

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

**MUNICIPIO DE UTUADO  
AUDITORÍA 2011-2012  
30 DE JUNIO DE 2012**

**MUNICIPALITY OF UTUADO, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2012  
(INDEPENDENT AUDITOR'S REPORT)**

**MUNICIPALITY OF UTUADO, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2012**

TABLE OF CONTENTS

|   | <u>PAGES</u> |
|---|--------------|
| Management’s Discussion and Analysis .....  | 1-10         |
| Independent Auditor's Report .....  | 11-13        |
| Basic Financial Statements:   |              |
| Government – Wide Financial Statements:   |              |
| Statement of Net Assets .....   | 14           |
| Statement of Activities .....   | 15           |
| Government Fund’s Financial Statements:   |              |
| Balance sheet Governmental Funds .....  | 16           |
| Statement of Revenues, Expenditures and<br>Changes in Fund Balances Governmental Funds .....  | 17           |
| Reconciliation of the Statement of Revenues,<br>Expenditures and Changes in Fund Balances<br>Of Governmental Funds to the Statement of Activities ..... | 18           |
| Statement of Revenues, Expenditures and changes in fund balance<br>Budget and Actual (budget basis) General Fund .....                                  | 19           |
| Notes to financial statements .....   | 20-52        |

PART II - GOVERNMENTAL AUDITING STANDARDS AND  
OMB CIRCULAR A-133 REPORTS

|  |       |
|--|-------|
| Report on Internal Control Over Financial Reporting and Compliance and other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards..... | 53-54 |
| Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133   | 55-57 |
| Schedule of Expenditures of Federal Awards. ....   | 58    |
| Notes to Schedule of Expenditures Federal Financial Assistance.....  | 59    |
| Schedule of Findings and Questioned Costs.....   | 60-64 |
| Summary Schedule of Prior Audit Findings .....   | 65    |
| Corrective Action Plan .....   | 66-67 |



Oficina del Alcalde

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and analysis (MD&A) of the Municipality of Utuaado financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2012. The Management Discussion and Analysis (MD & A) should be read in conjunction with the transmittal letter on page 10 and the Municipality's financial statements, which begin on page 14. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended 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 major information.

### FINANCIAL HIGHLIGHTS

- The Net assets of the Municipality exceeded its liabilities at the close of the current fiscal year by \$72,688,923; net assets increased by \$8,186,215 when compared with prior year.
- Revenues were \$5,183,635 less than last year, while total expenses were \$956,767 more than last year as reported in the Statement of Activities.
- The Municipality had reported in the General Fund an excess of expenditures over revenues amounting to \$703,850 in the accompanying statement of revenues, expenditures and changes in fund balances.
- Loans principal payments were \$616,813 during fiscal year 2011-12.
- The actual revenues were \$11,750,876 and total for expenditures \$12,315,982 creating an excess of expenditures under revenues amounting to \$565,106 in the Budgetary Schedule mainly due to unfavorable variances in revenues.
- The Municipality government fund reported combined ending fund balances of \$10,171,066 in the accompanying statement of revenues, expenditures and changes in fund balances.
- The Municipality has reported unassigned deficit fund balance for the general fund amounting to \$3,007,984.

## **MUNICIPALITY OF UTUADO MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Fundamentals of the Financial Presentation**

The new approach on the preparation of the Municipality's financial statements emphasizes on a government wide (consolidated) view of its financial operations. Nevertheless major individual funds are presented and evaluated in all of its details. Simultaneous implementation of both of these perspectives allows user to address relevant questions about the municipality's performance and provides a basis for comparisons and evaluation of service's quality.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the mentioned 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 government wide financial statements, the major individual funds financial statements, and notes to the financial statements that provides more details.

Governmental-wide financial statements - The government-wide financial statements which begin on page 14 of this report are designed to provide users with a broad overview of the Municipality's finances, in a manner similar to a private-sector business. The government wide statements provide short and long term information about the municipality's status as a whole.

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether the municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of Activities is focused on both the gross and net cost of various activities, which are supported by the Municipality's property tax, municipal licenses tax and other revenues. It is intended to summarize and simplify the user's analysis of the costs of governmental services. The governmental activities reflect basic services, including police, public works, solid waste disposal, community services, and general administration. Property tax, municipal license tax, state and federal appropriations finance most of the services.

## **MUNICIPALITY OF UTUADO MANAGEMENT'S DISCUSSION AND ANALYSIS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Major Governmental Funds presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental funds statement provides a detailed short-term view of the Municipality general governmental operations and the basic services it provides. Governmental funds information help you determine whether there are more or fewer financial resources that can be spend in the near future to finance Municipality's programs. We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statement.

