AUTONOMOUS MUNICIPALITY OF SAN LORENZO, PUERTO RICO

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2013

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CONTENTS

ROMAN TORO & CO., PSC
Certified Public Accountants
Honesty - Integrity - Experience

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Member of the
Municipal Assembly
San Lorenzo, 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 **Autonomous Municipality of San Lorenzo, Puerto Rico**, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 56 through 57 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 **Autonomous Municipality of San Lorenzo, 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 19, 2014, on our consideration of the **Autonomous Municipality of San Lorenzo, 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 Lorenzo, Puerto Rico's** internal control over financial reporting and compliance.

Roman Toro & Co.

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

Yauco, Puerto Rico
March 27, 2014

Stamp #E93388 was affixed to
the original report

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MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the Autonomous Municipality of San Lorenzo of the Commonwealth of Puerto Rico (**Municipality**)'s financial performance provides an overview of the **Municipality's** financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the **Municipality** as a whole using the economic resources measurement focus and accrual basis of accounting:

- The assets of the **Municipality**, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2013 by \$22,943,362 (net position).

- Revenues decreased by (\$4,383,004) (16%) and expenses decreased by (\$1,809,058) (7%) in comparison with year 2012, as restated.

- Net change in net position amounted to (\$1,067,575), a decrease of (\$2,573,946) with respect to prior year.

Highlights for Fund Financial Statements

The fund financial statements provide detailed information about the **Municipality's** most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, the **Municipality's** governmental funds reported combined ending fund balances of \$1,384,622, a decrease of \$2,888,985 in comparison with the prior year.

- The General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of (\$469,811) and an unassigned (deficit) fund balance of (\$3,468,805). Unassigned fund balances (deficit) increased by (\$469,811) from prior year.

General Financial Highlights

- The investment in capital assets as of June 30, 2013 was \$31,283,599 (net of related debt).

- Long-term debt general and special obligation bonds increased to \$33,503,000, approximately 3% with respect to prior year balance for the issuance of general and special bonds for \$3,199,166 for the construction of multiple projects, and acquisition of equipment.

- Other long term debts increases and net reductions from payments amounted to \$184,166 and \$498,979, respectively.

- On a budgetary basis, actual expenditures exceeded actual revenues and transfers by (\$4,689,457).

- Revenues decrease was mainly in construction excise taxes of\$3,692,675 because of some projects that were not developed as planned.

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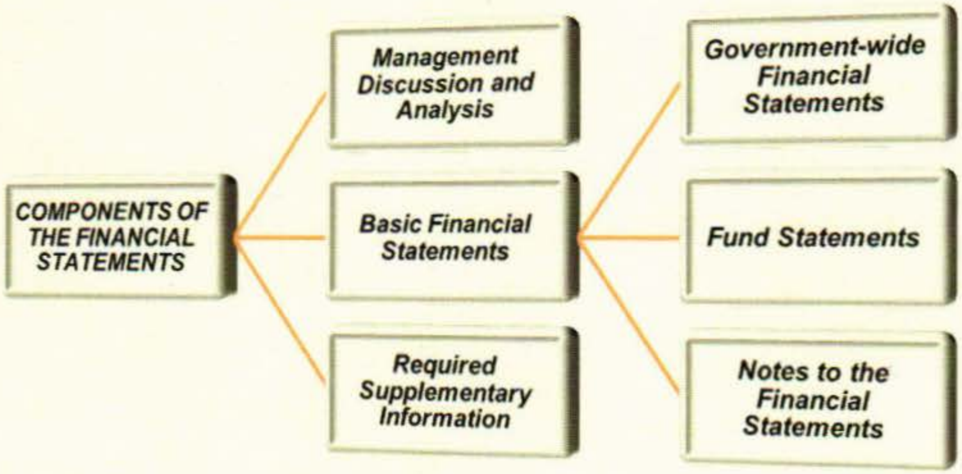
OVERVIEW OF THE FINANCIAL STATEMENTS

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



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.

Statement of Net Position –The *Statement of Net Position* presents information on all of the **Municipality**'s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether its financial position is improving or deteriorating. Other non-financial factors, such as the condition of the **Municipality**'s roads and other infrastructure may need to be considered to assess the overall financial position of the **Municipality**.

Statement of Activities – The *Statement of Activities* presents information showing how the **Municipality**'s net position changed during the year. All changes in net position (current year's revenues less expenses) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental and business-type activities). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the **Municipality** that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business- type activities).

The governmental activities of the **Municipality** include general government, public works and sanitation; public safety, culture and recreation, housing, welfare, and community development and education. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 14-15 of this report.

- ***Fund Financial Statements***

Governmental funds 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 financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the **Municipality's** near-term financing requirements.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the **Municipality's** governmental funds reported combined ending fund balances of $4,273,607. Approximately ($6.2) million of this isn't available for spending at the government's discretion [Unassigned Fund Balance (Deficit)]. The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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 (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to the Financial Statements***

Provide integral information needed to explain the basis for the numbers used within the Basic Financial Statements and provide more detailed data.

- ***Required Supplementary Information***

Provides additional information to better understand the financial position of the **Municipality** and contains the Budgetary Comparison Schedule for the General Fund.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Statement of Net Position

Net position (assets plus deferred outflows of resources over liabilities plus deferred inflows of resources) may serve over time as a useful indicator of a government's financial position. Net position for the year had a decrease of 5% with respect to prior year as restated. The most significant change was an increase of the unrestricted deficit by ($5,795,105). Also, an increase in capital assets by $2,204,170 (net of depreciation), with an increase in long-term debt by $2,995,385, that should be used principally for operating purposes and acquisition of equipment and motor vehicles.

The following Table presents a summary of the Statements of Net Position as of June 30, 2013 and 2012:

Table 1

Commonwealth of Puerto Rico
Autonomous Municipality of San Lorenzo
Statement of Net Position
As of June 30,

	2013	2012
Current and Non-Current Assets	$ 10,420,251	$ 11,435,731
Capital Assets	55,274,130	53,069,960
Total Assets	**65,694,381**	**64,505,691**
Current Liabilities	8,746,334	2,509,801
Unearned Revenues	2,256,414	2,375,105
Long-Term Liabilities	31,748,271	35,514,334
Total Liabilities	**42,751,019**	**40,399,240**
Net Position:		
Net Investment in Capital Assets	31,283,599	26,450,002
Restricted	3,868,677	4,070,258
Unrestricted (Deficit)	(12,208,914)	(6,413,809)
Total Net Position	**$ 22,943,362**	**$ 24,106,451**

The largest portion of the **Municipality's** net position reflects its net investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for $31,283,599; total capital assets ($69,051,621) less accumulated depreciation ($13,777,491) and less any related outstanding debt ($23,990,531) 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.

Restricted net position represents resources that are subject to external restrictions on how they may be used.

Unrestricted net position is the part of the net position that can be used to finance day-to-day operations without constrains established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2013 the **Municipality** presented unrestricted (deficit) net position of ($12,208,914). This balance was affected by long term obligations such as compensated absences $1,598,725 and other debts for the amount of $969,696 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.

Statement of Activities

With respect to prior year, revenues decreased by approximately $4.3 million or 16%, principally on operating grants and contributions.

Expenses decreased 7% or $1.8 million in comparison with 2012. Significant decreases were registered on urban development and public safety.

The following Table compares the revenues and expenses for the current and previous fiscal year.

Table 2

Commonwealth of Puerto Rico
Autonomous Municipality of San Lorenzo
Statement of Activities
For Fiscal Years Ending June 30,

	2013	2012
Revenues:		
Program Revenues:		
Changes for Services	$ 9,455	$ 5,158
Operating Grants and Contributions	4,471,699	6,486,366
Capital Grants and Contributions	3,075	9,495
General Revenues:		
Property Taxes	5,183,290	5,247,850
Volume of Business Taxes	2,867,287	2,628,853
Sales and Usage Taxes	2,024,272	1,878,316
Construction Excise Taxes	373,308	767,228
Intergovernmental	6,868,998	6,223,577
Other General Revenues	250,295	733,555
Donated Capital Assets	68,263	2,522,548
Total Revenues	**22,119,942**	**26,502,946**
Expenses:		
General Administration	12,419,338	13,364,079
Public Safety	967,495	975,912
Public Works	2,281,406	3,196,610
Culture and Recreation	1,111,322	1,060,580
Health and Sanitation	624,038	624,038
Solid Wasted Disposal	1,787,500	1,998,960
Human Services and Welfare	1,517,777	1,531,911
Urban Development	1,020,515	963,345
Loss on Disposition of Assets	27,310	-
Interest Costs	1,430,816	1,281,140
Total Expenses	**23,187,517**	**24,996,575**
Changes in Net Position	**(1,067,575)**	**1,506,371**
Net Position-Beginning, as Restated	24,010,937	20,204,581
Net Position-Ending	**$ 22,943,362**	**$ 21,710,952**

Figure 1 presents revenues comparison by sources of the governmental activities during the past two years:

FIGURE 1

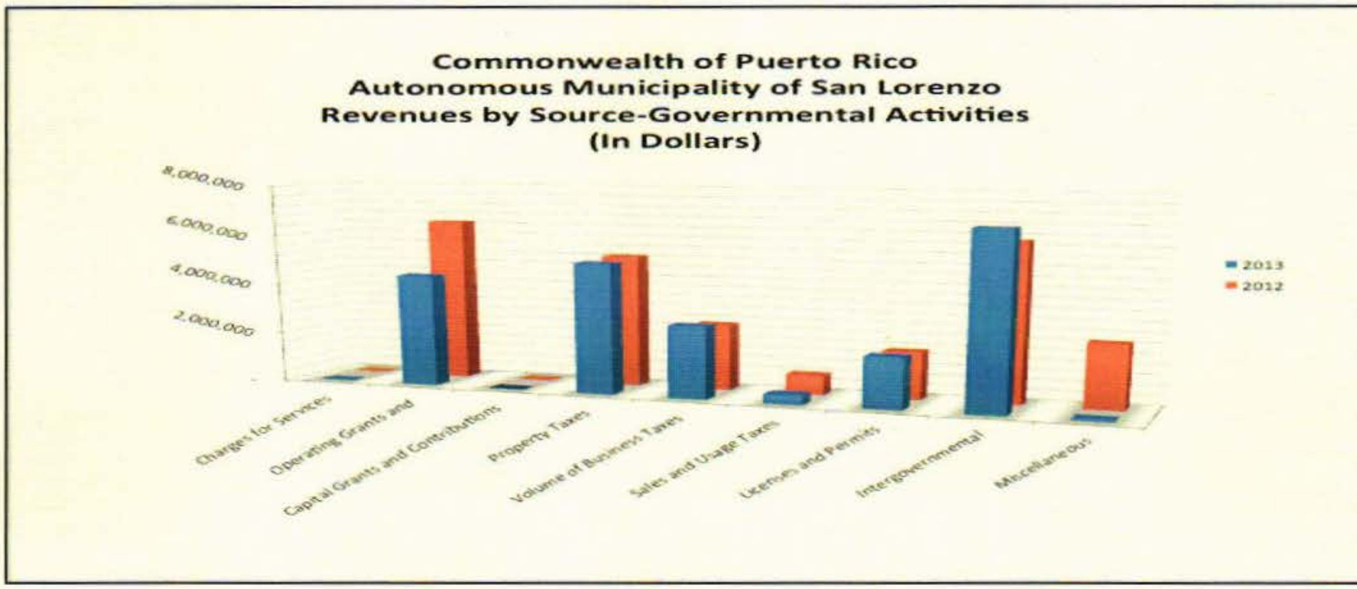
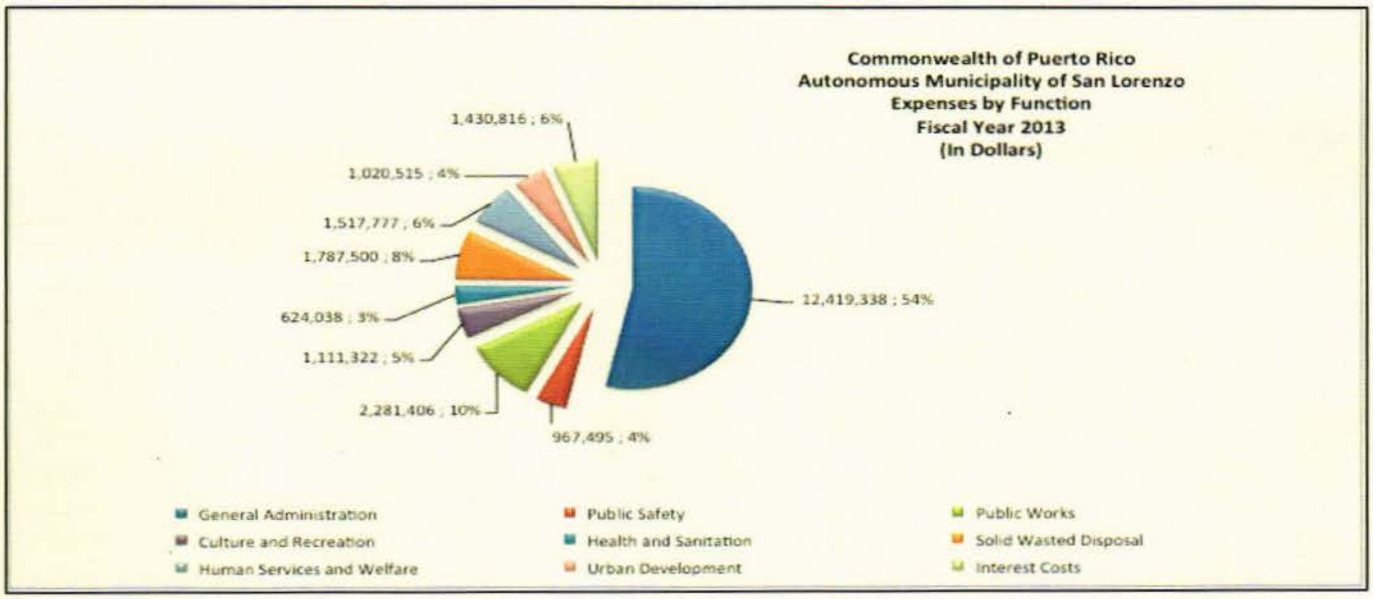


Figure 2 presents expenses by function of the governmental activities during the fiscal year 2012-2013:

FIGURE 2



Approximately 31.1% of the **Municipality's** revenues came from intergovernmental, 23.4% from property taxes, 20.2% from grants and contributions, and 24.5% from other sources. The **Municipality's** expenses cover a range of services. The largest expenses are general administration with 53.6%, public works with 9.9%, solid waste disposal with 7.7%, and human services and welfare with 6.6%. Program revenues of the **Municipality** covered 20% of total expenses.

