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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

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

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Year Ended June 30, 2013

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Municipality of Toa Alta, PO Box 82, Toa Alta, Puerto Rico 00954  
Hon. Clemente Agosto Lugardo

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*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

## INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and  
the Municipal Legislature  
Municipality of Toa Alta  
Toa Alta, Puerto Rico**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Toa Alta**, Puerto Rico (Municipality), 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 and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***Basis for Qualified Opinion***

As discussed in Note 11 (G), to the financial statements, management has not evaluated its estimate of the total current cost related to closure and post closure care of its Municipal Solid Waste Landfill Facilities (MSWLF) recorded as a non-current liability in governmental activities and, accordingly, has not adjusted the recorded liability. Accounting principles generally accepted in the United States of America require that at the end of each year, the governmental entities that own and operate a MSWLF should evaluate its estimate of the total current cost related to closure and post closure care of its facilities, due to changes in expected cost from a number of factors, including inflation or deflation, technological advancements, and modifications of legal requirements at the local, state, or national level. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities is not reasonably determinable.

### ***Qualified Opinion***

In our opinion, except for the effect of the matter described in the "Basis for Qualified Opinion" paragraph, if any, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Toa Alta, Puerto Rico, as of June 30, 2013, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

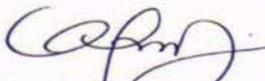
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Toa Alta's** basic financial statements. The accompanying supplementary information – Financial Data Schedules shown in pages **60** and **61** are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages **63** and **64** is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The Financial Data Schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the 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 24, 2014, on our consideration of **Municipality of Toa Alta's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Toa Alta's** internal control over financial reporting and compliance.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 24, 2014

Stamp No. 2675802 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

This discussion and analysis of the Municipality of Toa Alta (Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2013. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2012. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

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

#### FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2013 deserve special mention:

1. Total assets of the Municipality amounted to \$80,480,224 which represents an decrease of 1% compared to prior fiscal year, as restated.
2. At the end of fiscal year 2013, total liabilities amounted to \$57,717,611. Out of said amount, \$47,941,470 corresponded to long-term liabilities of which \$31,365,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues.
3. Total net position of the Municipality amounted to \$22,762,613 which represents a increase of 1% compared to prior fiscal year, as restated.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$25,977,130 derived from the following sources: \$2,129,596 charges for services; \$3,417,280 from operating grants and contributions; \$2,242,239 from capital grants and contributions obtained from other sources, and \$18,188,015 from general revenues available.
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$24,978,967.

#### FINANCIAL HIGHLIGHTS (CONTINUED)

6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a increase in the Net Position figure by \$998,163.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$31,455,285.
8. As of the end of the current fiscal year, the Municipality's general fund deficit amounted to \$3,983,798, compared to a fund balance of \$3,318,681 in the prior fiscal year, as restated.
9. The actual General Fund budgetary activities resulted in a unfavorable balance of \$8,286.

#### FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2013. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

#### FINANCIAL STATEMENTS COMPONENTS

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

The Statement of Net Position reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net position. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net position figure either thru additional borrowings or thru internally generated funds. This in turn will benefit the welfare of the Municipality of Toa Alta's constituents.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net position at the most

## FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

A brief review of the Statements of Activities of the Municipality at June 30, 2013, shows total expenses incurred to afford the cost of all functions and programs amounted to \$24,978,967. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$25,977,130 was derived from the following sources: \$2,129,596 charges for services; \$3,417,280 from operating grants and contributions; and \$2,242,239 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$18,188,015. When such figure is added to the \$7,798,115 previously mentioned, total revenues available for the financing of activities amounted to \$25,977,130. There was an excess of revenues over expenses in the amount of \$998,163 which contributed with the increase to the figure of net position attained at the end of the fiscal year.

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered through this Statement is limited to the Municipality most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

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

## INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets (such as roads, bridges, traffic signals, underground pipes not associated with utilities, etc.) have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. The Municipality implemented the capitalization of infrastructure since July 1, 2002.

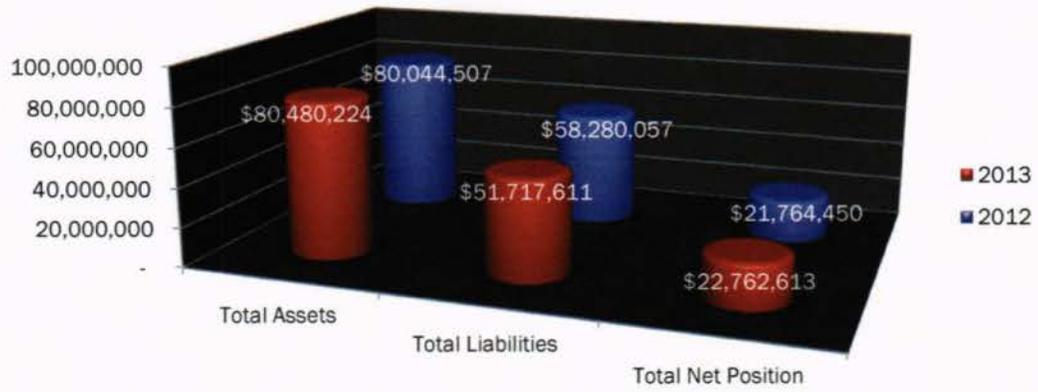
According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management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

## FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

### Net Position

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Toa Alta, primary government assets exceeded total liabilities by \$22,762,613 at the end of 2013, compared to \$21,764,450 at the end of the previous year, as restated, as showed in the following condensed Statement of Net Position of the Primary Government.

Condense Statement of Net Position	2013	2012	Change	%
Current and other assets	\$ 29,466,826	\$ 38,806,613	\$ (9,339,787)	(24)%
Capital Assets	51,013,398	41,237,894	9,775,504	24%
Total Assets	<u>80,480,224</u>	<u>80,044,507</u>	<u>435,717</u>	1%
Current and other liabilities	7,593,287	6,002,418	1,590,869	27%
Long-term liabilities	50,124,324	52,277,639	(2,153,315)	(4)%
Total Liabilities	<u>57,717,611</u>	<u>58,280,057</u>	<u>(562,446)</u>	(1)%
Net investment in capital assets	31,501,295	27,043,809	4,457,486	16%
Restricted	24,022,791	34,929,358	(10,906,567)	(31)%
Unrestricted (deficit)	(32,761,473)	(40,208,717)	7,447,244	(19)%
Total net position	<u>\$ 22,762,613</u>	<u>\$ 21,764,450</u>	<u>\$ 998,163</u>	5%



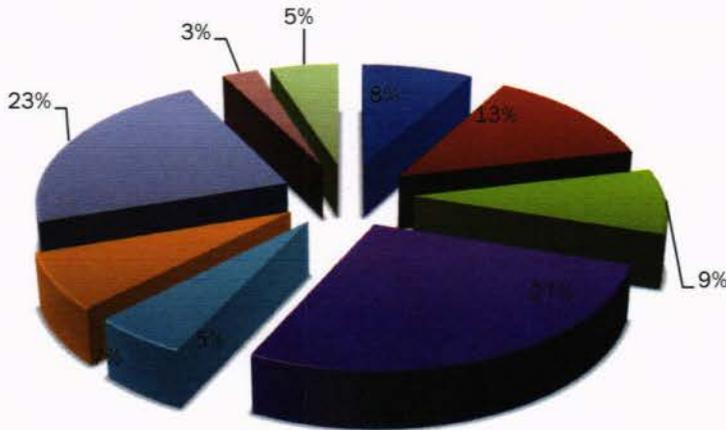
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Approximately 42 percent of the Municipality's total revenue came from taxes, while 21 percent resulted from grants and contributions, including federal aid. Charges for Services provide 8 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government 39 percent, and urban and economic development 22 percent. As follows, a comparative analysis of governmental-wide data is presented. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condense Statement of Activities	2013	2012	Change	%
Program revenues:				
Charges for services	\$ 2,129,596	\$ 2,135,154	\$ (5,558)	0%
Operating grants and contributions	3,417,280	4,468,752	(1,051,472)	(24)%
Capital grants and contributions	2,242,239	1,132,229	1,110,010	98%
General revenues:				
Property taxes	7,040,398	6,983,139	57,259	1%
Municipal license tax	1,396,158	1,199,755	196,403	16%
Construction excise taxes	677,251	1,317,178	(639,927)	(49)%
Municipal sales and taxes	1,927,460	1,614,760	312,700	19%
Grants and Contributions	5,838,823	5,577,750	261,073	5%
Other Revenues	1,307,925	945,436	362,489	38%
Total revenues	<u>25,977,130</u>	<u>25,374,153</u>	<u>602,977</u>	2%
Expenses:				
General government	\$9,833,916	\$7,733,531	\$2,100,385	27%
Public safety	2,311,686	2,425,490	(113,804)	(5)%
Public Housing and Welfare	1,913,348	1,768,935	144,413	8%
Health and sanitation	1,890,024	2,958,398	(1,068,374)	(36)%
Culture and recreation	1,464,776	1,120,328	344,448	31%
Urban and economic development	5,523,033	5,089,356	433,677	9%
Interest on long-term debt	2,042,184	1,140,553	901,631	79%
Total expenses	<u>24,978,967</u>	<u>22,236,591</u>	<u>2,742,376</u>	12%
Change in net position	998,163	3,137,562	(2,139,399)	(69)%
Net position, beginning, as restated	21,764,450	18,626,888	3,137,562	17%
Net position, end of year	<u>\$ 22,762,613</u>	<u>\$ 21,764,450</u>	<u>\$998,163</u>	5%