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

### **Infrastructure Assets**

The Municipality implemented the major model portions of GASB statement 34 during the prior years. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statements. The new statement required that these assets be evaluated and reported within the Governmental column of the Governmental Wide Statement.

Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets management system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

**MUNICIPALITY OF UTUADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Government-Wide financial Analysis**

*Statement of Net Assets*

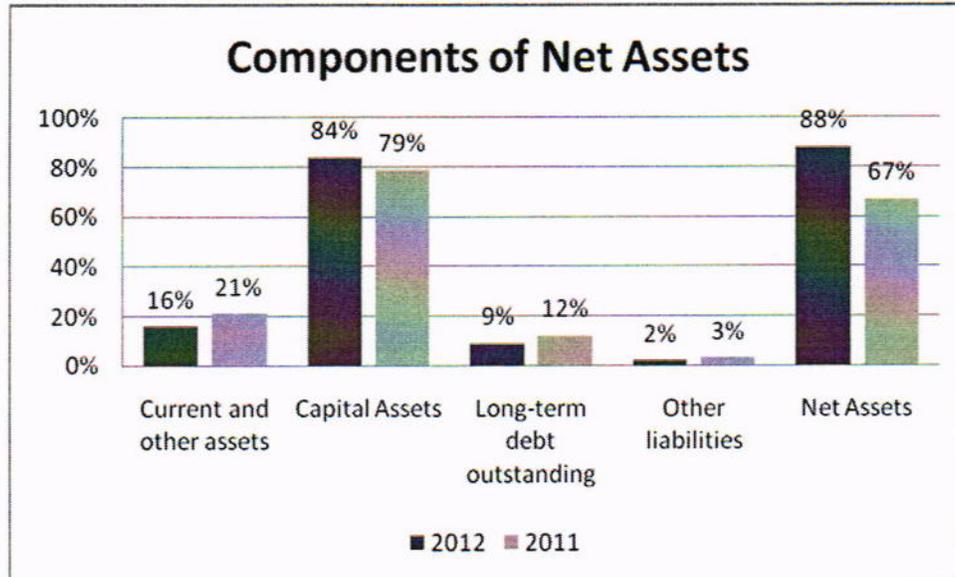
The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by \$72,688,923 at the close of the recent fiscal year compared to \$64,520,708 at the end of the previous year, as restated and showed in the following condensed Statement of Net Assets of the Primary Government.

**Statements of Net Assets  
As of June 30, 2012 and 2011**

|  | 2012                 | 2011                 | Changes             | %           |
|--|----------------------|----------------------|---------------------|-------------|
| Current and other assets                           | \$ 13,124,400        | \$ 16,421,884        | \$ (3,297,484)      | -20%        |
| Capital assets                                     | 68,676,579           | 60,048,393           | 8,628,186           | 14%         |
| <b>Total assets</b>                                | <b>81,800,979</b>    | <b>76,470,277</b>    | <b>5,330,702</b>    | <b>7%</b>   |
| Current and other liabilities                      | 1,989,326            | 2,606,605            | (617,279)           | -24%        |
| Long-term liabilities                              | 7,122,730            | 9,342,964            | (2,220,234)         | -24%        |
| <b>Total liabilities</b>                           | <b>9,112,056</b>     | <b>11,949,569</b>    | <b>(2,837,513)</b>  | <b>-24%</b> |
| Net assets:  |                      |                      |                     |             |
| Invested in capital assets,<br>net of related debt | 68,205,372           | 51,597,285           | 16,608,087          | 32%         |
| Restricted   | 13,179,050           | 14,971,707           | (1,792,657)         | -12%        |
| Unrestricted                                       | (8,695,499)          | (2,048,284)          | (6,647,215)         | 325%        |
| <b>Total net assets</b>                            | <b>\$ 72,688,923</b> | <b>\$ 64,520,708</b> | <b>\$ 8,168,215</b> | <b>13%</b>  |

Cash restricted was \$2.8 million, total liabilities decreased \$2.8 when compared to prior year. The restricted net asset represent 4% of total net assets in the year 2012 and 4% in 2011, these are resources that are subject to restrictions on how they may be used.