The following table focuses on the cost of each of the **Municipality's** largest functions/programs as well as each functions/program's net cost (total cost less fees generated by the programs and program–specific intergovernmental aid):

Table 3

Commonwealth of Puerto Rico
Autonomous Municipality of San Lorenzo
Net Cost of Municipality's Governmental Activities
For Fiscal Years Ended June 30,

	Total Cost of Services		Net Cost of Services	
Functions/Programs	**2013**	**2012**	**2013**	**2012**
General Administration	$ 12,419,338	$ 13,364,079	$ 9,890,926	$ 10,560,161
Public Safety	967,495	975,912	967,495	975,912
Public Works	2,281,406	3,196,610	2,278,699	3,188,357
Culture and Recreation	1,111,322	1,060,580	1,111,322	1,060,580
Solid Waste Disposal	1,787,500	1,998,960	1,787,500	1,998,960
Human Services and Welfare	1,517,777	1,531,911	596,397	(1,353,871)
Urban Development	1,020,515	963,345	(11,215)	160,279
Others	2,082,164	1,905,178	2,082,164	1,905,178
Total	**$ 23,187,517**	**$ 24,996,575**	**$ 18,703,288**	**$ 18,495,556**

Some of the cost of governmental activities in 2013 was paid from other governments and organizations that subsidized certain programs with grants and contributions ($4,484,229). Other general revenues including property, volume of business, sales and usage, construction excise taxes, and intergovernmental revenues substantially covered the $18,703,288 net cost of services.

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. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent. The following table presents a comparison of the 2013 and 2012 fund balances.

Table 4

Commonwealth of Puerto Rico
Autonomous Municipality of San Lorenzo
Fund Balance
As of June 30,

	2013	**2012**
Fund Balances:		
Nonexpendable	$ -	$ -
Restricted	7,581,780	9,481,023
Committed	-	-
Assigned	-	-
Unassigned (Deficit)	(6,197,158)	(5,207,416)
Total	**$ 1,384,622**	**$ 4,273,607**

At the end of the current fiscal year, the **Municipality's** governmental funds reported combined ending fund balances of $1.4 million. Of this amount ($6,197,158) isn't available for spending at the government's discretion (Unassigned Fund Balance). The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed. For the fiscal year ended June 30, 2013, the governmental funds reported combined ending fund balances of $1.4 million, with a net decrease of ($2,888,955)million in comparison with the current year. This decrease was due primarily by new restricted funds and decrease in unassigned fund balance (deficit).

The general fund is the operating fund of the **Municipality**. Unassigned fund balance (deficit) of the general fund represents approximately 100% of total ending general fund balance.

Table 5

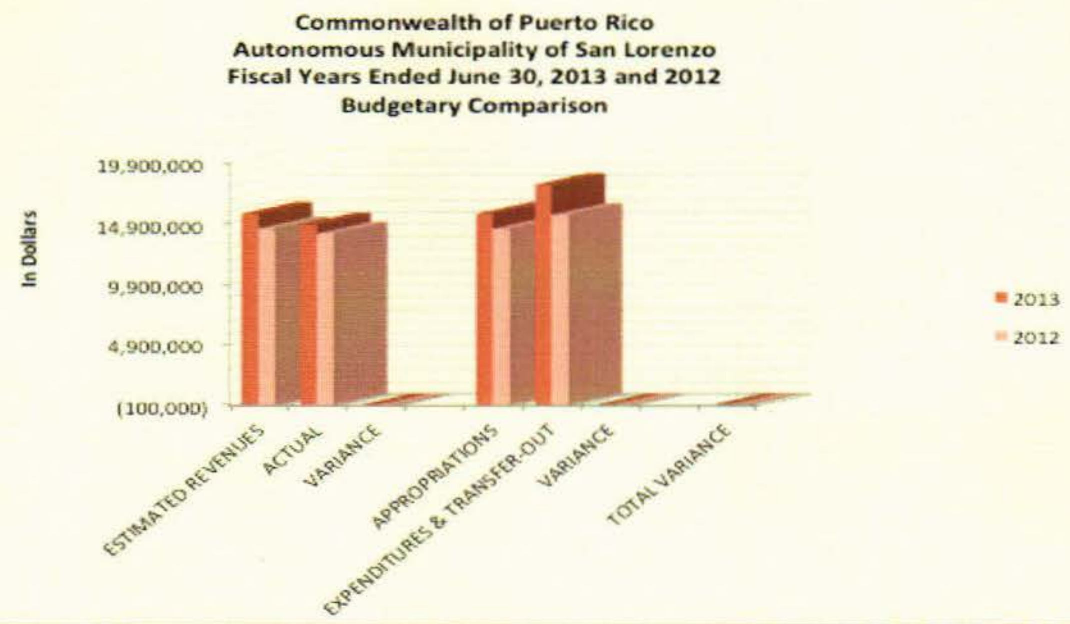
Commonwealth of Puerto Rico
Autonomous Municipality of San Lorenzo
General Fund
As of June 30,

Description	2013	2012
Revenues:		
Property Taxes	$ 3,294,574	$ 3,275,212
Volume of Business Taxes	2,867,287	2,628,853
Sales and Usage Taxes	1,287,877	1,255,857
Intergovernmental	6,900,550	6,207,858
Construction Excise Taxes	373,308	767,228
Miscellaneous	240,840	733,555
Total Revenues	14,964,436	14,868,563
Expenditures:		
General Government	11,275,142	10,502,097
Public Safety	777,616	818,990
Public Work	2,022,134	1,876,919
Culture and Recreation	984,737	955,965
Health and Sanitation	624,038	624,038
Solid Waste Disposal	1,787,500	1,998,960
Human Services and Welfare	240,826	255,222
Urban Development	-	133,965
Capital Outlay	856,772	184,135
Total Expenditures	18,568,765	17,350,291
Net Transfer In (Out)	119,518	(204,900)
Proceed of Notes	3,015,000	1,940,000
Net Decrease in Fund Balance	**$ (469,811)**	**$ (746,628)**

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2012-2013 presented a material difference with respect to prior year budget with an increase of $2,859,747.The **Municipality** does not include an amendment to the budget the positive and negative changes on other revenues, principally in construction excise taxes ($3,692,675) due to some construction projects that where supposed to produce significant revenues but did not come to fruition during the year, sales and usage taxes of ($220,123),and $429,528 from intergovernmental revenues. Budget expenditures were amended during the year in accordance with functions estimates (see **Figure 3** below).

FIGURE 3



The negative variance of ($4,689,457) between revised budget and actual results was due mainly to a decrease in revenues as explained in the preceding paragraph during the year. The **Municipality** reported more expenditures than appropriations in those functions for payments to purchase of supplies, professional and nonprofessional services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the **Municipality** has invested $55,274,130 (net of accumulated depreciation) in a broad range of capital assets, including buildings, land, infrastructure, construction in progress and equipment. This amount represents a net increase of $2,204,170 or 4% from the prior year. The **Municipality** invested a total of $3,813,802 of capital assets during the fiscal year 2012-2013 as follows:

Table 6

Commonwealth of Puerto Rico
Autonomous Municipality of San Lorenzo
Capital Assets, Net
As of June 30,

	Governmental Activities	
	2013	**2012**
Non-depreciable assets:		
Land	$ 16,707,391	$ 16,467,128
Construction in Progress	18,889,620	16,657,440
Depreciable assets:		
Buildings	10,483,145	10,915,298
Infrastructure	5,561,845	5,320,778
Machinery and Equipment	351,526	376,631
Motor Vehicles	3,280,603	3,332,685
Total	**$ 55,274,130**	**$ 53,069,960**

- Construction in Progress – $2,232,180
- Acquisition of Land (Capital Contribution) – $240,263
- Acquisition of Machinery and Equipment – $196,284
- Acquisition of Motor Vehicles – $683,575
- Infrastructure - $461,500

Other projects related to repair and maintenance of roads (not capitalized) were developed during the year 2013.

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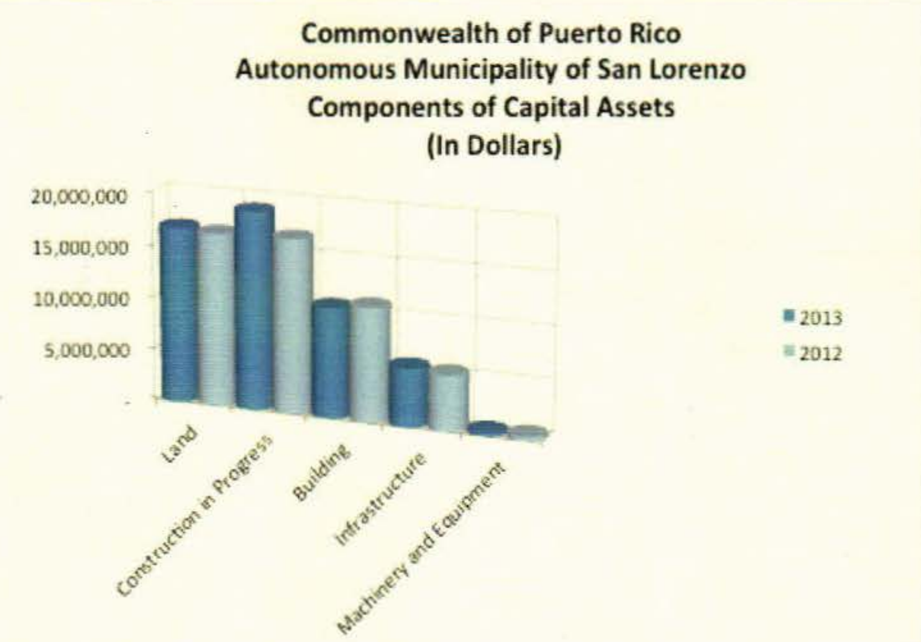
Construction in progress was principally for improvement to bridges and retaining walls in various parts of the **Municipality**.

Additional information on the Municipality's capital assets can be found on Note 10 of the Basic Financial Statements.

Figures 4 below presents the components of capital assets during the fiscal years 2013 and 2012:

FIGURE 4



Long-Term Debts

At year-end, the **Municipality** had $36,071,421 in general and special obligations, an increase of 2% with respect to prior year due to the issuance of $3 million of general and special obligations. The following is a summary of the **Municipality's** outstanding debts as of June 30, 2013 and 2012:

Table 7

Commonwealth of Puerto Rico
Autonomous Municipality of San Lorenzo
Outstanding Long-Term Debts
As of June 30,

	Governmental Activities	
	2013	**2012**
General and Special Obligations	$ 33,503,000	$ 32,601,000
Law No. 42-MRCC	549,596	563,838
Law No. 146-MRCC	235,934	248,353
Christmas Bonus	184,166	228,360
Deferred Charges	-	30,100
Compensated Absences	1,598,725	1,842,683
Total	**$ 36,071,421**	**$ 35,514,334**

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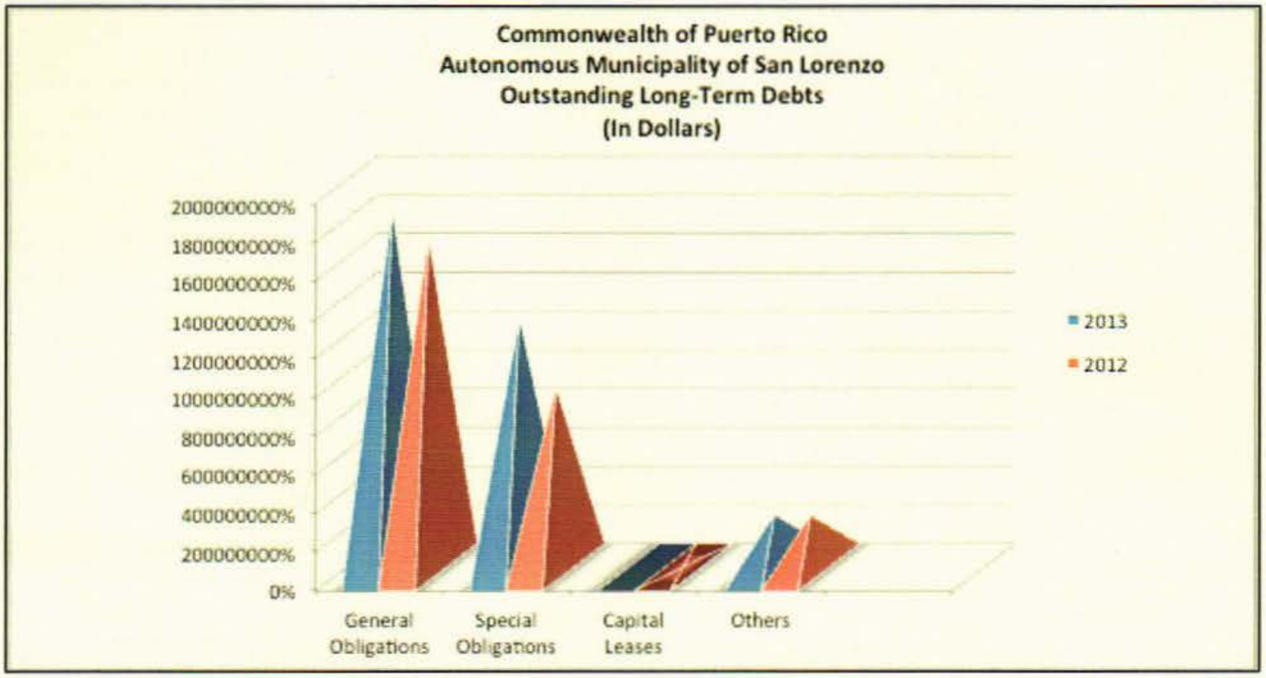
Figure 5 presents the components of long-term debts during the fiscal year 2013 and 2012:

FIGURE 5



More detailed information about the **Municipality's** long-term liabilities is presented in Note 11 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 2012-2013 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 17.7%, which compares with the Commonwealth rate of 13.8%.