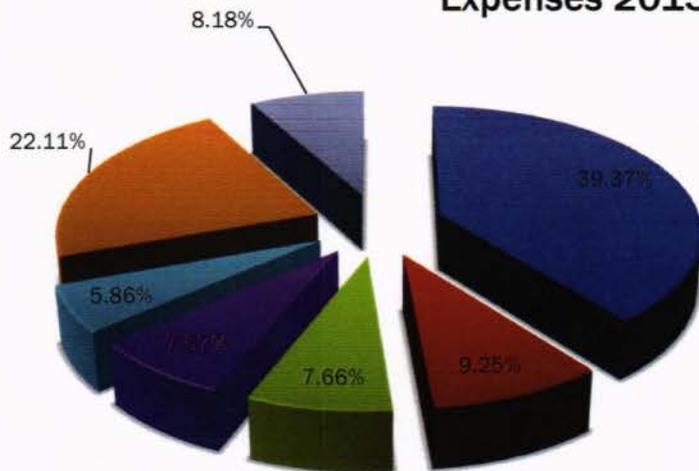
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2013



- Charges for services- 8%
- Operating grants and contributions- 13%
- Capital grants and contributions- 9%
- Property taxes- 27%
- Municipal license tax- 5%
- Municipal sales and use tax- 7%
- Grants and contributions not restricted to specific programs- 22%
- Construction excise taxes- 3%
- Other Revenue- 5%

Expenses 2013



- General Government- 39.37%
- Public safety- 9.25%
- Public housing and welfare- 7.66%
- Health and sanitation- 7.57%
- Culture, recreation and education -5.86%
- Urban development- 22.11%
- Interest on long-term debt- 8.18%

## FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

### Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, 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.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$19,441,576, an decrease of \$11,297,618 in comparison with the prior year, as restated. There are reservations of fund balance amounting to \$24,022,790. The combined fund balances include restricted fund balance amounting to \$23,425,374. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for capital improvement \$13,973,287; 2) to pay for debt service \$3,312,957; 3) to pay capital projects Las Acerolas \$2,383,101. There are committed fund balance amounting to \$567,416 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions: 1) to pay for commitments of the general fund \$567,416.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2013, the general fund has an deficit fund balance of \$3,983,798.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Legislature revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

The actual General Fund budgetary activities resulted in a favorable balance of \$8,286, caused mainly due to unexpected variances in revenue and expenditures.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

The Municipality's investment in capital assets as of June 30, 2013, amounts to \$71,785,927, with an accumulated depreciation of \$20,772,529 (including depreciation charges for the year totaled \$1,839,386), leaving a net book value of \$51,013,398. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

## CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2013, the Municipality has \$840,000 of unexpended proceeds mainly from bonds and notes issuances that are restricted, committed and/or assigned to future construction activities.

### Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law also requires that, in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity". Act No. 64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues.

Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2013-2014.

## FINAL COMMENTS

The Municipality is a governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

The Municipality's management is committed to a continued improvement in the confection of a budget that will response to the needs of the public and private sectors in accordance with its permissible revenues levels. It further contemplates to maintain or improve its current levels of Net Position as indicative of a strong financial position which has been identified as one of the main short and long-term objectives of the Municipality.

## FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,423,831
Cash and cash equivalents- restricted	5,630,672
Cash with fiscal agent- restricted	21,129,410
Accounts receivable, net of reserve for doubtful accounts:	
Property taxes	473,196
Municipal license taxes	2,096
Construction excise taxes	26,742
Sales and use taxes	185,825
Accrued interest on deposits	80,408
Intergovernmental grants	469,252
Inventories and other assets	45,394
Capital assets	
Other capital assets, net of depreciation	51,013,398
Total capital assets	<u>51,013,398</u>
<b>Total assets</b>	<u>80,480,224</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	6,172,490
Deferred revenues	1,221,403
Deposits and surety	199,394
Current Portion of long-term obligations	2,182,854
Noncurrent liabilities:	
Bonds payable	31,365,000
Notes payable	8,617,193
Solid and waste landfill obligation	7,253,281
Claims and judgements	755,000
Compensated absences	2,133,850
Less: Amount reported as current portion	<u>(2,182,854)</u>
<b>Total liabilities</b>	<u>57,717,611</u>
<b>Net Position</b>	
Invested in Capital Assets, net of related debt	31,501,295
Non- spendable	30,000
Restricted	23,425,374
Committed	567,417
Unassigned	<u>(32,761,473)</u>
<b>Total net position</b>	<u>\$ 22,762,613</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**Statement of Activities  
For the Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 9,833,916	\$ -	\$ 7,832	\$ -	\$ (9,826,084)
Public safety	2,311,686		172,895		(2,138,791)
Public housing and welfare	1,913,348		1,546,370		(366,978)
Health and sanitation	1,890,024	2,129,596			239,572
Culture and recreation	1,464,776		90,075		(1,374,701)
Urban development	5,523,033		1,600,108	2,242,239	(1,680,686)
Interest on long-term debt	2,042,184				(2,042,184)
<b>Total governmental activities</b>	<b>\$ 24,978,967</b>	<b>\$ 2,129,596</b>	<b>\$ 3,417,280</b>	<b>\$ 2,242,239</b>	<b>(17,189,852)</b>

General revenues:

Property taxes	7,040,398
Municipal sales and use tax	1,927,460
Municipal license tax	1,396,158
Construction excise taxes	677,251
Intergovernmental grants and contributions	5,838,823
Interest on deposit	1,094,166
Miscellaneous	213,759

Total general revenues	18,188,015
Change in net assets	998,163
Net assets - beginning of period	22,324,200
Prior period adjustments	(559,750)
Net position - beginning, as restated	21,764,450
Net position - ending	\$ 22,762,613

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

Balance Sheet-Governmental Funds  
June 30, 2013

	General Fund	Capital Projects Las Acerolas	Capital Projects Section 108 Loan	Capital Improvement Bond Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents	\$ 1,423,831	\$ 2,182,201	\$ 1,414,638	\$ -	\$ -	\$ 2,033,833	\$ 7,054,503
Cash with fiscal agent				15,074,823	5,769,013	285,574	21,129,410
Accounts receivable:							
Property taxes	430,427				42,769		473,196
Municipal license tax	2,095						2,095
Construction excise tax	26,742						26,742
Municipal sales and use tax	109,007				76,818		185,825
Intergovernmental	193,602					207,070	400,672
Federal grants						68,580	68,580
Interest	1,927	900	300	75,500	281	1,500	80,408
Others	15,394						15,394
Due from other funds	532,570	200,000				1,255,890	1,988,460
Inventory	30,000						30,000
<b>Total assets</b>	<b>\$ 2,765,595</b>	<b>\$ 2,383,101</b>	<b>\$ 1,414,938</b>	<b>\$ 15,150,323</b>	<b>\$ 5,888,881</b>	<b>\$ 3,852,447</b>	<b>\$ 31,455,285</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 2,429,115		\$ 1,592	\$ 1,177,036		\$ 323,401	\$ 3,931,144
Due to other governmental entities	698,557						698,557
Deposits and Surety	199,394						199,394
Due to other funds	1,455,890					532,570	1,988,460
Accrued employee benefits	500,000						500,000
Unearned revenues:							
Municipal license tax	1,036,010						1,036,010
Property tax	430,427						430,427
Grant revenues						185,393	185,393
Mature bonds due and payable					1,684,535	317,000	2,001,535
Mature interest due and payable					891,389	151,400	1,042,789
<b>Total liabilities</b>	<b>6,749,393</b>	<b>-</b>	<b>1,592</b>	<b>1,177,036</b>	<b>2,575,924</b>	<b>1,509,764</b>	<b>12,013,709</b>
<b>Fund balances:</b>							
Nonspendable	30,000						30,000
Restricted		2,383,101	1,413,346	13,973,287	3,312,957	2,342,683	23,425,374
Committed	567,416						567,416
Assigned							-
Unassigned (Deficit)	(4,581,214)						(4,581,214)
<b>Total fund balances (Deficit)</b>	<b>(3,983,798)</b>	<b>2,383,101</b>	<b>1,413,346</b>	<b>13,973,287</b>	<b>3,312,957</b>	<b>2,342,683</b>	<b>19,441,576</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,765,595</b>	<b>\$ 2,383,101</b>	<b>\$ 1,414,938</b>	<b>\$ 15,150,323</b>	<b>\$ 5,888,881</b>	<b>\$ 3,852,447</b>	<b>\$ 31,455,285</b>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

