-	-	-	25,598
Interest	1,025	2,623	601,161	108,436	713,245
Other	134,979	-	-	140,295	275,274
Total Revenues	<u>19,701,508</u>	<u>2,466,695</u>	<u>601,161</u>	<u>7,166,888</u>	<u>29,936,252</u>
Expenditures:					
Current:					
General government	8,431,295	-	125,585	175,805	8,732,685
Public safety	1,433,358	-	-	149,312	1,582,670
Public works	8,673,305	-	-	1,635,421	10,308,726
Sanitation	181,114	-	-	28,397	209,511
Health	786,763	-	-	-	786,763
Welfare	600,290	-	-	3,435,827	4,036,117
Culture and recreation	605,942	-	-	20,310	626,252
Education	19,644	-	-	7,957	27,601
Capital outlays	346,322	-	9,805,386	906,804	11,058,512
Debt service:					
Principal	-	826,000	-	-	826,000
Interest	226,517	804,894	14,125	-	1,045,536
Bond issuance costs	-	-	40,107	-	40,107
Total expenditures	<u>21,304,550</u>	<u>1,630,894</u>	<u>9,985,203</u>	<u>6,359,833</u>	<u>39,280,480</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS (CONTINUE)
FISCAL YEAR ENDED JUNE 30, 2014

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Debt Service	Surf and Fun Water Park		
Excess (deficiency) of revenues over expenditures	(1,603,042)	835,801	(9,384,042)	807,055	(9,344,228)
Other financing sources (uses):					
Proceeds from long term debt issuance	-	-	11,110,000	-	11,110,000
Transfers - in	1,180,489	16,322	452,227	-	1,649,038
Transfers - (out)	-	(782,054)	(495,644)	(371,340)	(1,649,038)
Total other financing sources (uses)	<u>1,180,489</u>	<u>(765,732)</u>	<u>11,066,583</u>	<u>(371,340)</u>	<u>11,109,999</u>
Net change in fund balances (deficit)	(422,553)	70,069	1,682,541	435,714	1,765,771
Fund balance at beginning of year	<u>(1,127,093)</u>	<u>2,312,704</u>	<u>6,384,493</u>	<u>4,312,243</u>	<u>11,882,347</u>
Fund balance at end of year	<u>\$(1,549,646)</u>	<u>\$ 2,382,773</u>	<u>\$ 8,067,034</u>	<u>\$ 4,747,957</u>	<u>\$13,648,118</u>

Handwritten signature and date: J. M. Lopez 3/26/2015

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

**COMMONWELATH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Net change in fund balances (deficit) - total governmental funds: \$1,765,770

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

Governmental funds reports capital assets 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:

Expenditures for capital assets:	\$11,058,512	
Less: current year depreciation	(1,995,691)	9,062,821

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset:		14,572
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:

CRIM- Property taxes (Debt Fund)	\$ 101,816	
Rent (net change)	5,427	
P.R. Department of Treasury-Law No.52	85,174	
P.R. Department of Treasury-Christmas bonus reimbursement	171,222	
P.R. Electric Power Authority (PREPA)	1,678,010	
Federal Grants-FEMA	27,750	2,069,399

Revenues reported in funds which are not reported as revenues in the Statement of Activities:

CRIM- Property taxes (General Fund) (prior year)	(88,138)	
CRIM- Property taxes (Debt Service Fund) (prior year)	(156,085)	
P.R. Electric Power Authority (PREPA) (prior year)	(884,946)	
P.R. Office of Ombudsman for the Elderly	(101,692)	
P.R. Solid Waste Management Authority	(5,100)	
P.R. Department of Treasury – Christmas bonus reimbursement (prior year)	(163,424)	
OCAM – Public Order Code (prior year)	(41,558)	
P.R. Department of Treasury – Law No. 52	(67,905)	
Federal Grants - CDBG	(11,864)	
Federal Grants - ESG	(18,110)	
Federal Grants - FEMA	(61,478)	
Federal Grant – State and Community Highway Safety	(24,378)	(1,624,678)

Expenditures reported in funds which are not reported as expenses in the Statement of Activities:

Matured bonds principal payments (net change)		(153,000)
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Continue

**COMMONWELATH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
(CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2014**

Proceeds from general obligation bonds is another financing source in the governmental funds,
but increase long-term liabilities in the Statement of Net Position: (11,110,000)

Repayment of long-term debt consumes the current financial resources of governmental funds, but
has no effect on net position of governmental activities:

General obligation bonds and notes	1,009,000	
Other long term liabilities	2,606,363	3,615,363

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 the governmental funds:

Accrued interest (net change)	1,141	
Compensated absences	(694,583)	
Christmas bonus	(368,640)	
P.R. Electric Power Authority (PREPA)	(2,517,015)	
Property tax advances	(564,862)	(4,143,959)

Change in net position of governmental activities \$ (503,712)

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of San German ("the Municipality") was founded in 1573. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen (14) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

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

1. *Financial reporting entity*

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

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

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

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

The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- b. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

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

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

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

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

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

2. *Basis of presentation, measurement focus and basis of accounting*

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

Management's Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basic financial statements

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

Government-wide statements

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Statements

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

The Municipality reports the following major governmental funds:

General Fund: This is the operating fund of the Municipality and is used to account for and report all financial resources not accounted for and reported in another fund.