The **Municipality** applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2014 are $15.5 million, approximately $3.1 million less than fiscal year 2013. The **Municipality** expects a decrease of revenues in construction excise taxes, but also an increase from intergovernmental. Budgeted expenditures are expected to stabilize accordingly to the projected revenues.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the **Municipality's** finances and to demonstrate the accountability for the money it receives. If you have any questions about this report or need additional information, contact the **Municipality's** Finance Department at (787) 736-3511, or PO Box 1289, San Lorenzo, PR 00754.

BASIC FINANCIAL STATEMENTS

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

STATEMENT OF NET POSITION

JUNE 30, 2013

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and Investments	$ 3,103,229
Cash with Fiscal Agent	6,298,424
Receivables (net):	
Property Taxes	30,290
Sales and Usage Taxes	98,780
Due from Governmental Units	316,238
Federal Grants	567,651
Other Receivables	5,639
	10,420,251
Capital Assets:	
Land, Improvement and Construction in Progress	35,597,011
Other Capital Assets [Net of Depreciation]	19,677,119
Total Capital Assets	55,274,130
TOTAL ASSETS	**65,694,381**
LIABILITIES:	
Accounts Payable and Accrued Expenses	3,636,635
Accrued Interest	677,101
Due to Governmental Units	109,448
Unearned Revenues - Volume of Business Taxes	2,256,414
Noncurrent Liabilities:	
Due Within One Year	4,323,150
Due in More than One Year	31,748,271
TOTAL LIABILITIES	**42,751,019**
NET POSITION:	
Net Investment in Capital Assets	31,283,599
Restricted for:	
Capital Projects	92,261
Debt Service	3,213,302
Community Development Projects	563,114
Unrestricted (Deficit)	(12,208,914)
TOTAL NET POSITION	**$ 22,943,362**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
Governmental Activities:					
Mayor and Municipal Legislature	$ 2,194,164	$ -	$ -	$ -	$ (2,194,164)
General Government	10,225,174	9,455	2,518,957	-	(7,696,762)
Public Safety	967,495	-	-	-	(967,495)
Public Works	2,281,406	-	-	2,707	(2,278,699)
Culture and Recreation	1,111,322	-	-	-	(1,111,322)
Health and Sanitation	624,038	-	-	-	(624,038)
Solid Waste Disposal	1,787,500	-	-	-	(1,787,500)
Human Services and Welfare	1,517,777	-	921,380	-	(596,397)
Urban Development	1,020,515	-	1,031,362	368	11,215
Loss on Disposition of Asset	27,310	-	-	-	(27,310)
Interest on Long-Term Debt	1,430,816	-	-	-	(1,430,816)
Total Governmental Activities	**$ 23,187,517**	**$ 9,455**	**$ 4,471,699**	**$ 3,075**	**(18,703,288)**
	General Revenues:				
	Taxes:				
	PropertyTaxes, levied for General Purposes				3,294,574
	PropertyTaxes, levied for Debt Service				1,888,716
	Volume of Business Taxes				2,867,287
	Sales and Usage Taxes				2,024,272
	Construction Excise Taxes				373,308
	Intergovernmental				6,868,998
	Rent				51,031
	Miscellaneous				199,264
	Special Item - Donated Capital Assets				68,263
	Total General Revenues				17,635,713
	CHANGES IN NET POSITION				**(1,067,575)**
	Net Position – Beginning of Year, As Restated				24,010,937
	NET POSITION – ENDING OF YEAR				**$ 22,943,362**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

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COMMONWEALTH OF PUERTO RICO

AUTONOMOUS MUNICIPALITY OF SAN LORENZO

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

	GENERAL FUND	ACTIVITIES CENTER FUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash	$ 273,374	$ 2,193,669	$ -	$ 636,186	$ 3,103,229
Cash with Fiscal Agent	1,636	-	3,860,113	2,436,675	6,298,424
Receivables:					
Property Taxes	-	-	30,290	-	30,290
Sales and Usage Taxes	98,780	-	-	-	98,780
Due from Governmental Units	92,083	-	-	224,155	316,238
Federal Grants	-	-	-	567,651	567,651
Due from Other Funds	1,218,701	129,244	-	-	1,347,945
Other Receivables	-	-	-	5,639	5,639
Total Assets	**$ 1,684,574**	**$ 2,322,913**	**$ 3,890,403**	**$ 3,870,306**	**$ 11,768,196**
LIABILITIES:					
Account Payable	$ 2,695,434	$ -	$ 1,571,000	$ 941,201	$ 5,207,635
Bond and Notes	-	-	-	-	-
Accrued Interest	-	-	677,101	-	677,101
Due to Governmental Units	109,448	-	-	-	109,448
Due to Other Funds	-	230,291	-	1,117,654	1,347,945
Unearned Revenues - Volume of Business Taxes	2,256,414	-	-	-	2,256,414
Total Liabilities	**5,061,296**	**230,291**	**2,248,101**	**2,058,855**	**9,598,543**
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenues - Commonwealth of Puerto Rico	92,083	-	-	-	92,083
Unavailable Revenues - Federal Grants	-	-	-	692,948	692,948
Total Deferred Inflows of Resources	**92,083**	**-**	**-**	**692,948**	**785,031**
FUND BALANCES (DEFICITS):					
Restricted	-	2,092,622	1,642,302	3,846,856	7,581,780
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned (Deficit)	(3,468,805)	-	-	(2,728,353)	(6,197,158)
Total Fund Balances	(3,468,805)	2,092,622	1,642,302	1,118,503	1,384,622
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	**$ 1,684,574**	**$ 2,322,913**	**$ 3,890,403**	**$ 3,870,306**	**$ 11,768,196**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

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

JUNE 30, 2013

Total Fund Balances – Government Funds (Page 16)		**$ 1,384,622**
Amount reported for Governmental Activities in the Statement of Net Position (Page 14) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	$ 35,597,011	
Depreciable Capital Assets	33,454,610	
Accumulated Depreciation	(13,777,491)	
Total Capital Assets		55,274,130
Some of the **Municipality**'s revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unavailable in the funds:		
CDBG	563,114	
Child and Adult Care Food Program	129,834	
Christmas Bonus	92,083	
Total Unavailable Revenues		785,031
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General Obligation Bonds	(31,932,000)	
Christmas Bonus	(184,166)	
Law Number 146-MRCC	(235,934)	
Law Number 42-MRCC	(549,596)	
Compensated Absences	(1,598,725)	
Total Long-Term Liabilities		(34,500,421)
Total Net Position of Governmental Activities (Page 14)		**$ 22,943,362**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	GENERAL FUND	ACTIVITIES CENTER FUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Property Taxes	$ 3,294,574	$ -	$ 1,888,716	$ -	$ 5,183,290
Volume of Business Taxes	2,867,287	-	-	-	2,867,287
Sales and Usage Taxes	1,287,877	-	736,395	-	2,024,272
Federal Grants	-	2,707	-	1,622,218	1,624,925
Intergovernmental	6,900,550	-	-	2,519,325	9,419,875
Licences and Permits	373,308	-	-	-	373,308
Rent	51,031	-	-	-	51,031
Miscellaneous	189,809	-	-	9,455	199,264
Total Revenues	**14,964,436**	**2,707**	**2,625,111**	**4,150,998**	**21,743,252**
EXPENDITURES:					
Current:					
Mayor and Municipal Legislature	1,719,467	-	-	-	1,719,467
General Government	9,555,675	-	-	850,409	10,406,084
Public Safety	777,616	-	-	-	777,616
Public Works	2,022,134	-	-	54,557	2,076,691
Culture and Recreation	984,737	-	-	-	984,737
Health and Sanitation	624,038	-	-	-	624,038
Solid Waste Disposal	1,787,500	-	-	-	1,787,500
Human Services and Welfare	240,826	-	-	1,071,249	1,312,075
Urban Development	-	-	-	734,710	734,710
Capital Outlay	856,772	-	-	2,888,767	3,745,539
Debt Service:					
Bond Issuance Costs	-	-	12,303	-	12,303
Principal	-	-	2,035,661	-	2,035,661
Interest and Other Charges	-	-	1,430,816	-	1,430,816
Total Expenditures	**18,568,765**	**-**	**3,478,780**	**5,599,692**	**27,647,237**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,604,329)	2,707	(853,669)	(1,448,694)	(5,903,985)
OTHER FINANCING SOURCES (USES):					
Proceed of Bonds	3,015,000	-	-	-	3,015,000
Transfers – In	313,108	-	689,614	-	1,002,722
Transfers – Out	(193,590)	(496,024)	(200,000)	(113,108)	(1,002,722)
Total Other Financing Sources (Uses)	**3,134,518**	**(496,024)**	**489,614**	**(113,108)**	**3,015,000**
Net Change in Fund Balances	**(469,811)**	**(493,317)**	**(364,055)**	**(1,561,802)**	**(2,888,985)**
Fund Balances (Deficit) – Beginning, as Restated	(2,998,994)	2,585,939	2,006,357	2,680,305	4,273,607
FUND BALANCES (DEFICIT) – ENDING	**$ (3,468,805)**	**$ 2,092,622**	**$ 1,642,302**	**$ 1,118,503**	**$ 1,384,622**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

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

Net Change in Fund Balances – Government Funds (Page 18)		**$ (2,888,985)**
Amount reported for Governmental Activities in the Statement of Activities (Page 15) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Outlays	$ 3,745,539	
Depreciation Expense	(1,582,322)	
Excess of Capital Outlays over Depreciation Expense		2,163,217
Revenues in the Statement of Activities that do not provide current financial resources are reported as revenues in the funds and vice versa:		
Christmas Bonus	(22,097)	
Community Development Block Grant	265,923	
Child and Adult Care Food Program	64,601	
Total of Revenues		308,427
Donations of capital assets increase net assets in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources.		68,263
Governmental funds only report the proceeds received in the disposal of asset. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of the disposed asset		(27,310)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase Noncurrent Liabilities in the Statement of Net Position. In the current period, proceeds received was		(3,015,000)
Repayment of long-term principal is expenditure in the governmental funds, but issuing debt reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were		2,035,661
Some expenses reported in the Statement of Activities do not require the use of current financial resouces and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in Christmas Bonus	44,194	
Decrease in Compensated Absence	243,958	
Total Additional Expenses		288,152
Change in Net Position of Governmental Activities (Page 15)		**$ (1,067,575)**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Autonomous Municipality of San Lorenzo of the Commonwealth of Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

The Municipality was founded in the year 1811, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the Municipality is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure,* requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the Municipality's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality. A second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (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; (b) 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, and; (c) 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.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

Continue

1. **FINANCIAL REPORTING ENTITY – continuation**

(1) Primary Government

A primary government consists of all organizations that make up its legal entity. Accordingly, consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

(2) Discrete Component Unit

Discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. It is financially accountable to the primary government, or has relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Municipality organized the "Corporación para el Desarrollo Jugos Festival, Municipio de San Lorenzo C.D. (Corporation)", on January 26, 2010 under Article 17.003 of the Commonwealth of Puerto Rico, Law Number 81 of August 30, 1991, as amended, as a corporation for development, to continue with the production of natural juices with the trademark "Productos Festival", actually been operated by the "Organización Agricultores Barrio Espino, Inc." (OABE). At June 30, 2013, the transfers of assets, liabilities, and operations of OABE are pending to be transferred to the Corporation. Also, OABE has continually incurred in net operating loss creating a deficit exceeding its net assets by more than $300,000, it is in default of its payments for its debts with creditors, creating an uncertainty about its' ability to continue as a going concern. Accordingly, the ability of OABE to continue as a going concern and final transfers of assets, liabilities, and operations to the Corporation is dependent on acceptance of OABE's creditors, the influx of significant financial capital and support. For these reasons, the Municipality's financial statements do not include the Corporation's financial statements as a discrete component unit.

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

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Financial Statement Presentation

The basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United Stated of America as applicable to local governmental units (GAAP). The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental type.

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

Required Supplementary Information – Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

Government-wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information of all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's Puerto Rico Electric Power Authority function of the government. Elimination of this charges would distort the direct cost and program revenue reported for the various functions concerned.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the Municipality's governmental activities and business type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the Municipality's management are not presented as restricted net position.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for the different business-type activities of the Municipality and for each function of the Municipality's governmental activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*] provide information about the Municipality's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Non-major funds are summarized into a single column.

This presentation deemed most appropriate to (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

The Municipality reports the following major governmental funds:

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

Activities Center Fund – This is used to account for the construction of the Activities Center in San Lorenzo, Puerto Rico.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of long-term debt principal and interests.

The non-major funds are combined in a single column in the GGFS. As a general rule the effect of interfund activity has been eliminated from the GWFS.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

During the course of operations the Municipality has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

Notes to the Basic Financial Statements

The notes to the financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Budgetary Comparison Schedule – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2013, all revenues sources met this availability criterion.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

Expenditures are recorded when the related fund liability is incurred, as under modified accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims an judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2013, which are recorded as governmental fund liabilities of June 30, 2013 which is the date when resources were available in the debt service fund. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying balance sheet – governmental funds generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying *Statement of Activities*, but are not recorded in the accompanying GFFS.