Statement of Revenues, Expenditures and Changes  
in Fund Balances-Governmental Funds  
For the Year Ended June 30, 2013

	General Fund	Capital Projects Las Acerolas	Capital Projects Section 108 Loan	Capital Improvement Bond Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Property taxes	\$ 4,404,110				\$ 2,491,681		\$ 6,895,791
Municipal sales and use tax	1,207,175				720,285		1,927,460
Municipal license taxes	1,396,158						1,396,158
Construction excise tax	677,251						677,251
Charges for services	2,129,596						2,129,596
Contributions in lieu of taxes	2,108,016						2,108,016
Intergovernmental	3,730,807					2,658,102	6,388,909
Interest	11,891	15,700	10,300	1,039,775	4,500	12,000	1,094,166
Federal grants						3,001,417	3,001,417
Miscellaneous	211,554					2,204	213,758
<b>Total revenues</b>	<b>15,876,558</b>	<b>15,700</b>	<b>10,300</b>	<b>1,039,775</b>	<b>3,216,466</b>	<b>5,673,723</b>	<b>25,832,522</b>
<b>Expenditures</b>							
<b>Current:</b>							
General government	9,428,883		31,237	4,540		93,356	9,558,016
Public safety	2,058,553					161,133	2,219,686
Urban and economic Development	2,391,446			320,466		1,707,521	4,419,433
Health and sanitation	1,852,251					19,373	1,871,624
Culture, recreation and education	1,044,865					88,811	1,133,676
Public Housing and welfare	399,496					1,495,466	1,894,962
Capital Outlays			1,798,433	7,234,386		2,582,071	11,614,890
<b>Debt service:</b>							
Principal	379,134				2,519,535	317,000	3,215,669
Interest	105,717				1,567,824	368,643	2,042,184
<b>Total expenditures</b>	<b>17,660,345</b>		<b>1,829,670</b>	<b>7,559,392</b>	<b>4,087,359</b>	<b>6,833,374</b>	<b>37,970,140</b>
Excess (deficiency) of revenues over (under) expenditures	(1,783,787)	15,700	(1,819,370)	(6,519,617)	(870,893)	(1,159,651)	(12,137,618)
<b>Other financing sources (uses)</b>							
Transfers in	1,118,670				836,430		1,955,100
Transfers out		(15,000)	(10,300)	(1,917,800)		(12,000)	(1,955,100)
Long term debt issued				840,000			840,000
<b>Total other financing sources (uses)</b>	<b>1,118,670</b>	<b>(15,000)</b>	<b>(10,300)</b>	<b>(1,077,800)</b>	<b>836,430</b>	<b>(12,000)</b>	<b>840,000</b>
Net change in fund balances	(665,117)	700	(1,829,670)	(7,597,417)	(34,463)	(1,171,651)	(11,297,618)
Fund balance, beginning, as restated	(3,318,681)	2,382,401	3,243,016	21,570,704	3,347,420	3,514,334	30,739,194
Fund balance (Deficit), ending	\$ (3,983,798)	\$ 2,383,101	\$ 1,413,346	\$ 13,973,287	\$ 3,312,957	\$ 2,342,683	\$ 19,441,576
	(3,983,798)	2,383,101	1,413,346	13,973,287	3,312,957	2,342,683	19,441,576

*OK*  
*07/04/2014*  
*384,800*

**Total Fund Balances - Governmental Funds** \$ 19,441,577

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

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

Non Depreciable Capital Assets	\$ 19,048,648	
Depreciable Capital Assets, net of depreciation	<u>31,964,750</u>	
<b>Total Capital Assets</b>		51,013,398

Deferred revenues- Property Taxes in the Fund Statements Balance Sheet, are recognized as revenue in the Statement of Activities Government Wide Financial Statement 430,427

Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds 2,001,535

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

Bonds Payable	26,465,000	
Notes Payable	4,900,000	
Section 108 Note Payable	7,330,000	
Property Tax Debt - Law 146	215,330	
Property Tax Debt - CRIM- Law 42	1,071,863	
Landfill obligation	7,253,281	
Claims and judgment	755,000	
Compensated Absences	<u>2,133,850</u>	
<b>Total Long-Term Liabilities</b>		<u>(50,124,324)</u>

**Total Net Position of Governmental Activities** \$ 22,762,613

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ (11,297,617)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	11,614,890
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(1,839,386)
Some revenues and expenses, net, reported in the statement of activities do not necessarily provide nor require the use of current financial resources, therefore, are not reported as revenues nor expenditures in the governmental funds. This is the net change in payables and receivables associated with those with those type of transactions.	144,607
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of the net assets. This is the amount by which repayments (\$3,215,669) exceed proceeds (\$840,000).	2,375,669
<b>Change in Net Position of Governmental Activities</b>	<u>\$ 998,163</u>

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Toa Alta** (the Municipality) is a local municipal government constituted in the Commonwealth of Puerto Rico (the Commonwealth) and was founded on the year 1751.

The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, the Municipality's governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The Municipal Legislature, whose members are also elected every four years, exercises the legislative power of the Municipality. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, education, urban development, economic development, and many other fiscal, general and administrative services.

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

The Reporting Model present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2013, in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

The RSI consist of: (1) a Management's Discussion and Analysis (MD&A) and (2) a budgetary comparison schedule - general fund. RSI is information presented along with, but separate from, the Municipality's basic financial statements. The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2013, based on the

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

Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

As part of this Statement, there is a reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement allows an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality elected to implement the retroactive capitalization of infrastructure assets in the year ended June 30, 2006.

In March 2009, the Municipality adopted the provisions of GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' *Statements on Auditing Standards*. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

In fiscal year 2012, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

The provisions of the GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, an amendment of Statements No. 14 and 39, were considered in the evaluation of the potential component units. This statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government under certain circumstances.

The GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

In current year, the Municipality adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and the Net Position* establishing a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of

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

resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Municipality's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position".

The following is a summary of the significant accounting policies of the Municipality:

### A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASB Statement No. 14, as amended. The basic, but not the only criterion for including a potential component unit within the reporting entity is if a primary government is financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 39; Determining Whether Certain Organizations are Component Units - an Amendment of GASB Statement No. 14 (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units.

According to GASB No. 39, a legally separate, tax-exempt organization should be reported as a discretely presented component unit of a reporting entity if all of the following criteria are met: The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

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

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 that primary government.

In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14.

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

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2013.

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units within its reporting entity for the fiscal year ended June 30, 2013.

### B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are 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 not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Pursuant to the provisions set forth by GASB No. 54, the Municipality reported the following governmental funds in the accompanying governmental funds financial statements:

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

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

**Capital Projects Fund –Las Acerolas Project, Improvement Bond Fund & Section 108 Loan Guarantee Fund**– is a major governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

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

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

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar internal funds have been combined into single funds in the accompanying fund financial statements.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.

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

6. Notes to the budgetary comparison schedule-general fund.

### C. Financial reporting presentation

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

**General Fund-** General Fund is the general operating fund of the Municipality. It is used to account for all financial resources not accounted for and reported in another fund.

**Special Revenue Fund - Federal Grants** - Special Revenue Funds are used to account and report the proceeds of specific revenue sources derived from federal grants that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund – Local and State Grants** - Special Revenue Funds are used to account and report the proceeds of specific revenue sources derived from local and state grants that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund – Section 8 Housing Choice Voucher** - Special Revenue Funds are used to account for revenues derived from Section 8 Housing Choice Voucher Program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund –Section 8 Moderate Rehabilitation Program** - Special Revenue Funds are used to account for revenues derived from Section 8 Moderate Rehabilitation Program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Capital Projects Fund – Local and State Grants** - Capital Projects Funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

**Capital Projects Fund – Federal Grants** - Capital Projects Funds are used to account for financial resources derived from federal grants restricted, committed or assigned to expenditure for the acquisition or construction of capital assets. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Debt Service Fund** - Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

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

The outstanding balance of certain general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as certain notes payable, obligations under capital leases, accrued compensated absences, landfill obligation, claims and judgments, net pension liability and other long-term obligations) are only accounted for in the accompanying statement of net position. The debt service payments of such obligations are generally accounted for in the governmental fund which accounted for the financial resources used for the payment of such debts. Principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

### D. Measurement focus, basis of accounting and financial presentation

**Government-wide financial statements** – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions. In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred. In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transaction, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

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

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been occurred and the amount of loss is reasonably estimated.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2013. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying statement of net position. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

**Government Fund Financial Statements** – The accompanying GFFS are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (90) days after June 30, 2013. At June 30, 2013, all revenues sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses, and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

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

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2013.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will 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. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are 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.