**MUNICIPALITY OF UTUADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

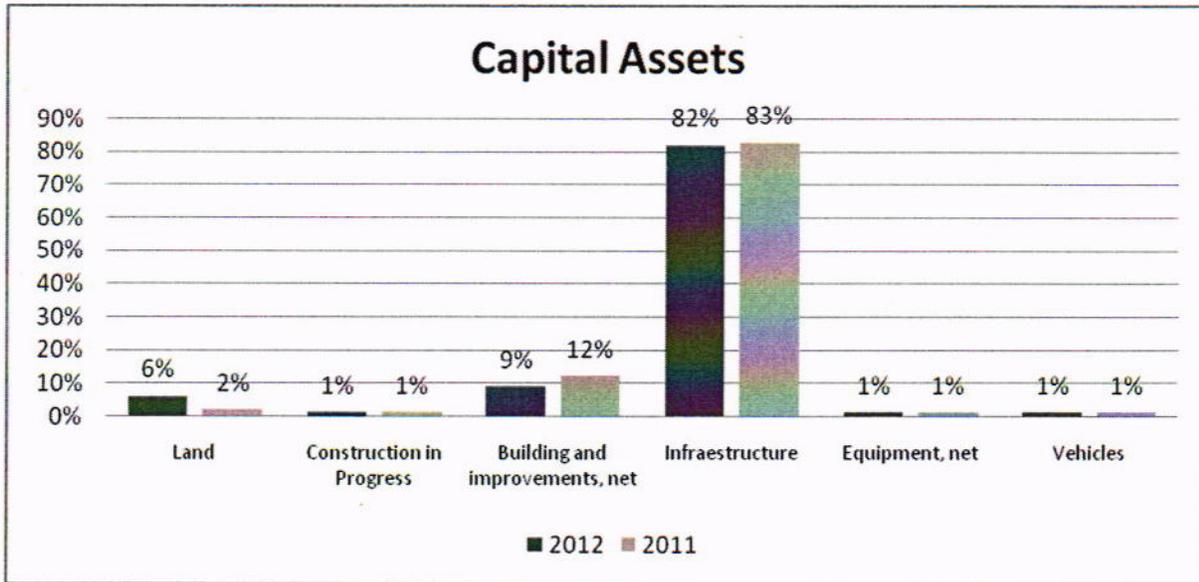


The Statements of Net Assets and the Statements of Activities, on page 13-14 respectively, report the Municipality net assets and changes in them. Total Net asset increase by \$8,6 million was mainly due to increase in capital asset of \$3.4 million due to an increase in capital outlays for \$11.3 during the year.

**Increase-(Decrease) Net in Capital Assets  
As of June 30, 2012 and 2011**

|                                 | 2012                 | %   | 2011                 | %   | Change              |
|---------------------------------|----------------------|-----|----------------------|-----|---------------------|
| Land                            | \$ 4,422,453         | 6%  | \$ 969,237           | 2%  | \$ 3,453,216        |
| Construction progress           | 848,482              | 1%  | 664,241              | 1%  | 184,241             |
| Building and improvements, net  | 6,491,226            | 9%  | 7,033,846            | 12% | (542,620)           |
| Infrastructure                  | 55,818,216           | 81% | 50,212,691           | 84% | 5,605,525           |
| Equipment, net                  | 372,966              | 1%  | 366,780              | 1%  | 6,186               |
| Vehicles                        | 723,236              | 1%  | 801,598              | 1%  | (78,362)            |
| <b>Total Net Capital Assets</b> | <b>\$ 68,676,579</b> |     | <b>\$ 60,048,393</b> |     | <b>\$ 8,628,186</b> |

**MUNICIPALITY OF UTUADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**



The municipality infrastructure assets represent 68% of total assets and 82% of total net capital assets. The total net capital assets for the amount by \$68,676,579 will increase as the infrastructure assets are identified and included in the financial statements. At present the ongoing construction projects been mostly financed by federal awards received from the Homeland Security Programs (FEMA) and from the U.S. Department of Housing and Urban Development and the Commonwealth of Puerto Rico.

**MUNICIPALITY OF UTUADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Activities**

The following reflects the condensed Statement of Activities of the Primary Government:  
For the year ended June 30, 2012 and 2011