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the Budgetary Comparison Schedule – General Fund:

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.

2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.

Continue

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation**

3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.

4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

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

Final Budget

The final budgetary data presented in the Budgetary Comparison Schedule – General Fund reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.

2. Interfund transactions of the General Fund are not included in the budgetary basis.

3. Certain accrued liabilities and other debts are not included in the budgetary basis.

4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

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

Excess of Expenditures over Appropriations

For the year ended June 30, 2013, expenditures exceeded appropriations in the following function (the legal level of budgetary control) of the General Fund: general government by $1,442,545, Public Works by $99,858, and Solid Waste Disposal by $10,080. This overspending of appropriation is authorized by law up to 5% if related to cases involving imminent public endangerment (e.g., natural disaster, or fire), which wasn't the case this year, it is considered a budgetary violation. The budgetary variance during the year present a deficiency of revenues of $3,654,484 and expenditures in excess of $1,034,973 for a total decrease in Budgetary Fund Balance of $4,689,457.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

D. Assets, Liabilities, and Net Assets

1) Cash and Investment, and Cash with Fiscal Agent

The Municipality's cash and investment are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995. The Finance Director of the Municipality, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments, if available. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. Cash Equivalents are investments with an original maturity of 90 days or less.

Cash with fiscal agent in the Debt Service Fund represents special additional property tax collections retained by the Government, deposit in the GDB and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in other governmental funds consists of undisbursed proceeds of certain bonds and notes issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

2) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as "interfund balances".

Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables consist of all revenues earned but not collected at June 30, 2013. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables in the general fund represent mostly sales and usage taxes, federal grant and contributions, property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Government. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) Inventories

The Municipality used the purchase method to account for the purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

4) *Capital Assets*

Capital assets, which include land, buildings and improvement, machinery and equipment, motor vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the GWFS. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than $500 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than $10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The Municipality reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount.

The Municipality was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the Municipality capitalization threshold is met. Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. No depreciation is recorded for land and construction in progress. The estimated useful lives of major capital asset categories are:

CAPITAL ASSETS	YEARS
Buildings and Site Improvements	40
Infraestructure	40
Motor Vehicles, Furniture and Fixtures	5
Machinery and Equipments	3-5

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various function/programs but reported as direct expense of the public works and urban development functions.

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

The Municipality is prevented legally from entering into obligations extending beyond one fiscal year, and most lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. The Municipality's lease agreements do not include contingent rental payments no escalation clauses. Accordingly, lease payments are recorded in the GWFS as expense when incurred.

In the accompanying GFFS, the lease payments are recorded as expenditures in the governmental fund.

5) *Deferred Outflows/Inflows of Resources*

In addition to assets, the *Statement of Financial 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no items that qualify for reporting in this category.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 Municipality has no items that qualify for reporting in this category.

The Municipality has items, which arises only under a modified accrual basis of accounting that qualifies for reporting in deferred inflows of resources. Accordingly, the items, *unavailable revenue,* is reported only in the governmental funds Balance Sheet. The governmental funds report *unavailable revenues* from two sources: Christmas Bonus Reimbursement from the Commonwealth and Federal Grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6) Unearned Revenues

In the GWFS, unearned revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

7) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, if any. As per GASB Statement No. 65, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

In the GFFS, governmental fund types recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

8) Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences,* the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2013. All vacation pay is accrued when incurred in the GWFS and PFFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

9) Claims and Judgments

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

10) Accounting for Pension Costs

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

For the purpose of applying the requirements of GASBS No, 27, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS),a multiemployer cost-sharing defined benefit pension plan and System 2000, a hybrid defined contribution plan, in which the employees of the **Municipality** participate. The **Municipality** is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 18).

11) Net Position/Fund Balance

A) Net Position

Net position represent the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements.

The GWFS utilize a net position presentation, which are categorized as follow:

- *Net Invested in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.

  Net investment in capital assets is comprised of the following:

	Governmental Activities
Capital Assets, Net of Accumulated Depreciation	$55,205,867
Outstanding Balance on Related Debt	(33,503,000)
Unspent Capital Debt Proceeds	9,512,469
Donated Land	68,263
Net Investment in Capital Assets	$31,283,599

- *Restricted Net Position*– These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

- *Unrestricted Net Position*– These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources that are imposed by management, but can be removed or modified.

Net Position Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted (e.g., 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 GWFS, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

B) Fund Balance

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the Municipality honors constraints on the specific purposes for which amounts in those funds can be spent.

The nonspendable classification contains amounts not in spendable form or legally or contractually required to be maintained intact. Restricted amounts contain restraints on their use externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or imposed by law through constitutional provisions or enabling legislation. Committed amounts can only be used for specific purposes imposed by formal action of the Municipality's highest level of decision-making authority. The highest level of decision-making authority is the Municipal Legislature and it takes a resolution to establish a fund balance commitment. Amounts intended to be used for specific purposes are assigned. Assignments should not cause deficits in the Unassigned Fund Balance. Unassigned Fund Balance is the residual classification for the General Fund.

Fund Balance Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted and unrestricted resources (the total committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the GFFS a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted fund balance to have been depleted before using any of the components or 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.

Fund Balance Policy

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Policy on Committing Funds

It is the policy of the Municipality that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a motion prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this action before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance contained within GASB 54. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund revenue streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the **Municipality** that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

Policy on Assigning Funds

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

Policy on Unassigned General Fund Balance

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The Municipality considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from unassigned General Fund balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital asset purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The Municipality hasn't met its GASB 54 fund balance targets at June 30, 2013.

Prioritization of Fund Balance Use

In circumstances where the payment is for a purpose that quantities are available in multiple classifications of funds balance, the order in which resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) Components of Fund Balance

	GENERAL FUND	ACTIVITIES CENTER FUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonspendable	$ -	$ -	$ -	$ -	$ -
Restricted For:					
Improvement of Streets and Sidewalks	-	-	-	952,524	952,524
Improvement and Construction of Facilities	-	2,092,622	-	1,809,374	3,901,996
Capital Outlay	-	-	-	212,708	212,708
Welfare	-	-	-	393,000	393,000
Public Safety	-	-	-	96,267	96,267
Renewable Energy Projects	-	-	-	161,418	161,418
Improvement of Water and Sewer System	-	-	-	48,797	48,797
Sanitation	-	-	-	97,349	97,349
Public Instruction	-	-	-	74,800	74,800
Culture and Recreation	-	-	-	619	619
Debt Repayment	-	-	1,642,302	-	1,642,302
Total Restricted	**-**	**2,092,622**	**1,642,302**	**3,846,856**	**7,581,780**
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned:	(3,468,805)	-	-	(2,728,353)	(6,197,158)
Total Fund Balances	**$ (3,468,805)**	**$ 2,092,622**	**$ 1,642,302**	**$ 1,118,503**	**$ 1,384,622**

E. Interfund Transactions

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

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds.

Intra-Entity Transactions – Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

F. Risk Financing

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2013 amounted to approximately $21,648. The current insurance policies have not been cancelled or terminated. In addition, MRCC deducted approximately $270,890 for workers compensation insurance covering all municipal employees for the same period.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

G. Use of Estimates

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

H. 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.

I. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2013:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity,* and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

The Municipality's financial statements were not affected by the implementation of this statement.

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (FY 2013-2014). Earlier application is encouraged.

GASB Statement No. 67, *Financial Reporting for Pension Plans.* This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement No. 50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013(FY 2013-2014). Earlier application is encouraged.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency though revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY 2014-2015). Earlier application is encouraged.

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. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013 (FY 2014-2015). Earlier application is encouraged.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

Continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of Statement 68, which is required to be applied in fiscal years beginning after June 15, 2014 (FY 2013-2014).

The Municipality has not yet determined the effect these statements will have on the Municipality's financial statements.

3. CASH AND INVESTMENTS

Cash in Banks

Municipality's cash and investments at June 30, 2013 are composed of: (1) demand deposits in commercial banks, (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent), and (3) cash equivalents in commercial banks. Cash equivalents of \$3 million are deposits in commercial bank accounts and interest bearing accounts in GDB, and are recorded at cost, which approximates fair value.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth. **Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

The Municipality follows the practice of pooling cash. At June 30, 2013, the cash are maintained in commercial banks with a balance of \$3,746,653 of which \$1,342,615 in the General Fund, \$2,193,669 in the Activities Center Fund, and \$210,369 in Other Governmental Funds. The balance in cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in certificates of deposit with commercial banks. Any deficiency in the cash account is assumed by the general fund and covered through future budgetary appropriation.

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

Cash with fiscal agent in the debt service fund consists principally of property tax collections amounting to \$3,860,113 that are restricted for the payment of the Municipality's debt service, as required by law, and \$1,636 is a balance of a previous bond issue available for the General Fund. Cash with Fiscal Agent of \$2,436,675in other governmental funds consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets and operational purposes. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2013:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013, the Municipality has invested only in cash in banks of \$3.7 million which are insured by the FDIC, generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2013. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2013.

Continue

3. CASH AND INVESTMENTS- continuation

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Government adopted by GDB, the Municipality may invest in obligations of the Government, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2013, the Municipality has balances deposited in commercial banks amounting to $3.7 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to $6.3 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2013, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2013, the interest risk associated with the Municipality's cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2013.

4. DUE FROM GOVERNMENTAL UNITS

As of June 30, 2013, the amount of $92,083 corresponds to the Christmas Bonus, amount to be provided by the Puerto Rico Treasury Department.

5. ACCOUNTS RECEIVABLE – FEDERAL GRANTS

The due from federal grants of the Other Governmental Funds for the fiscal year ended June 30, 2013 corresponds to $437,861 from the Community Development Block Grant/States Program (SBGP) (through the Office of the Commissioner of Municipal Affairs), $129,790 from the Child and Adult Care Food Program (through the Puerto Rico Department of Education).

6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. Interfund Receivable and Payable Balances

Due to/from Other Funds at June 30, 2013 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
Activity Center Fund	Other Major Fund	$ 129,244
General Fund	Other Major Fund	988,410
General Fund	Activity Center Fund	230,291
TOTAL		$ 1,347,945

Continue

6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS– continuation

B. Interfund Transfers

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
Debt Service Fund	General Fund	$ 193,590	Bond Principal and Interest Payments
General Fund	Debt Service Fund	200,000	Bond Principal and Interest Payments
Other Governmental Funds	General Fund	113,108	Budget Specific Project Funding
Debt Service Fund	Activities Center Fund	496,024	Bond Principal and Interest Payments
	Total	$ 1,002,722	

7. UNEARNED REVENUES

Government-wide *Statement of Net Position* does not report *deferred inflows of resources*, but report *unearned* revenues for resources receive before it has a legal claim to them. Governmental funds balance sheet report *unearned revenues* in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period as follows:

Governmental Funds:	
Volume of Business Taxes	$ 2,256,414
Total Unearned Revenues	$ 2,256,414

8. DEFERRED INFLOW OF RESOURCES

Governmental funds balance sheet report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the basic financial statements were as follows:

Governmental Funds:		
Christmas Bonus - Commonwealth	$	92,083
Federal Grants:		
Child Care		129,834
SBGP		563,114
Total Deferred Inflows of Resources	$	785,031

9. DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2013, balance due to other governmental units of the General Fund for services rendered to the Municipality ($109,448) consists of AEELA ($20,121), Puerto Rico Retirement Administration ($52,600); and Puerto Rico Aqueduct and Sewer Authority ($36,727).

Continue

10. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2013 was as follows:

DESCRIPTION	BALANCE JULY 1, 2012	INCREASE	DECREASE	BALANCE JUNE 30, 2013
Non-Depreciable Capital Assets:				
Land	$ 16,467,128	$ 240,263	$ -	$ 16,707,391
Construction in progress	16,657,440	2,232,180	-	18,889,620
Total Non-Depreciable Capital Assets	33,124,568	2,472,443	-	35,597,011
Depreciable Capital Assets:				
Buildings	16,957,515	-	-	16,957,515
Infrastructure	6,976,672	461,500	-	7,438,172
Machinery and equipment	2,432,168	196,284	(99,833)	2,528,619
Motor vehicles	5,988,319	683,575	(141,590)	6,530,304
Total Depreciable Capital Assets	32,354,674	1,341,359	(241,423)	33,454,610
Less accumulated depreciation:				
Buildings	(6,042,217)	(432,153)	-	(6,474,370)
Infrastructure	(1,655,894)	(220,433)	-	(1,876,327)
Machinery and equipment	(2,055,537)	(214,670)	93,114	(2,177,093)
Motor vehicles	(2,655,634)	(715,066)	120,999	(3,249,701)
Total Accumulated Depreciation	(12,409,282)	(1,582,322)	214,113	(13,777,491)
Total Depreciable Capital Assets (Net)	19,945,392	(240,963)	(27,310)	19,677,119
CAPITAL ASSETS, NET	$ 53,069,960	$ 2,231,480	$ (27,310)	$ 55,274,130

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

	AMOUNT
Mayor and Municipal Legislature	$ 474,697
General Government	94,939
Public Safety	189,879
Public Works	395,581
Culture and Recreation	126,585
Human Services and Welfare	205,702
Urban Development	94,939
Total Depreciation Expenses	$ 1,582,322

Continue

11. GENERAL LONG-TERM DEBTS

A. General Obligations Bonds and Special Obligations Bonds

The principal long-term obligations of the Municipality are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 12).