### E. Assets, liabilities and net position

1. **Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

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."

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

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

3. **Inventories-** Inventories in the general fund is recorded as current assets and, consequently, the inventory is recorded as a nonspendable fund balance in the statement of net position.
4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Land improvements	20 years	\$500
Building, structures and building improvements	30 to 50 years	\$500
Infrastructure	20 to 50 years	\$500
Works of art	10 years	\$500
Motor Vehicles	10 years	\$500
Furniture and fixtures, excluding those under capital leases	5 to 20 years	\$500
Machinery and equipment, excluding those under capital leases	5 to 20 years	\$500

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 functions/programs but reported as direct expenses of the urban and economic development function.

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

5. **Unearned revenues-** In the GFFS, unearned revenues arises when one of the following situations occur:
- Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2013 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for unearned revenue is removed and revenue is recognized.
  - The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

6. **Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, 2013 have been recorded as governmental fund liabilities in the GFFS when resources were available in the debt service fund (June 30, 2013). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

In the GWFS debt issuance costs have been capitalized and reported as deferred charges, which are being amortized under the straight-line method over the life of the debt. In the GFFS, such costs are recorded as expenditures as incurred.

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, Interest on Receivables and Payables, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net position, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses during the current period.

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

- 7. Compensated absences-** Compensated absences are accounted for under the provisions of Statement No. 16, Accounting for Compensated Absences, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2013 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and Medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per fiscal year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per fiscal year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each fiscal year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each fiscal year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously.

After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the GFFS only when matured (when payment is due), for example, as a result of employee resignations or retirements.

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

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

9. **Fund Balances**— In fiscal year 2012, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- b. **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- c. **Committed** – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- d. **Assigned** – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- e. **Unassigned** – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2013.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

- 10. Net position** - Net position has been reported pursuant to the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Net Position represents the difference between all assets plus deferred outflows of resources and all liabilities plus deferred inflows of resources. The Net Position consists of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, ect.) or net position for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net position identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation of resources, including earmarking, are not reported as restricted net position. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

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

In the government-wide statements, net position is segregated into three categories:

- a. **Net investment in capital assets:** Represent the component of the net position that consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- b. **Restricted net position:** Represents the component of the net position that is subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. **Unrestricted net position:** Represent the component of the net position that do not meet the definition of net position net invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net position.

11. **Accounting for Pension Costs-** On July 1, 2007, the Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No.27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

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

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

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

**12. Interfund activities-** The Municipality has the following types of transactions among funds:

- a. **Inter-fund loans** - Represent resources (assets) provided by one governmental fund to other governmental fund with a requirement and commitment for repayment (reimbursement), which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Inter-fund receivables, which are not considered to be currently available financial resources, are reported as "advance". For amounts not expected to be collected, inter-fund receivables/payables are reduced to their estimated realizable (settlement) value, and the portion of the inter-fund loan that is not expected to be repaid is reported as a "transfer-in" from the governmental fund that provided the loan.
- b. **Inter-fund transfers (transfers-in/(out))** - Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as "other financing uses" in the governmental fund making transfers and as "other financing sources" in the governmental fund receiving transfers.
- c. **Inter-fund reimbursements** - Represent repayments (reimbursements) from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the GFFS, inter-fund activity has not been eliminated, as permitted by GAAP.

**13. Risk financing-** The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each fiscal year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM" by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2013 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness stiffened as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against

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

unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2013. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2013 amounted to \$281,956.

The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$264,188 for workers compensation insurance covering all municipal employees.

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

## 2. CASH AND CASH EQUIVALENTS

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

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

**Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible - loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2013.

## 2. CASH AND CASH EQUIVALENTS (CONTINUED)

**Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2013, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2013, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

**Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor.

In addition, public funds deposited in commercial banks are fully collateralized under the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013.

Therefore, the Municipality's management has concluded that at June 30, 2013 the custodial credit risk associated with the Municipality's cash and cash equivalents is nonexistent.

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

Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

**Deposits** - The Municipality's bank balances in commercial banks of \$1,423,831, \$2,182,201 and \$1,414,638 in the general fund, capital projects – las acerolas and section 108 loan respectively, were fully collateralized at June 30, 2013. In the other governmental funds there were deposits with commercial banks of approximately \$2,033,833 that were fully collateralized.

The deposits at GDB of approximately \$15,074,823 that is restricted for capital projects in the capital improvement bond fund, the \$5,769,013 in the debt service fund, and the \$285,574 in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**3. RECEIVABLES**

**A. *Municipal License Tax***- the Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2013, the tax rates were as follows:

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

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable of \$2,095 represents filed municipal license tax returns that were uncollected as of June 30, 2013, net of allowance for uncollectible.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as unearned revenues.

**B. *Intergovernmental***- Intergovernmental receivables in the general fund consist primarily of the amounts owed by the Treasury Department for State Compensation for the Municipality's Christmas's Bonus as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Treasury Department	\$ 193,602
Total	<u>\$ 193,602</u>

Intergovernmental receivable in other governmental funds represents the amounts due from the following entities:

<u>Governmental Entity</u>	<u>Amount</u>
Traffic Safety Commission	\$ 18,704
Department of Labor and Human Resources	165,040
Others	<u>23,326</u>
Total	<u>\$ 207,070</u>

**C. *Federal grants receivable***- Federal grants receivable in the Other Governmental Funds represents expenditures incurred not yet reimbursed by the Federal government or the pass-through grantors. Following is a detail of the federal grants receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Community Development Block Grant	\$ 32,509
Child Care and Development Block Grant	9,625
Special Program for the Aging, Title III, Part B	<u>26,446</u>
Total	<u>\$ 68,580</u>

**4. INTERFUND TRANSACTIONS**

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

a. Due from/to other fund and Advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Reimbursable Expenditures & Short-term borrowings	\$ 532,570
Capital Projects-Las Acerolas	General Fund	Short-term borrowings	200,000
Other Governmental Funds	General Fund	Short-term borrowings	<u>1,255,890</u>
Total			<u>\$1,988,460</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Capital Improvement Bond Fund	General Fund	Transfer of interest earned to finance operations	\$ 1,074,230
Capital Improvement Bond Fund	Debt Service Fund	Debt Retirement	840,000
Capital Projects Las Acerolas	General Fund	Transfer of interest earned to finance operations	15,000
Capital Projects Section 108	General Fund	Transfer of interest earned to finance operations	10,300
Debt Service Fund	General Fund	Transfer of interest earned to finance operations	3,570
Other Governmental Funds	General Fund	Transfer of interest earned to finance operations	<u>12,000</u>
Total			<u>\$ 1,955,100</u>

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$500 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<b>Governmental Activities:</b>	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2013</b>
Capital asset, not being depreciated:				
Land	\$ 14,100,390	\$ -	\$ -	\$ 14,100,390
Construction in progress	661,604	9,001,286	(4,714,632)	4,948,258
Total capital assets not being depreciated	14,761,994	9,001,286	(4,714,632)	19,048,648
Capital assets, being depreciated:				
Buildings, structures and improvements	18,259,346	528,318		18,787,664
Infrastructure	16,103,242	4,670,132		20,773,374
Vehicles	413,924	1,867,755		2,281,679
Machinery, equipment and furniture's and fixtures	10,724,740	262,031	(92,209)	10,894,562
Total capital assets being depreciated	45,501,252	7,328,236	(92,209)	52,737,279
Less accumulated depreciation for:				
Buildings, structures and improvements	(4,426,840)	(583,270)		(5,010,110)
Infrastructure	(4,263,436)	(927,192)		(5,190,628)
Vehicles	(30,595)	(26,095)		(56,690)
Machinery, equipment and furniture's and fixtures	(10,304,481)	(302,829)	92,209	(10,515,101)
Total accumulated depreciation	(19,025,352)	(1,839,386)	92,209	(20,772,529)
Total capital assets being depreciated, net	26,475,900	5,488,850	-	31,964,750
Governmental activities capital assets, net	\$ 41,237,894	\$ 14,490,136	\$ (4,714,632)	\$ 51,013,398

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

<b>Governmental activities:</b>	<b>Amount</b>
General government	\$ 275,900
Public safety	92,000
Economic and urban development	1,103,300
Public Housing and welfare	18,686
Health and sanitation	18,400
Culture, recreation and education	331,100
<b>Total depreciation expense-governmental activities</b>	<b>\$ 1,839,386</b>

## 6. PROPERTY TAXES

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

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

The CRIM is required by law to prepare a liquidation 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 preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its Independent Auditors. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the final liquidation noting that collections exceeded advances by \$430,427 in the General Fund. An additional receivables was of \$42,769 was recognized in the Debt Service Fund.

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

In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. During the first five years of the note, commenced in July 1, 2003, the Municipality shall pay only interest. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. As of June 30 2013, the related unpaid property tax advances included in the statement of net position amounted to \$215,330.