Debt Service Fund: this fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest. This fund accounts for the resources of two individual funds including the "Fondo 10 - CAE Fund" (sinking fund which accounts for the 2% of property taxes collected by the CRIM and the "Municipal Redemption Fund" (.2% of the .5% from sales and use taxes will deposited in GDB to finance loans to Municipalities.

Surf and Fun Water Fund: This fund is used to account for and report financial resources that are restricted, committed, or assigned for the construction of a water park.

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues susceptible to accrual include property taxes, recognized as revenues in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met; and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
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June 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

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

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long-term portions of debt must be included).

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

Notes to Financial Statements

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

Required Supplementary Information:

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Deposits and investments*

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

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

4. *Restricted assets*

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law. Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

5. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

6. *Interfund receivables and payables*

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

**COMMONWEALTH OF PUERTO RICO
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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Inventories

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

8. Capital assets

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

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Description	Years
Buildings	40
Improvements	10-20
Vehicles, machinery and equipment	5-10
Infrastructure	2-50

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

9. Deferred outflows/inflows of resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report *unavailable revenue* from one source: unavailable intergovernmental revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

10. Long-term obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Position, consist of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities. Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

11. Compensated absences

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

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days. The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

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

12. Net Position

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

Net investment in capital assets:	Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
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June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted net position:	The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.
Unrestricted net position:	Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

13. Net Position flow assumption

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

14. Fund Balances

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

Nonspendable:	Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
Restricted:	Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
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June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.
- Assigned:** Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.
- Unassigned:** Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

15. Fund Balance flow assumptions

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. Interfund transactions

The Municipality reports certain transactions as transfers, which are legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

17. Risk financing

The Puerto Rico Department of Treasury (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of San German consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is monthly deducted from advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by the CRIM. Settled cases have not exceeded insurance coverage for any of the past three years.

18. Use of estimates

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

19. Reclassifications

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

20. Future adoption of accounting pronouncements Financial Statements June 30, 2014

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

- **GASB Statement No. 68** "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27". 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. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement will bring the effect of **GASB Statement No. 67** "Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25" into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems. Cost-sharing employers of the Retirement Systems would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement No. 67 based on the their respective individual proportion to the collective net pension liability of all the governments participating. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
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June 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- **GASB Statement No. 69** "*Government Combinations and Disposals of Government Operations*". This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis (fiscal year ended June 30, 2015).
- **GASB Statement No. 71** "*Pension Transition for Contributions Made Subsequent to the Measurement Date*". 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 issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of **GASB Statement No.68** to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 (fiscal year ended June 30, 2015).

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

NOTE B- DEPOSITS

Custodial credit risk on Deposits. This is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name.

At year-end the Municipality's bank balance of deposits in commercial banks amounting to \$6,308,971 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year-end the Municipality's bank balance in governmental banks amounts to \$16,378,196.

**COMMONWEALTH OF PUERTO RICO
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June 30, 2014**

NOTE C – RECEIVABLES

1. *Municipal license taxes*

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15. During the Fiscal year ended June 30, 2014 the tax rates were as follows:

Financial business - 1.50% of gross revenues
Other organizations - .50% of gross revenues

Municipal license tax receivable and corresponding deferred revenues as of June 30, 2014 follows:

Description	Amount
Total municipal license tax receivable:	\$ 797,462
Less: allowance for uncollectibles	(759,336)
	\$ 38,126

As required by current standards the \$38,126 net balance is recorded as deferred inflows of resources since is not available are required by current standards.

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Resources are intended to finance the operations of the applicable fiscal year. At this moment the Municipality recognizes revenues on municipal license taxes. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$1,947,192 are recorded as unearned revenues.

2. *Sales and use taxes*

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

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which amended Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

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

**COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2014**

NOTE C – RECEIVABLES - Continued

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

1. Act No. 18 of January 24, 2014

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

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

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

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month.

As of June 30, 2014 the Municipality recorded as revenue \$1,786,597 in the general fund which corresponds to the 1% imposition and \$455,937 in the debt service fund corresponding to the Municipal Redemption Fund and Municipal Development Fund that was fully transferred to the Municipal Redemption Fund to increase their credit margin.

Of the total \$129,655 sales and use tax receivable of the general fund \$127,280 represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality by the PRDT on or before July 10, net of uncollectible accounts and \$2,375 corresponds to prior years taxes receivable collected in August 2014. Of the total \$186,311 reported as Due from Commonwealth Government in the debt service fund \$62,381 represents the amount of "Municipal Redemption Fund" collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30.

COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2014

NOTE C – RECEIVABLES - Continued

After July 1, 2014 the 6% corresponding to the 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. The Municipality of San German signed the agreement to be covered. 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.

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

- a. .2% will be deposited in the "Municipal Development Fund". Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- b. .2% will be deposited in a "Municipal Redemption Fund" to guarantee and repay long term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- 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.

The Act provides for cash advances to the Municipalities two times a year (not later than the 10th day of July and January of each year) in order to maintain its cash flow.

2. Act No. 19 of January 24, 2014

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

After July 1, 2014 the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee ("RFA"). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax or the "Municipal Transfer") will be transferred to the general fund of municipalities covered

**COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2014**

NOTE C – RECEIVABLES - Continued

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 No. 18) 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 No. 19) or exceeds the amount corresponding to Act No. 18 the excess will be deducted on a prorate basis from the next fiscal year cash advances, amount of Municipal Transfer or amount corresponding to Act No. 18.