During February 2013, the Municipality issued special obligation bonds of 2013 in the amount of $1,195,000 for operational purpose. The principal installments are payable annually ranging from $20,000 to $90,000 on the 1st days of July of each year. The variable interests at 6.00% through 7.5% are payable semi-annually on the 1st days of January and July of each year through July 2037.

During March 2013, the Municipality issued general obligation bonds of 2013 in the amount of $1,820,000 for operational purpose. The principal installments are payable annually ranging from $35,000 to $135,000 on the 1st days of July of each year. The variable interests at 6.00% through 6.5% are payable semi-annually on the 1st days of January and July of each year through July 2037.

General and special obligations bonds as of June 30, 2013, are comprised of the following individual issues:

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income:					
General Construction	1996	$ 575,000	2015	4.87% to 6.29%	$ 160,000
General Construction	1997	1,525,000	2021	4.87% to 6.56%	890,000
General Construction	2003	4,025,000	2027	4.36% to 5.02%	3,095,000
General Construction	2004	1,500,000	2030	4.17% to 5.02%	1,285,000
General Construction	2005	2,015,000	2030	3.27% to 4.80%	1,125,000
General Construction	2009	2,795,000	2033	1.53% to 6.00%	2,615,000
General Construction	2009	2,150,000	2033	1.53% to 6.00%	2,010,000
Operational Purpose	2009	1,486,000	2019	4.75% to 6.00%	1,016,000
General Construction	2010	2,235,000	2034	5.00% to 6.50%	2,130,000
Purchase of Equipment	2011	2,295,000	2017	6.00% to 7.50%	1,755,000
General Construction	2012	135,000	2036	6.00% to 7.50%	130,000
Purchase of Property	2012	435,000	2036	6.00% to 6.50%	430,000
Operational Purpose	2012	1,940,000	2036	6.00% to 6.50%	1,905,000
Operational Purpose	2013	1,820,000	2037	6.00% to 6.50%	1,820,000
Total General Obligations Bonds					**20,366,000**
Special Obligation Bonds:					
General Revenues:					
Operational Purpose	2004	1,915,000	2024	1.53% to 7.00%	1,280,000
Section 108 (HUD):					
General Construction	2006	6,000,000	2026	4.96% to 5.77%	5,294,000

Continue

11. GENERAL LONG-TERM DEBTS- continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
Sales and Use Taxes:					
General Construction	2008	1,175,000	2032	1.53% to 6.00%	1,110,000
General Construction	2009	1,006,000	2013	1.53% to 5.40%	231,000
Purchase of Equipment	2011	172,000	2017	6.00% to 6.50%	132,000
General Construction	2011	474,000	2017	6.00% to 6.50%	359,000
General Construction	2011	3,015,000	2035	6.00% to 7.00%	2,930,000
Purchase of Equipment	2012	271,000	2018	6.00% to 7.00%	241,000
General Construction	2012	410,000	2018	6.00% to 7.50%	365,000
Operational Purpose	2013	1,195,000	2037	6.00% to 7.50%	1,195,000
Subtotal					6,563,000
Total Special Obligations Bonds					**13,137,000**
Total General and Special Obligation Bonds					**$ 33,503,000**

Variable interest rates on bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the USA, and (2) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the US Internal Revenue Code.

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2013, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

B. Legal Debt Limit and Legal Debt Margin

On March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The Municipality debt limits are 10% of valuation of property subject to taxation, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the Municipality.

C. Other Long-Term Debts

Borrowing from MRCC

On July 1, 2002, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 42. The total amount of debt is $663,454 to be paid during 30 years plus annual interest of 6.1875%.

On July 1, 2007, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 146. The total amount of debt is $310,442 to be paid during 25 years plus annual interest of 6.22%.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2013 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2013.

Continue

11. GENERAL LONG-TERM DEBTS– continuation

Compensated Absences

This amount represents the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations.

Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE JULY 1, 2012	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2013	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
Law Number 42 - MRCC	$ 563,838	$ -	$ (14,242)	$ 549,596	$ 12,418	$ 537,178
Law Number 146 - MRCC	248,353	-	(12,419)	235,934	15,136	220,798
Christmas Bonus	228,360	184,166	(228,360)	184,166	184,166	
Compensated Absences	1,842,683	-	(243,958)	1,598,725	1,391,430	207,295
TOTAL	$ 2,883,234	$ 184,166	$ (498,979)	$ 2,568,421	$ 1,603,150	$ 965,271

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2013:

DESCRIPTION	BALANCE JULY 1, 2012	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2013	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General Obligation Bonds	$ 19,786,000	$ 1,820,000	$ (1,240,000)	$ 20,366,000	$ 1,080,000	$ 19,286,000
Special Obligation Bonds	12,815,000	1,195,000	(873,000)	13,137,000	1,640,000	11,497,000
Other Obligations	2,883,234	184,166	(498,979)	2,568,421	1,603,150	965,271
TOTAL	**$ 35,484,234**	**$ 3,199,166**	**$ (2,611,979)**	**$ 36,071,421**	**$ 4,323,150**	**$ 31,748,271**

E. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The Municipality believes it is in compliance with all significant limitations and restrictions.

The annual requirements to amortize the general long-term debts outstanding as of June 30, 2013 are as follows:

	General Obligation Bonds		Special Obligation Bonds		Other Noncurrent Obligations			
YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PRINCIPAL	TOTAL INTEREST
2014	$ 1,080,000	$ 1,065,186	$ 1,640,000	$ 817,487	$ 1,603,150	$ 48,451	$ 4,323,150	$ 1,931,124
2015	1,160,000	1,092,901	733,000	677,935	235,800	46,728	2,128,800	1,817,564
2016	1,245,000	1,029,136	763,000	639,172	29,516	44,944	2,037,516	1,713,252
2017	1,270,000	952,602	788,000	593,874	30,591	43,098	2,088,591	1,589,574
2018	1,355,000	872,440	819,000	545,644	171,583	247,360	2,345,583	1,665,444
2019-2023	4,116,000	3,577,280	3,326,000	2,115,257	210,586	188,958	7,652,586	5,881,495
2024-2028	4,260,000	2,886,998	2,338,000	1,221,701	287,195	117,479	6,885,195	4,226,178
2029-2033	3,795,000	1,246,251	1,625,000	680,225	-	-	5,420,000	1,926,476
2034-2037	2,085,000	227,266	1,105,000	139,125	-	-	3,190,000	366,391
TOTAL	**$ 20,366,000**	**$ 12,950,060**	**$ 13,137,000**	**$ 7,430,420**	**$ 2,568,421**	**$ 737,018**	**$ 36,071,421**	**$ 21,117,498**

Continue

12. DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 13).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 11). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

13. PROPERTY TAXES

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1st of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business, or (2) owns residential real property with a value in excess of $15,000 (at 1957 market price).

The MRCC is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Real property tax is assessed by the MRCC on each piece of real estate and on each building or residence. The property tax contribution is levied each year over the appraised value of the real property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957.

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. The difference between the advances and the final settlement from MRCC for the fiscal year 2013 resulted in a receivable of $30,290 for the Debt Service Fund. At the time of the preparation of the financial statement, the difference between the advances and the final settlement to the General Fund is pending of final determination..

The tax rate for fiscal year 2013 is 10.43% for real property and 8.43% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 9.40% and 7.40%, respectively, belongs to the Municipality. The Commonwealth of Puerto Rico also contributes an annual tax rate of 0.20% of the property tax collected. The remaining percentage is distributed as follows: (a) 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. The remaining portion belonging to the Municipality of 3.20% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 12). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

As previously mentioned, on March 9, 2009, the Commonwealth of Puerto Rico approves Act Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The effect of this Law was an increase in the valuation of the real properties and in the exemption granted for the residential units occupied by their owners by multiply both amount by ten. Accordingly, the residential units occupied by their owners are exempt from real property taxes on the first $150,000 assessed value. For such exempted amounts, the Puerto Rico Secretary of the Treasury assumes payment of the basic tax to the Municipality (6.00%), except for residential units assessed at less than $35,000 on which a complete exemption is granted. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

Continue

13. PROPERTY TAXES– continuation

In addition, the law grants a complete exemption from personal property taxes up to an assessment value of $50,000 to retailers with an annual net sales volume of less than $150,000. The MRCC advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the MRCC from taxpayers. The MRCC periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from MRCC. Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

The fiscal impact for the future years has not been determined by the Municipality's management.

14. VOLUME OF BUSINESS TAXES

The volume of business taxes is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of $3 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2013, the tax rates were as follows:

a. Financial institutions and savings and loan associations – 1.50%
b. Other organizations – 0.50%

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

15. SALES AND USAGE TAXES

Municipality imposes a Sales and Usage Taxes of 1.5% (1.0% collected and belong to the Municipality and 0.5% collected by the Puerto Rico Secretary of the Treasury) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Tax Return Form, no later than the 10th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources (including the 0.5% collected by the Puerto Rico Secretary of Treasury) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;

b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and

c. 0.1% 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.

Sales tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2013, but pertaining to the current year period.

On February 1, 2014 was enacted the Act Numbers 18 to create the "Law of Municipal Administration Fund (MAF)"and 19 that creates the Municipal Financing Corporation (COFIM by Spanish acronyms). These Acts amend the composition of the SUT effective February 1, 2014 and thereafter. See Note 21 for the changes contemplated by these Acts.

Continue

16. CONSTRUCTION EXCISE TAXES

Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings, and any structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, existing buildings and improvements, project design and other engineering fees, licenses and permits, consulting and legal fees. The tax is paid by the taxpayer before the beginning of the construction project.

A construction project, which doesn't qualify for any of the exceptions presented below, will pay a tax of 8% of the total cost amount of the project. The exceptions for the 8% Construction Tax imposed by the Municipality are as follow:

a. Any religious institution (legally registered as such) which operates as a not-for-profit entity, and is affiliated to the councils and associations that group said institutions in Puerto Rico, will be exempted from payment of any construction tax.

b. When construction is for a residence, made of at least 50% concrete, and said residence is not part of a housing project, urbanization, condominium, or any project of a similar nature (up to a total cost of $90,000); a 4% rate will be collected up to a maximum total construction cost of $90,000 (of which the first $20,000 are exempted). In addition, if the total construction cost is in excess of the $90,000, an 8% rate will be collected and the $20,000 exception will not apply.

c. For any construction not notified to the Municipality, and for which no construction tax has been paid, a 10% (annual) fine over the amounts of tax not paid will be imposed.

Taxes are payable before beginning construction or any activity related to the construction. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

17. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

18. PENSION PLAN

Description of the Plan

Employees of the Municipality participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the system to Chapter 5 of the ERS. The System 2000 applied to employees joining the ERS on or after January 1, 2000.

Continue

18. PENSION PLAN–continuation

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

(a) General Rule – The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.

(b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years.(Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)

(c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

Retirement age for participants who joined public service after June 30, 2013. The retirement age shall be 67 years, except in the case of Public Officers in High-Risk Positions, for whom it shall be fifty eight (58) years.

Participant of the Program

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

As of July 1, 2013, every employee who is a participant of the System, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the System, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars ($10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars ($10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from it.

Continue

18. PENSION PLAN –continuation

Annuity for Years of Service

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars ($500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars ($500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars ($500).

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised. Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service. The maximum retirement annuity for the participants shall be seventy-five percent (75%) of the average compensation.

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

(1) For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus

(2) For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

Continue

18. PENSION PLAN -continuation

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

(1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.

(2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.

(3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

As per Act No. 447 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

(1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:

  (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service.

  (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.

  (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.

(2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.

(3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

(4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

(5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:

  (i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.

  (ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

Continue

18. PENSION PLAN -continuation

Pension Computation

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

(i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.

(ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.

(iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.

(iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.

(v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.

(vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447.

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

(i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.

(ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.

(iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.

(iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.

(v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

Continue

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18. PENSION PLAN -continuation

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

Complete supplementation plan between ERS and the Federal Social Security Hired on or before March 31, 1990	8.275% of gross salary
Coordination plan between ERS and the Federal Social Security Hired on or before March 31, 1990	5.775% of gross salary up to $6,600 8.275% of gross salary over $6,600
Mayors and members of the Police Corps	8.275% of gross salary

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

(a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.

(b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:

(1) Effective July 1, 2013, shall contribute seven percent (7%) of their monthly salaries up to five-hundred fifty dollars ($550) and ten percent (10%) of their monthly salaries in excess of said amount.

(2) Effective July 1, 2014, shall contribute eight point five percent (8.5%) of their monthly salaries up to five-hundred fifty dollars ($550) and ten percent (10%) of their monthly salaries in excess of said amount.

(3) Effective July 1, 2015, shall contribute ten percent (10%) of their full monthly salaries.

The participants of the Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

(c) Mandatory Contribution for the Purchase of Disability Insurance – Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

Continue

18. PENSION PLAN –continuation

Employer Contributions to the System (ERS and Hybrid Program)

Every employer shall mandatorily contribute to the System the following:

July 1, 2011	Ten point two hundred seventy-five percent (10.275%) of the salary of each participant
July 1, 2012	Eleven point two hundred seventy-five percent (11.275%) of the salary of each participant

Every employer, beginning on July 1, 2013, shall mandatorily contribute to the System the following:

July 1, 2013	Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant
July 1, 2014	Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant
July 1, 2015	Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant
July 1, 2016	Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant
July 1, 2017	Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant
July 1, 2018	Eighteen point twenty-five percent (18.025%) of the salary of each participant
July 1, 2019	Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant
July 1, 2020	Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant

It is provided that the established increases applicable to the municipalities for fiscal years 2012-2013 and 2013-2014, shall be included in the budget petition submitted by the Office of Management and Budget to the Legislative Assembly.

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

Death of a Pensioner

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

Separation from Service for Disability or Terminal Illness

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

Continue

18. PENSION PLAN –continuation

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator.