## 6. PROPERTY TAXES (CONTINUED)

Also, The Commonwealth's Public Act No. 42 of January 26, 2000 (Act No. 42) was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement authorized CRIM to finance a debt that the municipalities of Puerto Rico had with such entity which arose from the difference between the yearly final settlements of property tax advances made by CRIM to the municipalities and the actual property tax collections received by CRIM from taxpayers through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth are assigned through Act No. 42 to repay such note. The increase in this subsidy was the result of Public Act No. 238 of August 15, 1999.

In addition, on December 16, 2002 the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining of excess of property tax advances from fiscal years 2000, 2001 and other previous fiscal years.

CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each fiscal year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB (6.19 percent at June 30, 2013) but not exceeding 8%. Principal and interest payments on this financing agreement are accounted for in the general fund. The outstanding principal amounted to \$1,071,863 at June 30, 2013.

The annual tax rate, as amended in January 2013, is 11.53% for real property and 8.53% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico and the remaining .20 % is paid by the Commonwealth of Puerto Rico, as a subsidy. The remaining percentage is distributed as follows: (a) 6% and 4%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 4.50% and 3.50%, respectively, represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

**7. MUNICIPAL SALES AND USE TAX**

On July 29, 2007, the Commonwealth Legislative Assembly approved the levy of a seven (7%) percent sales and use tax. Out of such percentage, 1.5% should be imposed and collected by the Municipality and the remaining 5.5% by the Secretary of the Treasury. According to the Legislation in effect as of June 30, 2013, the product of the 1.5% to be collected by the Municipality is distributed as follows: 1% is retained by each municipal government; 0.5% must be remitted to the Secretary of the Treasury to be deposited as follows in a separate new funds under the custody of the Government Development Bank: 0.2% in the Municipal Development Fund; 0.2% in the Municipal Redemption Fund; and 0.1% in Municipal Improvement Fund. The remaining 5.5% will revert to the General Fund of the Commonwealth Government. The Municipality can transfer up to 50% of the Municipal Development Fund to the Municipal Redemption Fund. The Municipality collected \$1,207,175 during the year ended June 30, 2013. Also, \$720,285 from the Municipal Redemption Fund are included in the Debt Service Fund.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2013 are summarized as follows:

Description	General Fund	Capital Project Section 108 Loan	Capital Improvement Bond Fund	Other Governmental Funds	Total
Accounts payable	\$ 2,338,798	\$ 1,592	\$ 1,177,036	\$ 323,401	\$ 3,840,827
Accrued liabilities	90,317	-	-	-	90,317
<b>Total</b>	<b>\$ 2,429,115</b>	<b>\$ 1,592</b>	<b>\$ 1,177,036</b>	<b>\$ 323,401</b>	<b>\$ 3,931,144</b>

**9. DUE TO OTHER GOVERNMENTAL ENTITIES**

The amounts due to other governmental entities in the General Fund include the following:

Governmental Entity	Amount
Puerto Rico Aqueduct and Sewer Authority	\$ 391,065
Puerto Rico Treasury Department	23,572
Puerto Rico Retirement System Administration	217,560
AEELA	18,490
General Services Administration	18,270
Others	29,600
<b>Total</b>	<b>\$ 698,557</b>

**10. UNEARNED REVENUES**

- A. Municipal License Tax-** The unearned revenues of \$1,036,010 in the general fund relates to municipal license tax collected in fiscal year 2012-13 that will be earned in fiscal year 2013-14.
- B. Property Taxes-** The unearned revenues of \$430,427 in the general fund relates to property tax accounts receivable collected in fiscal year 2013-14 which do not meet the "measurable" and "available" criteria for revenue recognition in the current period (unavailable revenue).
- C. Grants-** The unearned revenues presented in the other governmental funds represent the portion of grants received for which qualifying expenditures have not been incurred. Unearned revenues are as follows:

<u>Program Description</u>	<u>Amount</u>
Child Care and Development Block Grant	\$ 56,749
Others	128,644
<b>Total</b>	<b>\$ 185,393</b>

**11. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2013, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 27,560,000	\$ -	\$ (1,095,000)	\$ 26,465,000	\$ 930,000
Notes Payable	5,580,000	840,000	(1,520,000)	4,900,000	740,000
Section 108 Note Payable	7,615,000		(285,000)	7,330,000	317,000
Property Tax Debt- Law 146	226,690		(11,360)	215,330	11,334
Property Tax Debt - CRIM- Law 42	1,099,637		(27,774)	1,071,863	29,520
Landfill Obligation	7,253,281			7,253,281	
Claims and judgments	785,000		(30,000)	755,000	105,000
Compensated Absences	2,158,031	422,075	(446,256)	2,133,850	50,000
<b>Total</b>	<b>\$ 52,277,639</b>	<b>\$ 1,262,075</b>	<b>\$ (3,415,390)</b>	<b>\$ 50,124,324</b>	<b>\$ 2,182,854</b>

- A. Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable, is paid with unrestricted funds.

11. LONG-TERM LIABILITIES (CONTINUED)

**B. Bonds payable-** The Municipality issues improvements, general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2013 are as follows:

Description	Balance at June 30, 2013
1995 Public improvement bond obligation for construction and improvement of infrastructure assets with an original amount \$330,000 due in installments of \$5,000 to \$30,000 through July 1, 2019, with interest ranging from 6.11% to 8.21%	\$ 165,000
1995 Public improvement bond obligation for construction and improvement of infrastructure assets with an original amount \$485,000 due in installments of \$5,000 to \$45,000 through July 1, 2020, with interest ranging from 4.70% to 6.63%	265,000
1996 Public improvement bond obligation for construction and improvement of infrastructure assets with an original amount \$205,000 due in installments of \$5,000 to \$20,000 through July 1, 2020, with interest ranging from 4.70% to 6.63%	110,000
1997 General bond obligation for construction and improvement of infrastructure assets with an original amount \$1,230,000 due in installments of \$15,000 to \$105,000 through July 1, 2021, with interest ranging from 4.87% to 6.75%	720,000
1999 General bond obligation for construction and improvement of infrastructure assets with an original amount \$625,000 due in installments of \$10,000 to \$55,000 through July 1, 2022, with interest ranging from 4.87% to 6.56%	390,000
2000 General bond obligation for construction and improvement of infrastructure assets with an original amount \$505,000 due in installments of \$5,000 to \$45,000 through July 1, 2025, with interest ranging from 1.28% to 7.81%	375,000
2000 General bond obligation for construction and improvement of infrastructure assets with an original amount \$1,230,000 due in installments of \$55,000 to \$145,000 through July 1, 2013, with interest ranging from 2.70% to 7.81%	145,000
2001 General bond obligation for construction and improvement of infrastructure assets with an original amount \$2,105,000 due in installments of \$75,000 to \$230,000 through July 1, 2016, with interest ranging from 2.70% to 7.81%	815,000
2006 General bond obligation for construction and improvement of infrastructure assets with an original amount \$2,275,000 due in installments of \$35,000 to \$185,000 through July 1, 2031, with interest ranging from 1.53% to 7.00%	2,020,000
2010 Special bond obligation for construction and improvement of infrastructure assets with an original amount \$305,000 due in installments of \$5,000 to \$30,000 through July 1, 2035, with interest ranging from 6.00% to 7.50%	295,000
2010 Special bond obligation for construction and improvement of infrastructure assets with an original amount \$3,960,000 due in installments of \$60,000 to \$335,000 through July 1, 2035, with interest ranging from 6.00% to 6.50%	3,835,000

11. LONG-TERM LIABILITIES (CONTINUED)

<u>Description</u>	<u>Balance at June 30, 2013</u>
2010 Special bond obligation with an original amount \$1,910,000 due in installments of \$25,000 to \$160,000 through July 1, 2035, with interest ranging from 6.00% to 6.50%	1,855,000
2010 General bond obligation for construction and improvement of infrastructure assets with an original amount \$5,230,000 due in installments of \$160,000 to \$520,000 through July 1, 2027, with interest ranging from 6.00% to 7.50%	4,895,000
2012 General bond obligation for construction and improvement of infrastructure assets with an original amount \$2,370,000 due in installments of \$60,000 to \$465,000 through July 1, 2026, with interest ranging from 6.00% to 6.75%	2,370,000
2012 General bond obligation for construction and improvement of infrastructure assets with an original amount \$8,210,000 due in installments of \$50,000 to \$1,470,000 through July 1, 2031, with interest ranging from 6.00% to 6.75%	8,210,000
<b>Total improvement, general and special obligation bonds</b>	<u>\$ 26,465,000</u>