Act 19 was started to be implemented as a pilot project on August 1, 2014 by sixteen no-tax collecting municipalities since they delegate the 1% sales and use tax collection to the PRDT since previous years. Starting December 1, 2014 sixteen municipalities that were previously tax collectors but decided to become no-tax collecting municipalities were added to COFIM. Merchants will render their tax return and payment through COFIM's web site or through a bank institution. The Municipality of San German and other 44 municipalities that decided to remain as certified tax collectors will implement the Act starting on February 1, 2015. Certified collecting municipalities that meet certain requirements may accept filings and payments through their Municipal Collections Officer. This information will be transmitted on a daily basis to the COFIM data base.

3. Rents and construction permits

A detail of rents and construction permits' receivable as of June 30, 2014 follows:

Description	Amount
Rent-land lots	\$ 83,555
Rent-properties	815,467
Construction permits	8,110
Other	61,535
	968,667
Less: allowance for uncollectibles	(272,939)
	\$ 695,728

Of the total amount of \$695,728 the Municipality recorded \$593,231 as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
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June 30, 2014**

NOTE D - DUE FROM (TO) GOVERNMENTAL ENTITIES

1. *Amounts due from governmental entities as of June 30, 2014 follows:*

	Commonwealth Government	Federal Government
<u>Major fund - General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 2,080,132	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	171,222	-
P.R. Department of Treasury – sales and use taxes – Municipal Development fund	20,442	-
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – intergovernmental subsidy (debt service fund)	123,929	-
P.R. Department of Treasury – sales and use taxes– Municipal Redemption Fund	62,381	-
<u>Other governmental funds:</u>		
P.R. Office of the Commissioner of Municipal Affairs – Public Order Code	196,764	-
P.R. Department of Labor – Law No. 52	85,174	-
P.R. Department of Transportation (DTOP) – Water tank at La Tea ward	400,000	-
U.S. Department of Health and Human Services – Early Head Start		17,262
P.R. Governor’s Office – Disaster Grants		27,750
P.R. Department of Health – HOPWA		17,901
Others	48,903	62,881
	\$ 3,188,947	\$ 125,794

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related note H.

2. *Amounts due to governmental entities as of June 30, 2014 follows:*

Description	Commonwealth Government
<u>General Fund:</u>	
P.R. Employees Retirement System (ERS)	\$ 100,729
P.R. Department of Labor – unemployment	17,750
P.R. Aqueduct and Sewer Authority (PRASA)	122,323
Others	418
	\$ 241,220

**COMMONWEALTH OF PUERTO RICO
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NOTE E - INTERFUND TRANSACTIONS

1. Due from/to other funds:

Amounts due from/to other funds represent advances to other funds for payroll and payroll taxes expenditures, as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund:	<u>Major fund:</u>	
	Surf and Fun Water Park	\$ 156,085
	<u>Other governmental funds:</u>	
	Law No. 52	87,304
	Public and Indian Housing	63,981
	Public Schools Maintenance	259,426
	2006 Permanent Improvements	100,527
	Elderly affairs - Alzheimer	34,102
	Early Head Start	111,369
	Transit Safety Commission	90,250
	Public Order Code	196,764
	Others	149,340
		<u>1,249,148</u>
Other governmental funds:	<u>Major fund:</u>	
\$1,310,000 Bond issuance	General Fund	\$ 39,615
Others	General Fund	19,574
	<u>Other governmental funds:</u>	
Others	Others	21,423
		<u>80,612</u>
TOTAL		<u>\$ 1,329,760</u>

2. Advances to(from) other funds:

Advances to (from) other funds represent long term advances to other funds by the general fund for payroll, payroll taxes and other expenditures, as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	<u>Other governmental funds:</u>	
	P.R. Department of Transportation	\$ 470,079
	\$3,500,000 Loan Fund	51,141
	\$1,695,000 Loan Fund	19,391
	Improvements to Villa Auxerre	
	Basketball Court (EMP \$1,585,000)	53,291
	Sale of Bonds special fund	21,726
	Irregular Employees Special Fund	60,186
	Special Communities Fund	25,061
	Rural Development Fund	60,419
	Others	99,566
		<u>\$ 860,860</u>

**COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE E - INTERFUND TRANSACTIONS - Continued

3. Transfers in (out):

Transfers among individual funds were made for operational purposes. Transfers include (1) interest earned on restricted cash with fiscal agent in the debt service fund and operating and capital improvement bonds and loans in other governmental funds which is transferred to the general fund (2) excess resources from debt service fund (CAE Fund) transferred to the general fund, (3) resources transferred from the general fund to other governmental funds to finance uncollected receivables and (4) resources transferred from the general fund to major and other governmental funds to pay interest on capital improvement bonds and loans.