Additional Benefits Program

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

(a) A Medication Bonus equal to one hundred ($100), which shall be paid no later than July 15 of each year;

(b) A Christmas Bonus equal to two hundred dollars ($200), which shall be paid no later than December 20 of each year; and

(c) A Government contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars ($100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars ($2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

The persons who retire under the provisions of Act 305-1999, known as 'Retirement Savings Accounts Program', and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

Annual Contribution

The Municipality's contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

FISCAL YEAR	DEFINED BENEFIT	HYBRID PROGRAM
2013	$ 48,426	$ 224,520
2012	56,875	258,410
2011	185,126	278,995

Total employee contributions to the above-mentioned plans during the year ended June 30, 2013, 2012 and 2011 amounted to approximately $812,090.

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Continue

18. PENSION PLAN –continuation

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

19. HEALTHCARE COSTS

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to approximately$624,038 for the fiscal year ended June 30, 2013.

20. CONTINGENCIES

A. Claims and Judgments

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

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

B. Federal Grants

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

21. COMMITMENTS

A. Operating Leases

The Municipality leases equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund for the year ended June 30, 2013, amounted to approximately $200,000. Management believes that the summary of the future minimum rental commitments under noncancelable equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

B. Construction and Improvement Commitments

The Municipality had encumbrances at June 30, 2013 for the construction, improvements, or renovation of several municipal facilities in the following funds:

	Encumbered For	Amount	Reported within Fund Balance Classification
General Fund	Construction of Library	$ 55,000	Restricted for Construction of Facilities
Non Major Funds	Construction of Bridges	1,220,938	Restricted to Improvement of Streets and Sidewalks

Continue

21. COMMITMENTS–continuation

C. Solid Waste Disposal Contract

The **Municipality** has a solid waste recollection and disposal contract with the Consolidated Waste Services, Corp. until June 30, 2015, to provide the service for recollection and disposal of solid waste. In the contract it was established that the **Municipality** is committed to pay the fixed amount of $1,950,000 annually. Expenditure for the year ended June 30, 2013 for this service amounts to $1,785,500.

D. Other Commitments

At June 30, 2013, the general fund had a deficit of $3,468,805 which will be covered with future budgetary appropriations of the general fund. Also, the other governmental fund had a deficit of $2,728,353.The deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement-based (expenditure-driven) grants on GFFS when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary

22. NET POSITION / FUND BALANCES RESTATEMENTS

A. Net Position

For the year ended June 30, 2013, the **Municipality** has adopted GASB 65, which states that debt issuance costs should be recognized as an outflow of resources in the period incurred rather than recognized over the life of the debt incurred.

Net Position, as Previously Reported, At June 30, 2012	$ 24,106,451
Implementation of GASB 65	(95,514)
Beginning Net Position, as Restated, At July 1, 2012	**$ 24,010,937**

B. Fund Balance

The following reconciles the June 30, 2013 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2013 for the various funds:

	GENERAL FUND	ACTIVITIES CENTER FUND	MULTIUSES COLISEUM FUND	DEBT SERVICCE FUND	OTHER GOVERNMENTAL FUNDS
Fund Balances, as Previously Reported, at June 30, 2012	$ (2,998,994)	$2,585,939	$ 243,576	$ 2,006,357	$2,436,729
To Reclassify Major Fund Balances	-	-	(243,576)	-	243,576
Beginning Fund Balances, as Restated, at July 1, 2012	$(2,998,994)	$2,585,939	$ -	$ 2,006,357	$2,680,305

This classification did not constitute a change in accounting principle.

23. NEW ACCOUNTING STANDARDS

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

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

Continue

23. NEW ACCOUNTING STANDARDS –continuation

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

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

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

GASB Statement No. 64 ("GASB 64") Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53 was issued in June 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of Statement No. 64 are effective for financial statements for periods beginning after June 15, 2011 and were adopted the Municipality effective July 1, 2013 with no significant impact on the financial statements.

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

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

24. SUBSEQUENT EVENT

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

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

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

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

Continue

24. SUBSEQUENT EVENT – continuation

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

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through March 27, 2014, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

END OF NOTES

AUTONOMOUS MUNICIPALITY OF SAN LORENZO, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2013

ROMAN TORO & CO., CSP Certified Public Accountants and Business Consultants
PO BOX 3043 YAUCO PR 00698-3043 · TEL. (787) 856-6220 · FAX: (787) 856-6233

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Acompanying Notes)	Variance with Final Budget
	Original	Final		
BUDGETARY FUND BALANCE (DEFICIT), JULY 1, 2012	**$ (3,551,342)**	**$ (3,551,342)**	**$ (3,551,342)**	**$ -**
Resources (Inflows):				
Property Taxes	3,294,574	3,294,574	3,294,574	-
Volume of Business Taxes	3,025,000	3,025,000	2,867,287	(157,713)
Sales and Usage Taxes	1,508,000	1,508,000	1,287,877	(220,123)
Intergovernmental Revenues	6,471,022	6,471,022	6,900,550	429,528
Construction Excise Taxes	4,065,983	4,065,983	373,308	(3,692,675)
Rent	30,000	30,000	51,031	21,031
Miscellaneous	172,300	172,300	137,768	(34,532)
Total Resources (Inflows)	**18,566,879**	**18,566,879**	**14,912,395**	**(3,654,484)**
Amounts Available for Appropriation	15,015,537	15,015,537	11,361,053	(3,654,484)
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	2,661,347	2,163,841	2,206,437	(42,596)
General Government	7,872,552	8,121,095	9,563,640	(1,442,545)
Public Safety	889,087	828,626	789,190	39,436
Public Works	1,715,307	2,178,146	2,278,004	(99,858)
Culture and Recreation	1,247,259	1,042,712	1,012,015	30,697
Health and Sanitation	662,277	662,277	624,038	38,239
Solid Waste Disposal	214,746	230,746	240,826	(10,080)
Human Services and Welfare	2,471,873	2,174,015	1,811,120	362,895
Capital Outlays	256,210	971,831	882,992	88,839
Transfer to Other Funds	576,221	193,590	193,590	-
Total Charges to Appropriations	18,566,879	18,566,879	19,601,852	(1,034,973)
BUDGETARY FUND BALANCE (DEFICIT), JUNE 30, 2013	**$ (3,551,342)**	**$ (3,551,342)**	**$ (8,240,799)**	**$ (4,689,457)**

The accompanying Notes to Required Supplementary Information are an integral part of this schedule.

ROMAN TORO & CO., CSP Certified Public Accountants and Business Consultants
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1. Budgetary Reporting

The Budgetary Comparison Schedule - General Fund is presented as Required Supplementary Information in accordance with GASB Accounting Standards Codification Section 1700, *The Budget and Budgetary Accounting.* Formal and legal budgetary control is based upon major classes of expenditures known as functions. The Municipality's expenditures in Mayor and Municipal Legislature, General Government, Public Works and Solid Waste Disposal functions exceeded the budgetary amount by $42,596; $1,442,545; $99,858; y $10,080, respectively, due to far greater than expected increased expenditures for materials, repair and maintenance of facilities and citizen support.

2. Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	General Fund
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 56)	$ 11,361,053
Difference – Budget to GAAP:	
GASB 54 Reclassification of Revenue	52,041
The Fund Balance (Deficit) at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	3,551,342
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	$ 14,964,436
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 56)	$ 19,601,852
Difference – Budget to GAAP:	
Non budgetary expenditures (expenditures reclassification GASB 54)	114
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(923,757)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	84,146
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(193,590)
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	$ 18,568,765

END OF THIS SECTION

SUPPLEMENTARY INFORMATION REQUIRED BY

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Line Ited No. Assets		Value
	Current Assets - Cash:	
111	Cash - Unrestricted	$ 3,321
100	**Total Cash**	**3,321**
	Receivables:	
128	Fraud Recovery	5,638
120	**Total Receivables, Net of Allowances for Doubtful Accounts**	**5,638**
190	**Total Assets**	**$ 8,959**
Liabilities and Equity		
	Current Liabilities:	
333	Accounts Payable - Other Government	$ 101,780
310	**Total Current Liabilities**	**101,780**
300	**Total Liabilities**	**101,780**
	Equity:	
512.1	**Unrestricted Net Position**	**(92,821)**
513	**Total Equity / Net Position**	**(92,821)**
600	**Total Liabilities and Equity / Net Position**	**$ 8,959**

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

Line Ited No.		Value
Revenues		
70600	HUD PHA Operating Grants	$ 562,975
71100	Investment Income - Unrestricted	372
71500	Other Revenue	24,402
70000	**Total Revenues**	**587,749**
Expenses		
	Administrative:	
91100	Administrative Salaries	91,743
91500	Employee Benefit Contributions - Administrative	23,248
91600	Office Expense	4,299
91900	Other	8,400
91000	**Total Operating - Administrative**	**127,690**
96900	**Total Operating Expenses**	**127,690**
97000	**Excess of Operating Revenue over Operating Expenses**	**460,059**
97300	Housing Assitance Payments	553,762
97350	HPA Portability-In	33,716
90000	**Total Expenses**	**715,168**
97000	**Excess (Deficiency) of Total Revenue over (under) Total Expenses**	**$ (127,419)**
	Memo Account Information:	
*110030	Beginning Equity	$ 34,598
*11170	Administrative Fee Equity	$ (85,351)
*11180	Housing Assistance Payments Equity	$ (7,470)
*11190	Unit Months Available	1200
*11210	Number of Unit Months Leased	1190

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

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1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) includes the Section 8 Housing Choice Vouchers federal program activities of the Autonomous Municipality of San Lorenzo of the Commonwealth of Puerto Rico (Municipality). The information in the FDS is presented in accordance with the requirements of *HUD's Uniform Financial Reporting Standards for HUD Housing Programs.* Because the FDS presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net position of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets, Liabilities, Net Assets, Revenues and Expenses reported on the FDS, are reported on the full accrual basis of accounting. They are recognized following the *HUD's Uniform Financial Reporting Standards for HUD Housing Programs.*

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Assets, Liabilities and Net Assets are presented in the Municipality's Statement of Net Position. Revenues and Expenses are reported in the Statement of Activities.

END OF NOTES

AUTONOMOUS MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2013

COMMONWEALTH OF PUERTO RICO

AUTONOMOUS MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2013

CONTENTS

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

Honorable Mayor and Members of the
Municipal Assembly
San Lorenzo, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Autonomous Municipality of San Lorenzo, Puerto Rico as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Autonomous Municipality of San Lorenzo, Puerto Rico's basic financial statements, and have issued our report thereon dated March 27, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exists that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Autonomous Municipality of San Lorenzo, Puerto Rico's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-002 to 2013-008.

Autonomous Municipality of San Lorenzo, Puerto Rico's Response to Findings

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

Purpose of this Report

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

Román Toro & Co.

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

Yauco, Puerto Rico
March 27, 2014

Stamp #E93386 was affixed to
the original report

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

Honorable Mayor and Members of the
Municipal Assembly
San Lorenzo, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited Autonomous Municipality of San Lorenzo, Puerto Rico's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Autonomous Municipality of San Lorenzo, Puerto Rico's major federal programs for the year ended June 30, 2013. Autonomous Municipality of San Lorenzo, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Community Development Block Grants-Section 108 Loan Guarantee Program (CFDA 14.248)

As described in items 2013-002 in the accompanying schedule of findings and questioned costs, the Autonomous Municipality of San Lorenzo, Puerto Rico did not comply with requirements regarding Activities Allowed and Unallowed (A) as well as Allowable Costs/Cost Principles (B) that are applicable to its Community Development Block Grants-Section 108 Loan Guarantees (CFDA 14.248). Compliance with such requirements is necessary, in our opinion, for the Autonomous Municipality of San Lorenzo, Puerto Rico to comply with the requirements applicable to that program.

Qualified Opinion on Community Development Block Grants-Section 108 Loan Guarantee Program (CFDA 14.248)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Autonomous Municipality of San Lorenzo, Puerto Rico complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grants-Section 108 Loan Guarantees (CFDA 14.248) for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Autonomous Municipality of San Lorenzo, Puerto Rico, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as 2013-002 to 2013-008. Our opinion on each major federal program is not modified with respect to these matters.

The Autonomous Municipality of San Lorenzo, Puerto Rico's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Autonomous Municipality of San Lorenzo, Puerto Rico's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Autonomous Municipality of San Lorenzo, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Autonomous Municipality of San Lorenzo, Puerto Rico's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Autonomous Municipality of San Lorenzo, Puerto Rico's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-002, 2013-003, 2013-004, and 2013-005 to be material weaknesses.

Report on Internal Control Over Compliance (continued)

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2013-006, 2013-007, and 2013-008 to be significant deficiencies.

The Autonomous Municipality of San Lorenzo, Puerto Rico's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Autonomous Municipality of San Lorenzo, Puerto Rico's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Autonomous Municipality of San Lorenzo, Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Autonomous Municipality of San Lorenzo, Puerto Rico's basic financial statements. We issued our report thereon dated March 27, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Román Toro & Co.