These bonds, except the 2010 Series \$305,000 bond, the Series 2010 \$3,960,000 and the 2010 Series \$1,910,000, are payable from the special ad valorem property tax of 3.25% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2010 Series \$305,000, \$3,960,000 and \$1,910,000 bonds are payable with the revenues generated from the collection of the .2% of the municipal sales and use tax imposed by the Municipality and collected by the Commonwealth of Puerto Rico Treasury Department.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 930,000	\$ 1,472,044
2015	840,000	1,685,564
2016	895,000	1,631,043
2017	980,000	1,571,813
2018	800,000	1,513,674
2019-2023	4,800,000	6,675,052
2024-2028	8,285,000	4,509,056
2029-2033	7,485,000	1,633,819
2034-2038	1,450,000	147,800
<b>Total</b>	<u>\$ 26,465,000</u>	<u>\$ 20,839,865</u>

11. LONG-TERM LIABILITIES (CONTINUED)

C. **Notes Payable-** The proceeds of the issuance of notes payables were used principally to cover the expenditures of a special event, such as capital projects and real property acquisitions. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2013</u>
2012 Series	7/1/2020	\$ 2,515,000	6.00% to 6.75%	\$ 2,515,000
2013 Series	7/1/2017	840,000	6.00% to 7.50%	840,000
2009 Series	7/1/2016	770,000	4.75% to 6.00%	485,000
2009 Series	7/1/2016	805,000	4.75% to 6.00%	510,000
2008 Series	7/1/2014	1,335,000	1.53% to 5.40%	455,000
2007 Series	7/1/2013	560,000	1.53% to 6.62%	95,000
<b>Total notes payable</b>				<b>\$ 4,900,000</b>

These notes are payable from the ad valorem property tax of 3.25% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 740,000	\$ 234,455
2015	680,000	255,531
2016	475,000	219,244
2017	505,000	186,881
2018	495,000	152,775
2019-2023	2,005,000	229,331
<b>Total</b>	<b>\$ 4,900,000</b>	<b>\$ 1,278,217</b>

D. **Section 108 Note Payable-** The proceeds of the issuance is used principally to cover the expenditures of a special event, such as capital projects and real property acquisitions. The note is payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2013</u>
Section 108 – Series 2008—A	8/1/2028	7,886,000	3.44% to 5.42%	\$ 7,330,000
<b>Total</b>				<b>\$ 7,330,000</b>

**11. LONG-TERM LIABILITIES (CONTINUED)**

The Section 108 note is payable from Special Revenue Fund – Community Development Block Grants and is due to the U.S. Department of Housing and Urban Development.

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 317,000	\$ 356,800
2015	334,000	343,546
2016	352,000	329,011
2017	371,000	313,080
2018	390,000	295,877
2019-2023	2,290,000	1,169,397
2024-2028	2,976,000	494,526
2029-2033	300,000	8,130
<b>Total</b>	<b>\$ 7,330,000</b>	<b>\$ 3,310,367</b>

**E. Property Taxes Debts (Law 146, and Law 42)-** These amounts represents the balance owed to the Municipal Revenue Collection Center ("CRIM") at June 30, 2013 as described in Note 6.

Annual debt service requirements to maturity for Law 146 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 11,333	\$ 5,392
2015	11,333	5,108
2016	11,333	4,824
2017	11,333	4,541
2018	11,333	4,257
2019-2023	56,666	17,027
2024-2028	56,666	9,932
2029-2033	45,333	2,838
<b>Total</b>	<b>\$ 215,330</b>	<b>\$ 53,919</b>

Annual debt service requirements to maturity for Law 42 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 29,520	\$ 65,872
2015	31,375	64,017
2016	33,346	62,046
2017	35,441	59,950
2018	37,668	57,723
2019-2023	226,961	249,998
2024-2028	307,804	169,155
2029-2033	369,748	55,516
<b>Total</b>	<b>\$ 1,071,863</b>	<b>\$ 784,277</b>

## 11. LONG-TERM LIABILITIES (CONTINUED)

**F. Compensated absences-** The government-wide statement of net position includes approximately \$1,231,156 of accrued sick leave benefits, and approximately \$902,694 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**G. Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Municipality has recognized \$7,253,281 as the Municipality's estimated current cost for landfill closure landfill post-closure as of June 30, 2013. Such estimate was determined in the prior fiscal years. The Municipality has not evaluated its estimate of the total current cost related to closure and post closure care of its Municipal Solid Waste Landfill Facilities (MSWLF) recorded as a non-current liability in governmental activities and, accordingly, has not adjusted the recorded liability.

Accounting principles generally accepted in the United States of America require that at the end of each year, the governmental entities that own and operate a MSWLF should evaluate its estimate of the total current cost related to closure and post closure care of its facilities, due to changes in expected cost from a number of factors, including inflation or deflation, technological advancements, and modifications of legal requirements at the local, state, or national level.

The Municipality expects to finance this obligation with an assignment of the central government and federal funds. In addition the Solid Waste Disposal Administration of Puerto Rico approved to the Municipality the amount of \$ 1,000,000 to be used on the disposition of municipal solid waste landfill closing costs.

## 12. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Legislative Assembly of the Government of Puerto Rico. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to a deferred annuity benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

## 12. PENSION PLAN (CONTINUED)

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives.

Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan. If at the time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

### *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 and municipal contributions), are established or may be amended by law.

**12. PENSION PLAN (CONTINUED)**

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600 8.275% of gross salary over \$6,600
Hired on or before April 1, 1990	8.275% of gross salary

*Annual Contribution*

The Municipality contribution during the year is recognized as total pension expenditures/expenses in the category of administration as follows:

<u>Fiscal year</u>	<u>Law No. 447</u>	<u>System 2000</u>
2013	\$ 191,083	\$ 256,330

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 cost of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2013, a copy of which can be obtained by writing to the system administrator at PO Box 42003, San Juan, P.R. 00940-2203, Plaza Retiro, 437 Ave. Ponce de León Pda. 32 ½, San Juan, P.R. 00917-3711,.

**13. RISK MANAGEMENT**

The Property Division, attached to the Municipality, is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Public Insurance Department at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three (3) fiscal years.

**14. COMMITMENTS AND CONTINGENCIES**

**A. Federal Grants:**

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2013, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, would not to be material.

#### 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

##### B. Claims and lawsuits:

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

Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$755,000 for awarded or anticipated unfavorable judgments in the Government-Wide financial statements. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

##### C. Other Commitments:

At June 30, 2013, the general fund had commitments of approximately \$567,416 for executory purchase orders or contracts that will be honored during the subsequent year.

**15. FUND BALANCE (DEFICIT)**

As of June 30 2013, fund balance (deficit) is comprised of the following:

	General Fund	Capital Project Las Acerolas	Capital Project Section 108 Loan	Capital Improvement Bond Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>							
Inventory	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000
<b>Restricted</b>							
General government						105,840	105,840
Public safety						39,332	39,332
Urban and economic development						1,896,129	1,896,129
Culture and recreation and education						88,002	88,002
Public Housing and welfare						213,380	213,380
Capital Outlays		2,383,101	1,413,346	13,973,287			17,769,734
Debt Service					3,312,957		3,312,957
<b>Committed</b>							
General government	366,041						366,041
Urban and economic development	201,375						201,375
<b>Unassigned</b>	<u>(4,581,214)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,581,214)</u>
<b>Total fund balances (deficit)</b>	<u>\$ (3,983,798)</u>	<u>\$ 2,383,101</u>	<u>\$ 1,413,346</u>	<u>\$ 13,973,287</u>	<u>\$ 3,312,957</u>	<u>\$ 2,342,683</u>	<u>\$ 19,441,576</u>

**16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

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

- a. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*). The requirements of this statement are effective for periods beginning after December 15, 2012.
- b. GASB Statement No. 66, *Technical corrections-2013 – an amendment of GASB Statements No. 10 and No.62*. The requirements of this statement are effective for periods beginning after December 15, 2012.
- c. GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The requirements of this statement are effective for periods beginning after June 15, 2013.

**16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

- d. GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The requirements of this statement are effective for periods beginning after June 15, 2014.
- e. GASB Statement No. 69 *Accounting and Financial Reporting for Government Combinations and Disposal of Government Operation*. The requirements of this statement are effective for periods beginning after December 15, 2013.
- f. GASB Statement No. 70 *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. The requirements of this statement are effective for periods beginning after June 15, 2013.
- g. GASB Statement No. 71 *Accounting and Financial Reporting for Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. The requirements of this statement are effective for periods beginning after June 15, 2014.