NOTE F- FUND BALANCE

1. Fund balance classifications

The governmental fund balance classifications and amounts at June 30, 2014 are shown in the following table:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Surf and Fun Water Park</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Nonspendable:</u>					
Advances to other funds	\$ 860,860	\$ -	\$ -	\$ -	\$ 860,860
	<u>860,860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>860,860</u>
<u>Restricted:</u>					
General public works and sanitation	-	-	-	110,320	110,320
Public safety	-	-	-	2,220	2,220
Housing, Welfare and Community Development	-	-	-	225,278	225,278
Debt Service	-	2,382,773	-	-	2,382,773
Capital outlays	-	-	8,067,034	4,795,725	12,862,759
	<u>-</u>	<u>2,382,773</u>	<u>8,067,034</u>	<u>5,133,543</u>	<u>15,583,350</u>
<u>Committed:</u>					
General public works and sanitation	10,951	-	-	-	10,951
Culture and recreation	19,800	-	-	-	19,800
Housing, Welfare and Community Development	121,839	-	-	-	121,839
Capital outlays	36,575	-	-	-	36,575
General Government and other purposes	57,202	-	-	-	57,202
	<u>246,367</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>246,367</u>
<u>Unassigned</u>					
	<u>(2,656,873)</u>	<u>-</u>	<u>-</u>	<u>(385,586)</u>	<u>(3,042,459)</u>
	<u>\$ (1,549,646)</u>	<u>\$ 2,382,773</u>	<u>\$ 8,067,034</u>	<u>\$ 4,747,957</u>	<u>\$ 13,648,118</u>

**COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE F- FUND BALANCE - Continued

2. Fund balance deficits

Certain special funds included as other governmental funds in the fund statements disclosed fund balance deficits as follows:

Funds	Fund balance - unassigned amount
Early Head Start	\$ 90,062
CDBG	78,149
Disaster Grants Funds	21,316
Traffic Safety Commission	29,649
Permanent Improvements Fund	24,775
Hazard Mitigation	27,750
Alzheimer Proposal Fund	7,627
Others	85,881
	\$ 365,209

The deficits results from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for these reimbursement (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE G - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2014 is as follows:

	<u>Beginning balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance June 30, 2014</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 8,214,356	\$ -	\$ -	\$ 8,214,356
Construction in progress	8,392,971	10,309,363	750,761	17,951,573
Total capital assets not being depreciated:	16,607,327	10,309,363	750,761	26,165,929
Capital assets, being depreciated:				
Buildings and improvements	35,655,862	649,649	-	36,305,511
Equipment	11,002,069	375,502	41,560	11,336,011
Roads	16,026,166	359,772	119,897	16,266,041
Bridges	7,215,115	140,984	-	7,356,099
Total capital assets being depreciated	69,899,212	1,525,907	161,457	71,263,662
Less accumulated depreciation for:				
Buildings and improvements	10,465,210	893,717	-	11,358,927
Equipment	7,272,707	485,512	30,135	7,728,084
Roads	9,403,119	439,200	119,897	9,722,422
Bridges	2,629,624	177,262	-	2,806,886
Total accumulated depreciation	29,770,660	1,995,691	150,032	31,616,319
Total capital assets being depreciated, net	40,128,552	(469,785)	11,425	39,647,342
Governmental activities capital assets, net	<u>\$ 56,735,879</u>	<u>\$ 9,839,578</u>	<u>\$ 762,186</u>	<u>\$ 65,813,271</u>

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

Governmental activities:

General government	\$ 80,629
Public safety	75,537
Public works	1,725,532
Sanitation	74,646
Culture and recreation	15,466
Welfare	23,881
Total depreciation expense, governmental activities	<u>\$ 1,995,691</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE H - DEFERRED INFLOW OF RESOURCES – GOVERNMENTAL FUNDS

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

	<u>General fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>
<u>Major fund - General fund:</u>			
Municipal license taxes – receivable	\$ 38,126	\$ -	\$ -
Rents and construction permits	593,231	-	-
P.R. Electric Power Authority (PREPA)	2,080,132	-	-
P.R. Department of Treasury – Christmas bonus reimbursement	171,222	-	-
<u>Debt Service fund:</u>			
Municipal Revenue Collection Center (CRIM) – property taxes	-	101,816	-
<u>Other governmental funds:</u>			
P.R. Department of Labor – Law No. 52	-	-	85,174
P.R. Office of the Commissioner of Municipal Affairs – Public Order Code	-	-	196,764
P.R. Governor's Office – Disaster Grants	-	-	27,751
	<u>\$ 2,882,711</u>	<u>\$ 101,816</u>	<u>\$ 309,689</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE I – LONG-TERM DEBT

1. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2014:

	<u>Balance at July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2014</u>	<u>Due within one year</u>
General, Special Obligations Bonds and Notes	\$ 25,199,000	\$ 11,110,000	\$ 1,009,000	\$ 35,300,000	\$ 856,000
General obligation bond anticipation note	435,968	-	-	435,968	-
Note payable to CRIM- financing of delinquent accounts	91,620	-	4,822	86,798	4,822
Note payable to P.R. Department of Labor	3,965	-	3,965	-	-
Compensated absences	3,415,064	694,582	513,275	3,596,371	419,057
Christmas Bonus	351,851	368,640	351,851	368,640	368,640
CRIM current year Property tax advances	-	564,862	-	564,862	-
Claims and judgments	8,500	-	8,500	-	-
Payable to PREPA	1,287,066	2,517,015	1,723,950	2,080,131	1,241,127
	<u>\$ 30,793,034</u>	<u>\$ 15,255,099</u>	<u>\$ 3,615,363</u>	<u>\$ 42,432,770</u>	<u>\$ 2,889,646</u>

2. General and special obligation bonds and notes payable

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2014 amount to \$35,300,000. All these bonds are serviced by the Governmental Development Bank for Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by law.

Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes ("IVU"), whereby sufficient funds must be set aside in order to cover the projected debt service requirement before any new bonds are issued. Principal and interest payments of special obligation notes of \$996,000, \$505,000, and \$1,005,000 and special obligation refunding bonds of \$1,386,000 are made through the Municipal Redemption Fund (IVU). Interest payments of \$1,310,000 and \$3,000,000 rental bonds and \$11,110,000 special obligation bond are financed through withholdings from property tax advances sent to the Municipality by the Municipal Revenue Collection Center (CRIM).

A detail of the general and special obligation bonds and notes as of June 30, 2014 follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE I - LONG-TERM DEBT - Continued

	<u>Outstanding Amount</u>
1996 public improvement bonds of \$3,500,000 due in annual installments ranging from \$70,000 to \$330,000 through July 1, 2015; bearing interest at rates ranging from 4.70% to 6.63% (6.58% at June 30, 2014)	\$ 635,000
2002 general obligation bonds of \$130,000 due in annual installments ranging from \$5,000 to \$10,000 through July 1, 2026; bearing interest at rates ranging from 2.70% to 5.60% (4.73% at June 30, 2014)	70,000
2002 general obligation bonds of \$830,000 due in annual installments ranging from \$10,000 to \$75,000 through July 1, 2026; bearing interest at rates ranging from 2.70% to 5.60% (4.73% at June 30, 2014)	615,000
2003 general obligation bonds of \$320,000 due in annual installments ranging from \$9,000 to \$22,000 through January 1, 2030; bearing interest at 4.25%	260,000
2004 general obligation bonds of \$355,000 due in annual installments ranging from \$5,000 to \$30,000 through July 1, 2028; bearing interest at rates ranging from 2.36% to 5.31% (4.45% at June 30, 2014)	270,000
2006 general obligation bonds of \$3,000,000 due in annual installments ranging from \$67,000 to \$194,000 through January 1, 2031; bearing interest at 4.50%	2,368,000
2008 special obligation bond of \$780,000 due in annual installments ranging from \$50,000 to \$105,000 through July 1, 2018; bearing interest at rates ranging from 1.48% to 7.50% (1.48% at June 30, 2014)	460,000
2008 special obligation bond of \$996,000 due in annual installments ranging from \$16,000 to \$86,000 through July 1, 2032; bearing interest at rates ranging from 1.48% to 7.50% (1.48% at June 30, 2014)	904,000
2012 rental bond of \$3,000,000 due in annual installments ranging from \$60,000 to \$265,000 through July 1, 2036; bearing interest at Prime plus 1.5% with a minimum of 6% (6% at June 30, 2014)	3,000,000

**COMMONWEALTH OF PUERTO RICO
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June 30, 2014**

NOTE I - LONG-TERM DEBT - Continued

	Outstanding Amount
2012 special obligation notes of \$505,000 due in annual installments ranging from \$55,000 to \$95,000 through July 1, 2018; bearing interest at Prime plus 1.5% with a minimum of 6% (6% at June 30, 2014)	390,000
2012 rental bond of \$1,310,000 due in annual installments ranging from \$25,000 to \$109,000 through July 1, 2036; bearing interest at Prime plus 1.5% with a minimum of 6% (6% at June 30, 2014)	1,310,000
2012 general obligation note of \$8,305,000 due in annual installments ranging from \$115,000 to \$695,000 through July 1, 2037; bearing interest at rates ranging from 3.40% to 7.50% (3.40% at June 30, 2014)	8,190,000
2012 special obligation note of \$1,005,000 due in annual installments ranging from \$10,000 to \$85,000 through July 1, 2037; bearing interest at rates ranging from 3.40% to 7.50% (3.40% at June 30, 2014)	995,000
2013 general obligation refunding bond of \$3,402,000 due in annual installments ranging from \$45,000 to \$287,000 through July 1, 2037; bearing interest at rates ranging from 3.42% to 7.50% (3.90% at June 30, 2014)	3,357,000
2013 special obligation refunding bond of \$1,386,000 due in annual installments ranging from \$20,000 to \$121,000 through July 1, 2037; bearing interest at rates ranging from 3.92% to 7.50% (7.5% at June 30, 2014)	1,366,000
2013 special obligation bond of \$11,110,000 due in annual installments ranging from \$195,000 to \$960,000 through July, 1, 2038; bearing interest rate at 6%	11,110,000
	\$ 35,300,000

On December, 2013 the Municipal Legislature approved the Ordinance No. 13 Series 2013-2014 to authorize the restructuring of the 2008 special obligation notes of \$996,000 in accordance with the provisions of Act 19 of 2009. This Act amends Act. No. 64 of 1996 to eliminate the limitation of the eight year due date term on special obligation notes. In accordance with this restructuring process the 2008 special obligation notes will be substituted with a 2008 special obligation bond with a twenty-five years due date term, through July 1, 2032.