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

Yauco, Puerto Rico
March 27, 2014

Stamp #E93387 was affixed to
the original report

ROMAN TORO & CO., CSP Certified Public Accountants and Business Consultants
PO BOX 3043 YAUCO PR 00698-3043 · TEL. (787) 856-6220 · FAX: (787) 856-6233

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Puerto Rico Department – Administration for the Childhood Care and Integral Development:			
Child and Adult Care Food Program	10.558	CCC-193	$ 75,958
Total U. S. Department of Agriculture			75,958
U.S. Department of Housing and Urban Development:			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		681,452
Pass-Through State – Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant/States Program (SBGP) and Non Entitlements Grants in Hawaii (State-Administered Small Cities Program)	14.228	2013-005101 / 005258	733,753
Total U.S. Department of Housing and Urban Development			1,415,205
U.S. Department of Justice:			
Pass-Through Puerto Rico Office for Public Security:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-0DJ-BX-2693	44,219
Total U. S. Department of Justice			44,219
U.S. Department of Transportation:			
Direct Program:			
Federal Transit – Formula Grants (Urbanized Area Grant Program	20.507		39,560
Total U. S. Department of Transportation			39,560
U.S. Department of Health and Human Services:			
Pass-Through Administration for the Childhood Care and Integral Development:			
Child Care and Development Block Grant	93.575	2013-000042	265,781
Total U.S. Department of Health and Human Services			265,781
U.S. Department of Homeland Security:			
Pass-Through Puerto Rico Office for Public Security:			
Disaster Grants – Public Assistance	97.036	FEMA 1798, 1946, 4004, 4017	2,062,627
Total U. S. Department of Homeland Security			2,062,627
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 3,903,350**

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the Autonomous Municipality of San Lorenzo of the Commonwealth of Puerto Rico (Municipality). The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net assets of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

C. Pass-through entity identifying numbers are presented where available.

3. FEDERAL CFDA NUMBER

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

4. RELATIONSHIP TO FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the Municipality's Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund in the Other Governmental Funds column.

5. OUTSTANDING LOAN BALANCE

The Municipality participates in the Community Development Block Grant Section 108 Loan Guarantee Program (CFDA No. 14.248). The outstanding principal balance of the Municipality's Section 108 loan guaranteed by the U.S. Department of Housing and Urban Development at June 30, 2013 was $5,294,000.

END OF NOTES

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

- Significant deficiency identified? [X] Yes [ ] None reported
- Material weakness (es) identified? [ ] Yes [X] No

Noncompliance material to financial statements noted? [ ] Yes [X] No

Federal Awards

Internal control over major programs:

- Significant deficiency identified? [X] Yes [ ] None reported
- Material weakness (es) identified? [X] Yes [ ] No

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant/States Program
14.248	Community Development Block Grant – Section 108 Loan Guarantee
14.871	Section 8 Housing Choice Vouchers
97.036	Disaster Grants – Public Assistance

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

Auditee qualified as low-risk auditee? [ ] Yes [x] No

END OF SECTION

SECTION II – FINANCIAL STATEMENTS FINDINGS

2013-001

Type of finding: Financial statement.
Situation: Significant deficiency, compliance over local regulations.
Compliance Requirements: Not applicable.
Prior-Year(s) Audit Finding(s): 2007-2, 2008-4, 2009-II-4, 2010-II-1; 2011-II-1; 2012-II-1
Questioned Costs: Not applicable.

Condition:
The Municipality issued checks without the required authorization and signature from the Pre-Intervention personnel.

Context:
During our tests of disbursements of various funds and major federal programs we observed a population of 159 checks, of which we found 41 checks for a total of $1,937,148 issued to suppliers and construction contractors where the vouchers authorizing the expenditures were not signed and approved by the Municipality's pre-intervention personnel at the time of our observation, as required by local regulations. The pre-intervention function reviews disbursements to detect noncompliance with state, local, and federal laws and regulations, as well as accounting and documentation issues in order to detect and prevent noncompliance, errors, and fraud before the disbursement of public funds is made. Pre-intervention personnel observe all the documentation supporting a disbursement, and do not approve nor sign the disbursement voucher if all documentation demonstrating compliance is not accompanying the disbursement. Such documentation is sometimes located in various departments or offices of the Municipality, and must be compiled in order to group them with each disbursement.

Some of the reasons for not signing the disbursement vouchers were missing documentation relating to evidence of payment of construction permits tax, evidence of procurement procedures, evidence of construction sign placement near work area, missing signatures of municipal representatives in various documents, and missing Davis-Bacon Act payrolls for applicable construction activities. During our review of the disbursements' supporting documentation, we noted that the issues had been substantively resolved.

Criteria:
Section 8 of Chapter IV of the Municipal Administration Manual as issued by the Puerto Rico Office of the Commissioner for Municipal Affairs (OCAM) states that the Finance Director must not disburse municipal funds which have not been reviewed and approved as correct by a pre-intervention employee or supervisor.

Cause:
This situation occurred because the pre-intervention employee had several objections toward each contractor's compliance with contract clauses and various regulations. Certain copies of such evidence demonstrating compliance were not attached to the disbursement voucher during the pre-intervention review, and were attached subsequently. The Finance Department determined that correcting these situations and providing to the pre-intervention personnel for second reviews were not necessary to withhold payment and, therefore, disbursed the funds.

Effect:
The Municipality performed a disbursement of funds without the proper authorization from the required personnel, thereby infracting on the norms and procedures established by local laws and regulations, and increasing the risk that it would disburse funds which did not meet required regulations and incur in noncompliance.

SECTION II – FINANCIAL STATEMENTS FINDINGS (continued)

2013-001, continued

Auditor's recommendation:

The Municipality must not disburse any funds, whether federal or local, without the required authorizations and signatures. Even during the course of obtaining an oral authorization, the disbursement is not complete and approved unless all signatures are obtained, and all applicable laws and regulations are met. These authorizations are in place in order to reduce the risk that the Municipality disburse public funds without complying with all applicable regulations.

Views of responsible officials and corrective actions:

The Finance Director was duly instructed to don't make or paid disbursements without have the required documentation and signatures.

Audit finding status:

This is a finding which has repeated in prior years. It is currently unresolved.

END OF SECTION

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2013-002

Type of finding: Federal Award.
Situation: Material weakness in internal controls; compliance with loan agreements.
Federal Program: Community Development Block Grant – Section 108 Loan Guarantee (CFDA 14.248)
Compliance Requirements: Activities Allowed and Unallowed (A); Allowable Costs/Cost Principles (B)
Prior-Year(s) Audit Finding(s): None.
Questioned Costs: $2.1 million, reimbursed by Municipality in April 2013.

Condition:
The Municipality used cash resources from its Community Development Block Grant – Section 108 Loan Guarantee program fund for its own general operations, in violation of the program's loan agreement and applicable federal regulations.

Context:
The Municipality has used cash resources from the Section 108 Loan Guarantee fund account as temporary loan transfers to its General Fund to cover cash deficiencies in its general operations, in violation of the loan agreement and program regulations. During the fiscal year, the Municipality used more than $2.1 million from the program's cash accounts as loan transfers to its operating accounts. While amounts were reimbursed to the program on April 16, 2013, we observed subsequent uses of program funds as loans for the General Fund, including $185,000 in October 2013.

The Municipality's Section 8 Loan Guarantee funds were obtained by a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974 (42 USC §5308), in order to develop a Municipal Activity Center Project aimed to foster economic development of a low-income area in the Municipality. So far, the loan guarantee funds have been used for the acquisition of land, demolition of old structures, and design and preparation for the development of the planned activity. As of June 30, 2013, no other development has been performed for the planned activity. After December 31, 2008, the Municipality has used part of the resources in its Guaranteed Loan Funds Account for its Loan Repayment Account in accordance with paragraph 1(a) of the loan agreement to meet the required obligations of the loan.

Criteria:
The Municipality's Section 8 Loan Guarantee funds were obtained by a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974 (42 USC §5308), signed by the Municipality and the Puerto Rico state cognizant agency (Office of the Commissioner for Municipal Affairs) on August 29, 2006, and signed by the US Department of Housing and Urban Development on September 13, 2006 (the "loan agreement"). In Paragraph 1(a) of such agreement, the withdrawal of the loan guarantee funds is restricted for the use of Section 108 activities approved by HUD and economic development activities pursuant to 24 CFR 570.703 and 570.203, which include the construction of a Municipal Activity Center Project (paragraph 15(b) of the loan agreement).

Cause:
The Municipality's cash and liquidity position has deteriorated significantly, reducing the resources available for certain of its operations and funds, and the Finance Department decided to use resources from the Section 108 Loan Guarantee program to cover the cash needs of its operations.

Effect:
The Municipality's Section 108 Loan Guarantee Fund was deprived of the necessary resources needed to complete the activities it was awarded for.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2013-002, continued

Auditor's recommendation:
The Municipality must reimburse all resources obtained from such funds to the Section 108 Loan Guarantee account immediately, or establish a Section 108 repayment fund account to provide compensation to the US Department of Housing and Urban Development for noncompliance with the loan agreement.

The Municipality must also prepare and submit the required financial reports of the Section 108 Loan Guarantee funds to the state cognizant agency for their review. The Municipality should revise its controls to assure that General Fund's operations do not infringe on the resources and appropriations of other funds whose use are restricted, and forbid the discretionary use of restricted fund accounts.

Views of responsible officials and corrective actions:
Transfers made by this loan have been returned to it. Currently, we are working with the grantor agency to finally decide the use of these funds.

Audit finding status:
This is a finding which has repeated in prior years. It is currently unresolved.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2013-003

Type of finding: Federal Award.
Situation: Material weakness in internal controls; compliance with federal regulations.
Federal Program: Community Development Block Grant/States Program (CFDA 14.228)
Compliance Requirements: Activities Allowed/ Unallowed (A); Allowable Costs/Cost Principles (B); Cash Management (C).
Prior-Year(s) Audit Finding(s): None.
Questioned Costs: $0. Amount was reimbursed.

Condition:
The Municipality maintained cash resources from its Community Development Block Grant/States Program in excess of amounts immediately necessary for its operations, and in one instance it used such excess funds for its own general operations, in violation of the program's applicable federal regulations. This situation may have been caused in part by lateness in reconciling its bank statements with its accounting records.

Context:
While reviewing the program's bank reconciliations and bank statements, we noted that the Municipality on two occasions requested funds from the pass-through agency which it then did not expend in the minimum amount of time for its needs, despite the Municipality's policies and internal controls which have been implemented to reduce the time between the moment of receipt/deposit of the funds and their expenditure/disbursement. However, one important control, the reconciliation of the program's cash account was not being performed on a timely manner consistently.

In one instance, the Municipality used cash resources from the Community Development Block Grant/States Program's cash accounts that it requested and received on December 19, 2012 as temporary loan transfers to its General Fund to cover cash deficiencies in its general operations, in violation of program regulations. On December 28, 2012, the Municipality transferred $100,000 of such funds as a loan from the program to the Municipality's General Fund, and reimbursed the amount in January 18, 2013 after a period of 21 days. The Municipality recorded the loan in its records and the bank reconciliations of the SBGP account noting the nature of the transaction.

A second situation noted was a request for funds made in May 2013, where $414,828 in program funds were received and deposited in the program's bank account on May 30, 2013. The program's activities for which this request was made were expended and disbursed between June 26, 2013 and July 23, 2013, resulting in between 28 to 54 days after the receipt and deposit of the requested funds.

One of the controls the Municipality has in place to reducing the time that the program's cash remains idle is the timely reconciliation of the program's bank account, which was not timely performed during the year. We found that for the months of November 2012 through April 2013, the bank account was reconciled between 122 to 209 days after each month's closing balance, a procedure normally accomplished between 20 to 60 days after each month ends.

Criteria:
When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement, and subrecipients should conform substantially to the same standards of timing and amount as applied to the pass-through entity, as per 31 CFR part 205. Additionally, transfer of federal funds in order to assist in the liquidity of an entity's operations is an unallowable activity under federal regulations. Chapter IV, section 12 of the Municipal Administration Manual issued by the PR Commissioner's Office for Municipal Affairs requires the Municipality to reconcile its accounting records with its bank accounts on a monthly basis.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2013-003, continued

Cause:
The Municipality did not adequately track its cash resources in order to process the program's expenditures quickly to reduce the time the program's cash remains idle. Additionally, the Municipality's cash and liquidity position has deteriorated significantly, reducing the resources available for certain of its operations and funds. Its Finance Department decided to use the resources from the program to cover the cash needs of its operations, and controls were not imposed to deter or prevent such transfer of funds.

Effect:
The Municipality's procedures of requesting funds were performed prematurely before the actual immediate need of cash was evident.

Auditor's recommendation:
The Municipality should revise its controls to assure that General Fund's operations do not infringe on the resources and appropriations of other funds whose use are restricted, and forbid the discretionary use of restricted fund accounts. Additionally, it must adequately supervise the personnel in charge of reconciling the accounts of the program, to assure they are performed timely, and assuring transactions between funds are properly recorded and reconciled.

Views of responsible officials and corrective actions:
The Municipality will take the necessary controls to prevent what happened and make disbursements within set time. Currently the bank reconciliations are prepared within the required time.

Audit finding status:
This is a finding which has repeated in prior years. It is currently unresolved.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2013-004

Type of finding: Federal Award.
Situation: Material weakness in internal controls; compliance with federal regulations.
Federal Program: Disaster Grants – Public Assistance (CFDA 97.036)
Compliance Requirements: Activities Allowed and Unallowed (A); Allowable Costs/Cost Principles (B)
Prior-Year(s) Audit Finding(s): None.
Questioned Costs: $105,549 (Amount not reimbursed as of June 30, 2013.)

Condition:
The Municipality used cash resources from its Disaster Grants – Public Assistance program fund for its own general operations, in violation of the program's applicable federal regulations.

Context:
The Municipality has used cash resources from the Disaster Grants – Public Assistance's cash accounts as temporary loan transfers to its General Fund to cover cash deficiencies in its general operations, in violation of program regulations. After requesting funds for the program on various occasions, we detected that the Municipality transferred $50,000 in April 2012, $40,000 in September 2012, $130,549.47 in October 2012, $20,000 in November 2012, and $65,000 in December 2012 from several of the program's cash accounts to the Municipality's General Fund's current account and payroll account. During the fiscal year, the Municipality partly reimbursed the amounts, in February 2013, March 2013 and April 2013.

During certain periods when such transfers and loans were occurring, the Municipality did not timely reconcile the program's bank accounts, significantly increasing the risk that the transfers mentioned above would not be detected or properly recorded in its accounting records. We found that for the months of October 2012 through March 2013, the monthly reconciliations of the bank accounts were performed between 109 to 273 days after each month's closing balance, a procedure normally accomplished between 20 to 60 days after each month ends.