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

**17. PRIOR PERIOD ADJUSTMENTS**

**A. GOVERNMENTAL FUND FINANCIAL STATEMENTS**

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

<u>Description</u>	<u>General Fund</u>	<u>Capital Projects Fund – Las Acerolas</u>	<u>Capital Projects Section 108</u>	<u>Capital Improvement Bond Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balance, beginning	\$ (2,933,881)	\$ 2,382,401	\$ 3,243,016	\$ 21,570,704	\$ 3,081,526	\$ 3,955,178	\$ 31,298,944
Overstatement of Property tax receivable	(659,443)				(174,950)		(834,393)
Overstatement in Municipal license tax receivable	(197,341)						(197,341)
Overstatement in Municipal sales and use tax receivable	(95,433)				-		(95,433)
To correct current year expenditures reversed to prior year encumbrances	567,417						567,417
Reclassifications	-	-	-	-	440,844	(440,844)	-
Fund balance, beginning, as restated	<u>\$ (3,318,681)</u>	<u>\$ 2,382,401</u>	<u>\$ 3,243,016</u>	<u>\$ 21,570,704</u>	<u>\$ 3,347,420</u>	<u>\$ 3,514,334</u>	<u>\$ 30,739,194</u>

**17. PRIOR PERIOD ADJUSTMENTS (CONTINUED)**

**B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS**

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

<u>Description</u>	<u>Governmental Activities</u>
Net position - beginning	\$ 22,324,200
Overstatement of Property tax receivable	(834,393)
Overstatement in Municipal license tax receivable	(197,341)
Overstatement in Municipal sales and use tax receivable	(95,433)
To correct current year expenditures reversed to prior year net position	<u>567,417</u>
Net position - beginning, as restated	<u>\$ 21,764,450</u>

**18. SUBSEQUENT EVENTS**

***Act. No 3 of April 4, 2013***

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited, to the following:

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from \$400 to \$500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

## 18. SUBSEQUENT EVENTS (CONTINUED)

- The employee contribution rate will increase from 8.275% to 10%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.

In addition, the Commonwealth has proposed incremental annual contributions from the General Fund of \$140 million per year, for the next 20 years, to increase the liquidity and solvency of the ERS. An appropriation for such annual contribution has been included in the Commonwealth's proposed budget for the fiscal year 2014.

Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contributions of \$140 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the System's current and future obligations.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42).

### **Act. No. 18 of 2014**

On January 24, 2014, was signed the Act No. 18 of 2014, to create the "Law of Municipal Administration Fund", 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 debt, whose repayment source are the 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 the purposes set out in this Act, amend paragraph (b) of Section 4020.01, amend

## 18. SUBSEQUENT EVENTS (CONTINUED)

paragraph (b) of Section 4020.02, and amend paragraph (a) and to repeal paragraph (e) of Section 6080.14 of the Act No. 1-2011, as amend, known as the "Internal Revenue Code for a New Puerto Rico", in order to restructure the sales and use tax so that the tax rate is six (6) percent state level and one (1) percent at the municipal level.

### **Act. No 19 of 2014**

On January, 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 19 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with the power to issue and/or use other mechanisms to pay or refinance the debt incurred by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico".

### **Bond and Notes Issuances**

On July, 18, 2013, the Municipal Legislature approved the issuance of a special obligation note for the amount of \$625,000, due in installments of \$70,000 to \$110,000 for the acquisition of equipment. Repayment of the note payable with the revenues generated from the collection of the .2% of the municipal sales and use tax imposed by the Municipality and collected by the Commonwealth of Puerto Rico Treasury Department is scheduled from July 1, 2014 through July 1, 2020.

On July, 18, 2013, the Municipal Legislature approved the issuance of a general obligation note for the amount of \$1,160,000, due in installments of \$130,000 to \$205,000 for the acquisition of equipment. Repayment of the note is scheduled from July 1, 2014 through July 1, 2020.

### **Excise Tax**

On September, 20, 2013, the Municipal Legislature approved the regulation for excise taxes within the territorial limits of the Municipality, establish the scope and the activities covered, the procedures and exemptions and to derogate the Ordinance 13, Series 1996-1997.

### **Landfill operations**

On November, 21, 2013, the Municipal Legislature authorizes the mayor to enter in an extrajudicial negotiation with the enterprise who operates the landfill facilities, to liquidate a debt that the enterprise maintains with the Municipality. In this negotiation the enterprise accept the transfer to the Municipality of the heavy equipment maintained in the Landfill which is very essential for the operation, and is valued in \$600,000 and a payment of \$188,504.02.

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Municipal license tax	\$ 1,826,987	\$ 1,826,987	\$ 1,526,806	\$ (300,181)
Construction excise tax	2,030,000	2,030,000	964,135	(1,065,865)
Municipal sales and use tax	1,400,000	1,400,000	1,178,265	(221,735)
Property tax	4,198,168	4,198,168	4,404,109	205,941
Charge for services	2,154,721	2,154,721	2,129,596	(25,125)
Intergovernmental	3,641,585	3,641,585	3,837,205	195,620
Contribution in lieu of Taxes	1,933,733	1,933,733	2,108,016	174,283
Interest	690,000	690,000	1,138,934	448,934
Miscellaneous	794,000	794,000	217,735	(576,265)
<b>Total revenues</b>	<b>\$ 18,669,194</b>	<b>\$ 18,669,194</b>	<b>\$17,504,801</b>	<b>\$ (1,164,393)</b>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
General Government	\$ 8,064,546	\$ 9,834,257	\$ 9,381,070	\$ 453,187
Public Works	2,935,431	2,571,671	2,326,456	245,215
Sanitation	2,139,721	1,061,895	1,061,895	-
Health	823,225	790,356	790,356	-
Public Safety	1,546,455	1,454,958	1,313,937	141,021
Emergency Management	909,048	838,304	744,616	93,688
Elderly Services	527,070	503,667	396,796	106,871
Culture and Tourism	588,132	566,243	511,756	54,487
Sport and Recreation	585,361	556,064	533,020	23,044
Debt Service principal and interest payment	550,205	491,779	453,185	38,594
<b>Total expenditures, encumbrances and other financing uses</b>	<b>\$ 18,669,194</b>	<b>\$ 18,669,194</b>	<b>\$17,513,087</b>	<b>\$ 1,156,107</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (8,286)</b>	<b>\$ (8,286)</b>

**Explanation of Differences:**

**Sources/inflows of resources:**

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 17,504,801
Differences-budget to GAAP:	
Interest revenue transfer from other funds	(1,118,670)
GAAP adjustments to revenues for changes in accounts receivable	(509,573)

**Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances**

**\$ 15,876,558**

**Uses/outflows of resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 17,513,087
Differences-budget to GAAP:	
GAAP adjustments to expenditures for changes in accounts payable	147,258

**Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances**

**\$ 17,660,345**

See notes to the Budgetary Comparison Schedule-General Fund.



## 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Control

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

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

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

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

	<u>Section 8 Housing Choice Vouchers</u>
<b>ASSETS</b>	
Current assets cash	
Cash –unrestricted	\$ 102,731
A/R HUD Other	414
Total current assets	<u>\$ 103,145</u>
Capital assets	
Furniture, equipment & machinery-Administration	149,579
Less: Accumulated depreciation	<u>(147,911)</u>
Total capital assets, net of accumulated depreciation	<u>1,668</u>
<b>Total assets</b>	<u><u>\$ 104,813</u></u>
 <b>LIABILITIES AND NET POSITION</b>	
Liabilities	
Accrued Wage Payable/ Payroll Taxes Payable	<u>9,347</u>
Total liabilities	9,347
Net position	
Net investment in capital assets	1,668
Restricted net position	
Unrestricted net position	<u>93,798</u>
Total net position	<u>93,798</u>
<b>Total liabilities and net position</b>	<u><u>\$ 104,813</u></u>

See notes to the Financial Data Schedule.

	<b>Section 8 Housing Choice Vouchers</b>
<b>Revenues</b>	
Housing assistance payments	\$ 961,628
Ongoing administrative fees earned	121,789
Total HUD PHA operating revenues	<u>1,083,417</u>
Investment Income- Restricted	4,706
Other revenues	<u>44,979</u>
Total revenues	<u>1,133,102</u>
<b>Expenses</b>	
Operating - administrative expenses	
Administrative salaries	89,379
Auditing Fees	2,000
Employee-benefit contributions –Administrative	37,243
Other general expenses	<u>8,783</u>
Total operating expenses	137,405
Housing assistance payments	1,044,130
Housing assistance payments- move in	41,202
Depreciation Expenses	<u>6,346</u>
Total expenses	<u>1,229,083</u>
Excess (Deficiency) of total revenue over (under) total expenses	(95,981)
<b>Total net position, beginning</b>	<u>180,744</u>
<b>Total net position, ending</b>	<u>\$ 84,763</u>

See notes to the Financial Data Schedule.

**1. BASIS OF PRESENTATION**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558		\$ 33,263
<b>Total U.S. Department of Agriculture</b>			<b>33,263</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct Program:			
Community Development Block Grants – Entitlement Grants	14.218		1,499,150
Direct Program:			
Direct Program:			
Community Development Block Grants – Section 108 Loan Guarantee	14.248		1,798,433
Direct Program:			
Homeless Prevention and Rapid Re-Housing (HPRP) (Recovery Act funded)	14.257		7,664
Direct Program:			
Section 8 Housing Choice Voucher	14.871		1,083,417
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	19,373
<b>Total U.S. Department of Housing and Urban Development</b>			<b>4,408,037</b>
<b>U.S DEPARTMENT OF TRANSPORTATION</b>			
Pass-through the Department of Transportation and Public Works			
UMTA	20.509	Not Available	79,109
<b>Total U.S. Department of Transportation</b>			<b>79,109</b>

The accompanying notes are an integral part of this schedule.