The annual requirements to amortize general and special obligation bonds and notes as of June 30, 2014 are as follows:

June 30,	Principal	Interest
2015	\$ 856,000	\$ 2,531,725
2016	1,176,000	2,047,056
2017	916,000	2,211,774
2018	982,000	2,149,624
2019-2023	5,150,000	9,536,937
2024-2028	6,874,000	7,869,559
2029-2033	8,693,000	5,293,676
2034-2038	10,653,000	2,014,206
Totals	\$ 35,300,000	\$ 33,654,557

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE I - LONG-TERM DEBT - Continued

3. Other long-term liabilities

	Outstanding Amount
<p>General obligation bond anticipation notes – The Municipality has issued \$435,968 in general obligation bond anticipation notes to Rural Development (“RD”). They are part of a total note of \$457,000 to be issued to finance the construction of a sanitary sewer system financed by RD. The notes bears interest at 2.3750%, due on the date of the final payment issued by RD to the Municipality, but not exceeding 10 years from the date of the notes. The Municipality intends to refinance these notes on a long term basis through a \$457,000 general obligation bond issuance approved by the Municipal Legislature and the Governmental Development Bank for Puerto Rico, payable from sales and used taxes deposited in the Municipal Redemption Fund. Issuance will occur after the construction project is finished.</p>	\$ 435,968
<p>Note payable to CRIM (Financing of delinquent accounts)– On March 26, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$470,818, to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non-revolving line of credit bearing interest of 6.5% for the first five years and variable for the next twenty-five years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Also, during the first five years any collection from those delinquent accounts was credited to the loan principal. After the five year period the loan outstanding balance was restructured for a twenty-five years period. Debt service requirements in future years are as follows:</p>	\$ 86,798

June 30	Principal	Interest
2014	\$ 4,822	\$ 2,174
2015	4,822	2,052
2016	4,822	1,932
2017	4,822	1,812
2018-2022	24,110	7,244
2023-2027	24,110	4,226
2028-2032	19,290	1,206
Totals	\$ 86,798	\$ 20,646

**COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE I - LONG-TERM DEBT - Continued

	Outstanding Amount
Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds.	\$ 3,596,371
Christmas Bonus - represents the accrued portion corresponding to fiscal year 2014 of the Christmas bonus to be paid in December 2014.	\$ 368,640
Payable to CRIM, property tax advances - represents the amount reported by CRIM of the settlement of excess of advances over actual collections of property taxes applicable to fiscal year 2014. (See related note J)	\$ 564,862
Payable to PREPA - As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority ("PREPA") should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax ("CELI") based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2013 the Municipality's annual energy charges amounted to \$2,963,347 but the CELI obligation amounted to \$446,332. The excess amount of \$2,517,015 was recorded as a payable and a receivable for the same amount and will be amortized over a three-year period. As of June 30, 2014 the outstanding amount of \$2,080,131 includes the unamortized balances of \$1,678,010 and \$402,121 from fiscal years 2013 and 2012 respectively and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:	\$ 2,080,131

June 30	Principal
2015	\$ 1,241,121
2016	839,010
Totals	\$ 2,080,131

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
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June 30, 2014**

NOTE J - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2014 are 7.78% for personal property and 10.28% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	<u>2.75%</u>	<u>3.25%</u>
Total tax rate:	<u>7.78%</u>	<u>10.28%</u>
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	<u>(.20%)</u>	<u>(.20%)</u>
Total percent to be paid by taxpayers:	<u>7.58%</u>	<u>10.08%</u>

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
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June 30, 2014**

NOTE J - PROPERTY TAXES - Continued

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. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. This amount is recorded as long term debt. A payable of \$564,862 resulting from the final settlement of fiscal year 2013-2014 was recorded as other long term debt in the government-wide financial statements since it will not be paid with current available resources.

NOTE K – INTERGOVERNMENTAL REVENUES AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL FUND

1. Intergovernmental revenues in the General Fund are comprised of the following:

	Amount
Amount of municipal equalization fund sent by CRIM	\$ 5,453,020
Reimbursement from P.R. Department of Treasury	
- Christmas Bonus reimbursement	281,009
	\$ 5,734,029

2. Fees, fines and charges for services revenues reported in the general fund are comprised of the following:

	Amount
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	\$ 4,589,134
P.R. Department of Education – transportation services to students	376,365
Construction excise tax	862,298
Rental income	152,995
Licenses and permits	78,700
Land lots sales	203,858
Other	148,673
	\$ 6,412,023

NOTE L - RETIREMENT PLAN

1. Plan description

Previously to July 1, 2013 regular employees of the Municipality contributed to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system operated under Act 447, approved on May 15, 1951 effective on January 1, 1952 and Act 1 of February 16, 1990 for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Act No. 305 of September 24, 1999 amended Act. No. 447 of 1951 and Act 1 of February 16, 1990 to establish a new pension program

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE L – RETIREMENT PLAN - Continued

(System 2000). The new pension program became effective on January 1, 2000. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan. There was a pool of pension assets invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account.

On April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS. Act No.3 moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan ("New Hybrid Plan"). Contributions will be maintained by each participant in individual accounts.

For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the New Hybrid Plan. Participants will receive a pension at retirement age equivalent to what they have accrued under Act 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013. Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return. New participants under the New Hybrid Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). The New Hybrid Plan eliminates the possibility of accruing a merit pension (payable once the participant has achieved 30 years of creditable service) after June 30, 2013.

Act No. 3 establish the retirement age of Act 447 regular employees at 61 years, Act 447 high risk employees (state and municipal police, firefighters and custody officials) at 55 years, Act 305 (System 2000) regular employees at 65 years; high risk employees remains the same, at 55 years. Act 1 employees remain the same (65 years for regular employees and 55 for high risk employees). For new employees under the New Hybrid Plan retirement age will be 67 for regular employees and 58 for high risk employees.