Criteria:
Transfer of federal funds in order to assist in the liquidity of an entity's operations is an unallowable activity under federal regulations. Chapter IV, Section 12 of the Municipal Administration Manual issued by the PR Commissioner's Office for Municipal Affairs requires the Municipality to reconcile its accounting records with its bank accounts on a monthly basis.

Cause:
The Municipality's cash and liquidity position has deteriorated significantly, reducing the resources available for certain of its operations and funds. Its Finance Department decided to use the resources from the program to cover the cash needs of its operations, and controls were not imposed to deter or prevent such transfer of funds.

Effect:
The Municipality's Disaster Grants – Public Assistance Program was deprived of the necessary resources needed to complete the activities it was awarded for.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2013-004, continued

Auditor's recommendation:
The Municipality should revise its controls to assure that General Fund's operations do not infringe on the resources and appropriations of other funds whose use are restricted, and forbid the discretionary use of restricted fund accounts. Additionally, it must adequately supervise the personnel in charge of reconciling the accounts of the program, to assure they are performed timely, and assuring transactions between funds are properly recorded and reconciled.

Views of responsible officials and corrective actions:
The transfers have been duly returned to the account. Currently, the bank reconciliations are prepared within the required time.

Audit finding status:
Unresolved.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2013-005

Type of finding: Federal Award.
Situation: Material weakness in internal controls; compliance with federal regulations.
Federal Program: Disaster Grants – Public Assistance (97.036)
Compliance Requirements: Allowable Costs/Cost Principles (B)
Prior-Year(s) Audit Finding(s): None.
Questioned Costs: $0. Amount was reimbursed.

Condition:
The Municipality issued an incorrect duplicate payment to a contractor under its Disaster Grants – Public Assistance program.

Context:
The Municipality received two certifications from a contractor performing construction services for one of the program's projects (FEMA 1946-PW-521). The first certification listed the current invoice amount for work performed as $75,384, while the second listed the current invoice amount for work performed as $183,375. The second invoice also included the accumulated amount owed by the Municipality for both invoices, totaling $258,759. The payment required was for the accumulated amount; however, when the Municipality processed the certifications for payment, the accountant preparing the disbursement vouchers incorrectly added the accumulated amount of the second invoice ($258,759) and the current amount of the first certification ($75,384), issuing disbursement for a total of $334,143 on March 8, 2013 with check number 28 of its FEMA 1946 account. The situation was not noted by various persons who signed and approved the documentation, who were required to review the disbursement for its appropriateness and correctness. These persons included the Finance Director, the Mayor's authorized representative, and the official payer. The payment was collected and cleared by the contractor in March 13.

The situation was finally noted by the Municipality's Internal Auditor, which alerted the Finance Department of the error, who then retained the overpayment from the contractor's certifications #4 and #5 dated April 23 and September 13, 2013, respectively, with the payments dated on July 29, 2013 and February 21, 2014, respectively.

Criteria:
Recipients and sub-recipients of federal awards must avoid issuing improper, incorrect, or duplicate payments, even if the activity was eligible under program requirements, in accordance with OMB guidance, Public Law (Pub. L.) No. 107-300, the Improper Payments Information Act of 2002, as amended by Pub. L. No. 111-204, the Improper Payments Elimination and Recovery Act, Executive Order 13520 on reducing improper payments, and the June 18, 2010 Presidential memorandum to enhance payment accuracy, among other regulatory guidance.

Cause:
The Municipality's Finance Department did not properly review the contractor's certifications to note the actual amounts being incurred for each certification, instead of the accumulated amounts reported in each document.

Effect:
The Municipality paid a contractor an amount in excess of the amounts incurred for the services provided.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2013-005, continued

Auditor's recommendation:
The Municipality must instruct its employees to better review contractor invoices, to identify which amounts are owed in total versus which is owed for the current certification, and compare amounts being invoiced to the work detailed in the contractor's certification, as verified by the Municipality's inspector.

Views of responsible officials and corrective actions:
This situation was corrected immediately and correctly. When we realized what had happened, it was determined that the amount paid was by inadvertent error, and was retained in subsequent payments. Currently, the contractor doesn't owe any money to the municipality because of these facts, and accounts are being properly.

Audit finding status:
Unresolved.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2013-006

Type of finding: Federal Award.
Situation: Significant deficiency in internal controls; compliance with program regulations.
Federal Program: Section 8 Rental Housing Choice Voucher (CFDA 14.871)
Compliance Requirements: Activities Allowed and Unallowed (A); Allowable Costs/Cost Principles (B)
Prior-Year(s) Audit Finding(s): None.
Questioned Costs: None.

Condition:
The Municipality used cash resources from its Section 8 Housing Choice Voucher program (Section 8 Program) for its own general operations, instead of crediting such resources owed by the program to the Municipality.

Context:
The Section 8 program's cash and investments are deposited in three separate bank accounts, One of those bank accounts is a pool of various restricted funds, which included $22,030 in cash resources from the Section 8 program's Administrative reserves as of June 30, 2013. During the year, the total cash funds of the bank account have at times decreased below the amount indicated as the Section 8 reserves. However, the Section 8 program has an outstanding liability to the Municipality's General Fund, for Section 8 program's expenditures paid with the Municipality's own funds, which totaled $101,780 as of June 30, 2013, exceeding the program's reserves. This situation is a repeat finding; however, the Municipality reduced the amount from $58,921 from prior year to the current balance. As of June 30, 2013 the Municipality had not credited the remaining amounts owed to those reserve funds.

Criteria:
24 CFR § 982.156 states that the Municipality "may only withdraw deposited program receipts for use in connection with the program in accordance with HUD requirements."

Cause:
Instead of crediting the resources used against amounts owed by the Program, the Municipality uses the funds of the account on a need basis for the operations of the grants and contributions deposited in that account.

Effect:
The Section 8 program was temporarily deprived of cash resources needed for the activities it was awarded for.

Auditor's recommendation:
The Municipality should immediately transfer the funds to the program's separate accounts, or credit in its accounting records the amounts owed against the available balance. The Municipality should also revise its controls to assure that its operations do not infringe on the resources and appropriations of other funds whose use are restricted, and forbid the discretionary use of restricted fund accounts reserves.

Views of responsible officials and corrective actions:
We will make arrangements with the Administrative reserve funds and Section 8 HAP program, included in this account, to settle the amount owed to the general fund of the municipality.

Audit finding status:
This is a finding which has repeated in prior years. It is currently unresolved.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2013-007

Type of finding: Federal Award.
Situation: Significant deficiency in internal controls; compliance with program regulations.
Federal Program: Section 8 Rental Housing Choice Voucher (CFDA 14.871)
Compliance Requirements: Special Tests and Provisions (N)
Prior-Year(s) Audit Finding(s): 2012-III-3
Questioned Costs: None.

Condition:
The Municipality's Section 8 Housing Choice Voucher program's (Section 8 Program)'s Administrative Reserve account finished the fiscal year ended June 30, 2013 with a negative reserve balance totaling -$92,821.

Context:
The Municipality's Section 8 Program has cash reserves for Administrative purposes; however, many transactions are paid by the Municipality's General Fund, creating an outstanding debt balance between the two funds until the costs are reimbursed by the Section 8 Program. These have accumulated over years without full reimbursement of costs, and at June 30, 2013 exceeded the program's Administrative assets by $92,821 because of an outstanding debt of $101,180 relating to administrative payroll and other expenses paid by the General Fund awaiting reimbursement from the program.

Criteria:
24 CFR § 982.155 states that the Municipality "must maintain an administrative fee reserve for the program."

Cause:
The Municipality' Section 8 program did not adequately project excess expenditures over revenues, until it had excess expenditures accumulated between funds, and did not report the accumulation of debts between funds in VMS.

Effect:
The Section 8 program's reserves were depleted at year end; however, the program maintains cash reserves offset by liabilities owed to the Municipality.

Auditor's recommendation:
The Municipality should review the ongoing costs incurred by the Section 8 program's administration in order to reduce such levels to match the revenue received from HUD. For the current outstanding balance, the Municipality should consider reviewing the interfund debt outstanding by the Program, and cover the deficiency with its local funds. The Municipality should not liquidate the entire amount owed to the General Fund until the Program's administrative reserves are returned to a reasonable level for its operations, and correct its reporting of VMS information.

Views of responsible officials and corrective actions:
The municipality realized what happened and is taking the necessary steps to prevent such negative balance continues to increase.

Audit finding status:
This is a finding which has repeated in prior years. It is currently unresolved.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2013-008

Type of finding: Federal Award Finding.
Situation: Significant deficiency, compliance with local regulations.
Federal Program: Disaster Grants – Public Assistance (97.036).
Compliance Requirements: Local regulations.
Prior-Year(s) Audit Finding(s): 2007-2, 2008-4, 2009-II-4, 2010-II-1, 2011-II-1, 2012-III-7
Questioned Costs: None.

Condition and Context:
Finding 2013-001 on page 9 is also considered a federal award finding to be reported under OMB Circular A-133. During our tests of disbursements of various funds and major federal programs we observed a population of 159 checks, of which we found 41 checks for a total of $1,937,148 to suppliers and construction contractors when the disbursement voucher authorizing the expenditure was not signed nor approved by the Municipality's pre-intervention personnel, as required by local regulations. From these tests, we observed a total of 45 disbursements totaling $1,970,417 in expenditures from the Disaster Grants program, of which 30 checks (67%) totaling $1,503,559 (76%) were not signed nor approved by the Municipality's pre-intervention personnel because of missing documentation relating to compliance with various regulations.

The pre-intervention function reviews disbursements to detect noncompliance with state, local, and federal laws and regulations, as well as accounting and documentation issues in order to detect and prevent noncompliance, errors, and fraud before the disbursement of public funds is made. Pre-intervention personnel observe all the documentation supporting a disbursement, and do not approve nor sign the disbursement voucher if documentation demonstrating compliance is not accompanying the disbursement. Such documentation is sometimes located in various departments or offices of the Municipality, and must be compiled in order to group them with each disbursement.

In particular, from our selection of the program's disbursements, we found that 5 of the program's disbursements observed were not signed by pre-intervention citing missing procurement documentation at the time of their review; however, we observed such procurement documentation attached to the disbursement in our audit. Additionally, from the same selection we found 27 of the disbursements observed were not approved nor signed by pre-intervention personnel because of missing certified payrolls required under the Davis-Bacon Act for certain federal awards, despite this requirement not applying to the Disaster Grants – Public Assistance program (CFDA 97.036) as per the 2013 OMB Circular A-133 Compliance Supplement, Part 2: Matrix of Compliance Requirements, pg. 2-11. Despite this, our review of these disbursements included Davis-Bacon documentation accompanying the vouchers.

Reasons documented by the pre-intervention officer for not approving nor signing the disbursement vouchers also included compliance with local regulations, such as the payment of construction taxes by the contractor before commencing work, evidence of placement of the municipal sign near the construction activity, or missing signatures in certain documents. Our review of such disbursements noted that these situations were either corrected, such as the payment of taxes, or remained uncorrected, such as photo evidence of sign placement in the construction area.

For more information regarding this situation, see Finding 2013-001.

Audit finding status:
This is a finding which has repeated in prior years. It is currently unresolved.

END OF SECTION

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

(1) Audit Findings that have been fully corrected or not noted during our audit:

None noted.

(2) Audit Findings not corrected or partially corrected:

Year(s)	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
2012	2012 III-1	The Municipality used cash resources from its Section 108 Loan Guarantee program fund for its own general operations, in violation of the program's loan agreement and applicable federal regulations.	14.248	$1,636,790 at June 30, 2012	This situation was found in the current audit. Amounts were reimbursed in April 2013; however, situation continues. See finding 2013-002.
2012	2012 III-2	The Municipality maintained cash resources from its Section 8 Housing Choice Voucher program in a cash pool account, which was used for other activities, instead of crediting such resources owed by the program to the Municipality.	14.871	None.	While the amount was reduced in comparison to FY2012, there were still funds held in the cash pool account.
2012	2012 III-3	The Municipality's Section 8 Housing Choice Voucher program's (Section 8 Program)'s Administrative Reserve account finished the fiscal year ended June 30, 2012 with a negative reserve balance totaling -$15,795.	14.871	None.	The situation has worsened since the prior year, and the program continues to maintain a negative balance for its reserve. See finding 2013-007.
2012	2012 III-4	The Municipality could not provide a written authorization from the pass-through entity for the request, receipt, and use of $173,787 in Homeless Prevention and Rapid Rehousing Program (HPRP) funds to cover administrative costs.	14.257	$173,787	We did not observe communications from the pass-through agency to the Municipality regarding this matter during our audit year and as of our audit date. The Municipality has not returned the amounts.
2012	2012 III-6	The Municipality disbursed funds from the Federal Transit program without proper documentation of procurement procedures and without the required review and authorization of its pre-intervention personnel.	20.500	None.	The Municipality's FTA programs were not selected this year as major programs due to their expenditure levels. However, while we did not detect findings relating to compliance with procurement, deficiencies relating to internal controls in the disbursement process continue. See finding 2013-001.

Continue

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

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

(2) Audit Findings not corrected or partially corrected (Continued):

Year(s)	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
2012	2012 III-7	The Municipality disbursed funds from the Disaster Grants – Public Assistance programs without proper documentation of procurement procedures and without the required review and authorization of its pre-intervention personnel.	97.036	None.	While we did not detect findings relating to compliance with procurement, deficiencies relating to internal controls in its disbursement process continue. See finding 2013-008.
2007 to 2012	2007-5; 2008-4; 2009-III-4; 2010-III-6; 2012-III-5	Disbursement of SBGP funds without obtaining necessary approval and signature from Pre-Intervention personnel.	14.228	None.	This situation was found in our review of disbursements in the current audit. See finding 2013-001.

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE.

(4) Audit findings are no longer valid:

NONE.

END OF SCHEDULE