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S DEPARTMENT OF ENERGY</b>			
Direct Program:			
Energy Efficiency and Conservation Block Grant Program (Recovery Act Funded)	81.128	Not Available	68,248
<b>Total U.S. Department of Energy</b>			<b>68,248</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico – Governor’s Office (Elderly Office):			
Special Program for Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	Not Available	57,690
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Child Care and Development Block Grant	93.575	Not Available	197,687
<b>Total U.S. Department of Health and Human Services</b>			<b>255,377</b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR):			
Disaster Grants – Public Assistance (FEMA 3326 DR- PR	97.036		34,750
<b>Total U.S. Department of Homeland Security</b>			<b>34,750</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 4,878,784</b>

The accompanying notes are an integral part of this schedule.

**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Toa Alta** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:**

Amounts reported in the accompanying Schedule are included in the capital projects Section 108 Loan Guarantee and in Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Capital Projects Section 108 Loan	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 1,798,433	\$ 3,080,351	\$4,878,784
Non-federal programs expenditures	31,237	3,753,023	3,784,260
Total expenditures in the basic financial statements	\$ 1,829,670	\$ 6,833,374	\$ 8,663,044



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

**To the Honorable Mayor  
and the Municipal Legislature  
Autonomous Municipality of Toa alta  
Toa Alta, Puerto Rico**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Toa Alta**, 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 and have issued our report thereon dated March 24, 2014 which was unmodified at the fund financial statements level, but qualified at the government-wide financial statements level because the management has not evaluated its estimate of the total current cost related to closure and post closure care of its Municipal Solid Waste Landfill Facilities (MSWLF) recorded as a non-current liability in governmental activities and, accordingly, has not adjusted the recorded liability. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the **Municipality of Toa Alta's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality of Toa Alta's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Toa Alta'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item **13-02** that we consider to be significant deficiencies. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

However, material weaknesses may exist that have not been identified. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item **13-01** to be material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the **Municipality of Toa Alta'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 item **13-02**.

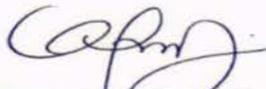
We noted certain other matters that we reported to management of the **Municipality of Toa Alta** in a separate letter dated March 24, 2014.

**Municipality of Toa Alta's Response to Findings**

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

**Purpose of this Report**

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

  
**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
March 24, 2014

Stamp No. 2675803 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.





*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

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

**To the Honorable Mayor  
and the Municipal Legislature  
Municipality of Toa Alta  
Toa Alta, Puerto Rico**

**Report on Compliance for Each Major Federal Program**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the **Municipality of Toa Alta's** compliance.

**Opinion on Each Major Federal Program**

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

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

**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 items **13-03**. Our opinion on each major federal program is not modified with respect to these matters.

The **Municipality of Toa Alta's** response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Municipality of Toa Alta'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**

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

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

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



*López-Vega, CPA, PSC*

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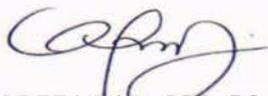
**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)**

However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items **13-03**.

The **Municipality of Toa Alta's** response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Municipality of Toa Alta'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.

We noted certain matters that we reported to management of the **Municipality of Toa Alta** in a separate letter dated March 24, 2014.



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
March 24, 2014

Stamp No. 2675804 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued: **Unmodified, except for modified for government-wide financial statements**

Internal control over financial reporting:  
 Material weakness identified? Yes **X** No  
 Significant deficiencies identified not considered to be material weaknesses? Yes **X** None reported  
 Noncompliance material to financial statements noted? Yes **X** No

**Federal awards**

Internal Control over major programs:  
 Material weakness identified? Yes No **X**  
 Significant deficiencies identified not considered to be material weaknesses? Yes **X** None reported

Type of auditor’s report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes **X** No

**Identification of major programs:**

CFDA Number	Name of Federal Program or Cluster
	<b>CDBG-Entitlement grants Cluster:</b>
14.218	Community Development Block Grant-Entitlement Grant
14.248	Community Development Block Grants – Section 108 Loan Guarantee
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B programs \$300,000  
 Auditee qualified as low-risk auditee? Yes No **X**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>13-01</b>
<b>Requirement</b>	<b>Financial Reporting – Accounting Records</b>
<b>Statement of Condition</b>	The Municipality has not updated the estimate of the obligation for landfill closure and post closure costs recorded as a liability in the Municipality's government-wide financial statements for the year ended June 30, 2013.
<b>Criteria</b>	GASB Statements No. 18 requires that the Municipality should estimate the closure and post closure costs of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.
<b>Cause of Condition</b>	The Municipality did not perform a study of the estimated cost of the closure and post closure costs of its landfill facilities.
<b>Effect of Condition</b>	The Municipality is not in compliance with the GASB Statement No. 18 requirements.
<b>Recommendation</b>	We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	The Municipality's Management will update the estimate of closure and post closure cost of its landfill facilities in order to include that liability in the fiscal year 2013-2013 government-wide financial statements.
	Implementation Date: July, 2014
	Responsible Person: Mrs. Janet I. Pedroza Rivera Finance Department Director

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>13-02</b>
<b>Requirement</b>	<b>Operating deficit of general fund</b>
<b>Statement of Condition</b>	The Municipality closed its fiscal year ended on June, 30, 2013 with a deficit in the general fund of \$3,983,798.
<b>Criteria</b>	In accordance with the "Reglamento para la Administración de Municipios" Chapter IV, Section 19, the Finance Director has the responsibility of overseeing financial operations to prevent deficits in any municipal fund.
<b>Cause of Condition</b>	The overstatement of estimated revenues accounts in prior years caused that the Municipality operated with a deficit.
<b>Effect of Condition</b>	The continued occurrence of this situation may result in possible significant fund limitations and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.
<b>Recommendation</b>	The Municipality should continue its effort by revising and amending the budget as current information related to collections of budgeted revenues becomes available resources.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	The Municipality's Management concurs with the auditor's recommendation.

Implementation Date: Still in process

Responsible Person: Mrs. Janet I. Pedroza Rivera  
Finance Department Director

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>13-03</b>
<b>Program</b>	<b>CDBG – Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218)</b>
<b>Requirement</b>	<b>Financial Reporting</b>
<b>Statement of Condition</b>	<p>During our Davis-Bacon Act test, we verified (1) construction project file. The following will summarize the exceptions noted:</p> <ul style="list-style-type: none"><li>a) We noted that during the fiscal year 2012-2013, the Municipality did not apply adequate monitoring procedures to required on-site visits to monitor the classifications of workers and wage rates paid.</li><li>b) We did not obtain evidence that the Municipality's monitors certified the weekly payroll supplied by the contractors.</li><li>c) Payrolls were not issued for the entire contract period.</li></ul>
<b>Criteria</b>	Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
<b>Cause of Condition</b>	The Municipality's controls and procedures failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
<b>Effect of Condition</b>	The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
<b>Recommendation</b>	<p>We recommend that the Municipality should establish defined procedures to monitor the enforcement of the Davis-Bacon Act's regulation. Those procedures would include the following:</p> <ul style="list-style-type: none"><li>a) On site visits;</li><li>b) Obtain contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors promptly about any failure in the payroll process.</li></ul>
<b>Questioned Costs</b>	None

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**            **13-03 Continued)**

**Management Response  
and Corrective Action**

As part of our corrective action plan, we will establish a communication with the program staff in order to strengthen its monitoring system procedures related to compliance with Davis Bacon Act. Also, we will establish a communication with the Municipality's Engineering Office and with all contractors, in order to require the submittal of weekly payrolls on time.

Implementation Date:        July, 2014

Responsible Person:        Mr. Ramón Díaz  
Federal Programs Department Director

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
12-01	14.871	<p><u>The Municipality should make an effort to determine whether the PHA is documenting the determination that the rent to the owners is reasonable in accordance with PHA's administrative plan at initial leasing and during the term of the contract.</u></p> <p>Full corrective action was taken.</p>
12-02	14.218	<p><u>The Municipality must include the required clauses in all construction contracts financed by federally assistance funds and follow Davis Bacon Procedures.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-03.</p>
12-03	14.871	<p><u>The Municipality should become familiar with federal law enforcement of compliance to assure that HAP Register includes all required information and documentation.</u></p> <p>Full corrective action was taken.</p>
12-04	14.218	<p><u>The Municipality should become familiar with federal law enforcement of compliance to assure that Housing Rehabilitation Program maintained by the PHA comply with federal requirements related to all required information and documentation to the participants.</u></p> <p>Full corrective action was taken.</p>

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