Furthermore, Act No. 3 eliminates Special Law benefits to future retirees; reduce the Christmas bonus to \$200 and eliminate the summer bonus of \$100 to current retirees. There is no change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 to current retirees. Employers will contribute \$2,000 per retiree and future retiree (originally under Act 447 and Act 1) to help finance Special benefits; the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees. Given these changes to Special Laws, the minimum monthly pension for current retirees was increased to \$500.

Act No. 3 eliminates disability benefits and requires a mandatory disability insurance policy.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE L – RETIREMENT PLAN - Continued

2. Funding policy

The Act No. 3 is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. All participants are required to contribute 10% of gross salary. Participants under the coordinated plan as of June 30, 2013 (benefits coordinated with social security benefits) are required to contribute 7% of gross salary up to \$6,600 plus 10% of gross salary in excess of \$6,600 for fiscal year 2013-2014; 8.5% of gross salary up to \$6,600 plus 10% of gross salary in excess of \$6,600 for fiscal year 2014-2015 and 10% of gross salary effective July 1, 2015.

The Municipality contributed 12.275% of gross salary for fiscal year 2013-2014. The Act requires an additional 1% annually for each of the next two fiscal years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. As stated in the Act the increase applicable to the municipalities for fiscal year 2013-2014 was financed through the Commonwealth's budget appropriations. The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>	<u>Law No. 3</u>
2014	\$ -	\$ -	\$ 460,839
2013	\$ 165,537	\$ 338,181	\$ -
2012	\$ 193,703	\$ 304,632	\$ -

Questions concerning any of the information provided in this disclosure or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

NOTE M – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note L, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year 2014, costs related to these post-employment benefits amounted to \$565,840. These benefits are recorded as expenditures in the general fund.

NOTE N - COMMITMENTS

1. Operating leases

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to \$195,028. Management believes that the summary of the future minimum rental commitments under non-cancelable equipment leases with terms exceeding one year is not significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE N – COMMITMENTS - Continued

2. Construction

The Municipality has commitments at June 30, 2014 of \$10,590,279 for construction, improvements or renovation of certain municipal facilities.

3. Encumbrances

As of June 30, 2014, the Municipality has encumbrances outstanding totaling \$311,350 which represent the estimated amount of expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. As required by current standards, outstanding encumbrances as of June 30, 2014 are reported as unassigned amounts in the general fund. Purpose classification follows:

Purpose	General Fund- unassigned fund balance
General public works and sanitation	\$ 175,122
Culture and recreation	8,355
Public Safety	1,824
Welfare	5,060
General government and other purposes	120,989
	\$ 311,350

Fund balance of major and other governmental funds (special revenue, capital project and debt service funds) is classified as restricted, some or all of which may be encumbered. Encumbrances of restricted fund balance are not reported separately from this classification because the encumbrance does not further restrict the purpose for which the resources may be used.

NOTE O - CONTINGENCIES

1. Federal and State grants

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine that the expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

2. Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. It is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

MUNICIPALITY OF SAN GERMAN

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2014

	Budgeted amounts		Actual amounts	Variance with
	Original	Final	(Budgetary basis)	final budget Positive (Negative)
Revenues:				
Taxes:				
Property taxes	\$4,065,298	\$4,153,436	\$4,333,166	\$179,730
Municipal license taxes	2,633,769	2,679,979	2,653,893	(26,086)
Sales and use taxes	1,830,000	1,830,000	1,804,283	(25,717)
Intergovernmental	3,886,425	4,051,545	4,457,625	406,080
Rental income and charges for services	5,891,090	5,951,090	4,191,092	(1,759,998)
Fines and forfeitures	35,000	35,000	25,598	(9,402)
Interest	145,000	145,000	445,682	300,682
Other	71,000	11,000	27,338	16,338
Total Revenues	18,557,582	18,857,050	17,938,677	(918,373)
Expenditures:				
Current:				
General government	6,414,077	6,693,915	6,481,631	212,284
Public safety	1,610,180	1,420,613	1,416,242	4,371
Public works	8,169,846	8,380,978	8,161,225	219,753
Sanitation	201,015	183,601	181,114	2,487
Health	786,764	786,764	786,763	1
Welfare	624,977	544,713	539,350	5,363
Culture and recreation	645,723	590,735	580,877	9,858
Debt service- Interest	105,000	52,460	52,460	-
Total expenditures	18,557,582	18,653,779	18,199,662	454,117
Excess (deficiency) of revenues over expenditures	-	203,271	(260,985)	(464,256)
Other financing sources (uses)				
Transfers - out	-	(203,271)	(221,006)	(17,735)
Total other financing sources (uses)	-	(203,271)	(221,006)	(17,735)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ (481,991)	\$ (481,991)

The accompanying notes to required supplemental information are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
June 30, 2014

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis encumbrances outstanding at year-end are reported in the governmental funds statements as assigned fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

NOTE B - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
June 30, 2014**

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	\$(481,991)
Budget to GAAP differences:	
Entity differences:	
Non-budgeted funds recorded as revenues for financial reporting purposes:	132,426
Non-budgeted funds recorded as expenditures for financial reporting:	(721,857)
Non budgeted transfers in:	383,949
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis:	2,776,882
Revenues recorded for budgetary basis purposes but not in financial reporting:	(302,991)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	24,882
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(2,145,258)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	311,350
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(399,947)
Net change in fund balance (GAAP basis):	<u><u>\$(422,554)</u></u>

MUNICIPALITY OF SAN GERMAN

SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2014

Line Item No.	Description	14.871 Housing Choice Vouchers
Balance Sheet		
111	Cash-unrestricted	\$31,240
113	Cash-other restricted	\$31,883
100	Total cash	\$63,123
121	Accounts receivable – PHA projects	\$2,155
125	Accounts receivable - miscellaneous	\$3,759
126.2	Allowance for doubtful accounts - other	\$(1,265)
128	Fraud recovery	\$10,957
128.1	Allowance for doubtful accounts - fraud	\$(4,979)
120	Total receivables, net of allowance for doubtful accounts	\$10,627
150	Total Current Assets	\$73,750
164	Furniture, equipment and machinery - administration	\$67,450
166	Accumulated depreciation	\$(41,190)
160	Total capital assets, net of accumulated depreciation	\$26,260
180	Total Non-current Assets	\$26,260
190	Total Assets	\$100,010
200	Deferred Outflows of Resources	\$ -
290	Total Assets and Deferred Outflows of Resources	\$100,010
313	Accounts payable>90 days past due	\$2,664
322	Accrued compensated absences – current portion	\$11,844
332	Accounts Payable – PHA Projects	\$6,891
333	Accounts payable – other government	\$8,311
310	Total Current Liabilities	\$29,710
353	Non-current liabilities-other	\$7,967
354	Accrued compensated absences-noncurrent	\$2,579
350	Total Non-current Liabilities	\$10,546
300	Total Liabilities	\$40,256
300	Deferred Inflows of Resources	\$ -
508.1	Net Investment in Capital Assets	\$26,260
511.1	Restricted Net Position	\$29,894
512.1	Unrestricted Net Position	\$3,600
513	Total Equity/Net Position	\$59,754

Continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2014

Line Item No.	Description	14.871 Housing Choice Vouchers
Income Statement		
70600-010	Housing assistance payments	\$343,414
70600-020	Ongoing administrative fees earned	\$50,373
70600-031	FFS Coordinator Grant	\$58,511
70600	HUD PHA operating grants	\$452,298
71100-010	Housing Assistance Payment	\$3
71100-020	Administrative Fee	\$92
71100	Investment income-unrestricted	\$95
71500	Other revenue	\$56,769
700	Total Revenue	\$509,162
91100	Administrative salaries	\$40,554
91500	Employee benefit contributions-administrative	\$18,388
91600	Office expenses	\$9,951
91000	Total Operating-Administrative	\$68,893
92100	Tenant services-salaries	\$17,000
92300	Employee benefit contributions-tenant services	\$3,780
92400	Tenant services-other	\$39,008
96000	Total Tenant Services	\$59,788
96200	Other general expenses	\$900
96600	Bad debt-other	\$744
96000	Total Other General Expenses	\$1,644
96900	Total Operating Expenses	\$130,325
97000	Excess Revenue Over Operating Expenses	\$378,837
97300-050	All Other	\$344,586
97300	Housing assistance payments	\$344,586
97350	HAP Portability-in	\$49,993
97400	Depreciation expense	\$3,299
900	Total Expenses	\$528,203
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$(19,041)
11030	Beginning equity	\$78,795
70600-010	Housing assistance payments	\$343,414
70600-020	Ongoing administrative fees earned	\$50,373
70600-031	FFS Coordinator Grant	\$58,511

Continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2014

Line Item No.	Description	14.871 Housing Choice Vouchers
Income Statement		
11770-001	Administrative Fee Equity - Beginning Balance	\$ 47,894
11170-010	Administrative Fee Revenue	\$ 50,373
11170-021	FSS Coordinator Grant	\$ 58,511
11170-040	Investment Income	\$ 92
11170-050	Other Revenue	\$ 56,607
11170-051	Comment For Other Revenue	This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$5,281) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 13-14 (\$51,326).
11170-060	Total Admin Fee Revenues	\$ 165,583
11170-080	Total Operating Expenses	\$ 130,325
11170-090	Depreciation	\$ 3,299
11170-095	Housing Assistance Portability In	\$ 49,993
11170-101	Comment For Other Expense	
11170-110	Total Expenses	\$ 183,617
11170-002	Net Administrative Fee	\$ (18,034)
11170-003	Administrative Fee Equity - Ending Balance	\$ 29,860
11170	Administrative Fee Equity	\$ 29,860
11170-005	Pre-2004 Administrative Fee Reserves	\$ 15,980
11170-006	Post-2003 Administrative Fee Reserves	\$ 13,880
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ 30,901
11180-010	Housing Assistance Payments Revenues	\$ 343,414
11180-020	Other Revenue	\$ 162
11180-021	Comment For Other Revenue	This amount corresponds to the elimination of old utility allowance debt from outstanding checks issued and not cashed in previous years.
11180-025	Investment Income	\$ 3
11180-030	Total HAP Revenues	\$ 343,579
11180-080	Housing Assistance Payments	\$ 344,586
11180-100	Total Housing Assistance Payments Expenses	\$ 344,586
11180-002	Net Housing Assistance Payments	\$ (1,007)
11180-003	Housing Assistance Payments Equity - Ending Balance	\$ 29,894
11180	Housing Assistance Payments Equity	\$ 29,894
11190-210	Total ACC HCV Units	1,053
11190	Unit Months Available	1,053

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMÁN
NOTES TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
June 30, 2014

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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