|                              | 2012                | 2011                 | Changes             | %           |
|------------------------------|---------------------|----------------------|---------------------|-------------|
| General Revenues             |                     |                      | \$ -                |             |
| Property tax                 | \$ 2,634,494        | \$ 2,539,170         | 95,324              | 4%          |
| Municipal license tax        | 645,264             | 654,596              | (9,332)             | -1%         |
| License permits              | 723,732             | 729,559              | (5,827)             | -1%         |
| Intergovernmental revenue    | 11,127,044          | 17,857,630           | (6,730,586)         | -38%        |
| Rent                         | 224,503             | 22,617               | 201,886             | 893%        |
| Interest                     | 40,226              | 63,375               | (23,149)            | -37%        |
| Other revenue                | 243,514             | 417,532              | (174,018)           | -42%        |
| Municipal sales tax          | 1,294,492           | 1,240,097            | 54,395              | 4%          |
| Program Revenues:            |                     |                      | -                   |             |
| Operating grant              | 12,150,813          | 9,522,324            | 2,628,489           | 28%         |
| Capital grant                | 1,750,335           | 2,971,152            | (1,220,817)         | -41%        |
| <b>Total Revenue</b>         | <b>30,834,417</b>   | <b>36,018,052</b>    | <b>(5,183,635)</b>  | <b>-14%</b> |
|                              |                     |                      | -                   |             |
| Expenditures                 |                     |                      | -                   |             |
| General government           | 10,025,560          | 10,150,390           | 124,830             | 1%          |
| Public safety                | 1,613,063           | 1,434,043            | (179,020)           | -12%        |
| Public work                  | 4,232,542           | 3,768,166            | (464,376)           | -12%        |
| Health                       | 605,095             | 534,320              | (70,775)            | -13%        |
| Education and training       | 7,207,234           | 6,621,300            | (585,934)           | -9%         |
| Culture and recreation       | 326,171             | 662,270              | 336,099             | 51%         |
| Other expenditure            | 379,696             | 268,458              | (111,238)           | -41%        |
| Interest and fiscal charges  | 240,277             | 233,924              | (6,353)             | -3%         |
| Charges for services         | (21,780)            | (21,780)             | -                   | 0%          |
|                              | 24,607,858          | 23,651,091           | (956,767)           | -4%         |
| <b>Total Expenses</b>        | <b>24,607,858</b>   | <b>23,651,091</b>    | <b>(956,767)</b>    | <b>-4%</b>  |
|                              |                     |                      |                     |             |
| <b>Changes in net assets</b> | <b>\$ 6,226,559</b> | <b>\$ 12,366,961</b> | <b>\$ 6,140,402</b> | <b>50%</b>  |

The Statement of Activities reflects for fiscal year 2012, the net effect of revenues derived from several programs plus current operating revenues. Total revenues compared to the total expenses, amounted to a increase of \$6,226,559 million in the Municipality's net assets. Approximately 18 percent of the Municipality's total revenue came from taxes, while from Federal grants 45 and 36 percent resulted from Intergovernmental Revenues. The Municipality's expenses cover a range of services like health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and improvements. The largest expenses were for general government, public works, education and training and culture and recreation. With this analysis, the readers have comparative information to the percentage of change in revenues and expenses from prior year to current year.

**MUNICIPALITY OF UTUADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

A brief review of the Statements of Activities of the Municipality at June 30, 2012, shows that total expenses incurred to afford the cost of all functions and programs amounted to \$24,629,638. Upon examining the sources of revenues for the financing of the programs, the Statement reflects that the following; \$21,780 from charges for services, \$12,150,813 from operating grants and contributions and \$1,750,335 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$16,933,269. There was a change in net asset \$6,226,559 that represents 21 percent of total revenues and a decrease of 50 percent of the changes in net assets when compared with prior year. Expenses decreased by \$956,767 or 4 percent when compared to prior year.

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS**

The following reflects the condensed Balance Sheet of the Governmental Funds:

**Governmental Funds  
Balance Sheets  
June 30, 2012 and 2011**

|  | 2012                 | 2011                 | Changes               | %           |
|--|----------------------|----------------------|-----------------------|-------------|
| <b>Assets:</b>                             |                      |                      |                       |             |
| Cash                                       | \$ 9,881,415         | \$ 14,001,268        | \$ (4,119,853)        | -29%        |
| Restricted Cash                            | 2,885,480            | 2,420,616            | 464,864               | 19%         |
| Accounts Receivable                        | 1,963,270            | 2,304,107            | (340,837)             | -15%        |
| <b>Total Assets</b>                        | <b>14,730,165</b>    | <b>18,725,991</b>    | <b>(3,995,826)</b>    | <b>-21%</b> |
|  |                      |                      |                       |             |
| <b>Liabilities and Fund Balance</b>        |                      |                      |                       |             |
| <b>Liabilities:</b>                        |                      |                      |                       |             |
| Accounts payable and due to other          | \$ 4,174,053         | \$ 4,471,030         | \$ (296,977)          | -7%         |
| Deferred Revenue                           | 485,046              | 392,015              | 93,031                | 24%         |
| <b>Total Liabilities</b>                   | <b>4,659,099</b>     | <b>4,863,045</b>     | <b>\$ (203,946)</b>   | <b>-4%</b>  |
|  |                      |                      |                       |             |
| Funds Balances                             | 10,171,066           | 13,862,946           | (3,691,880)           | -27%        |
| <b>Total liabilities and Fund Balances</b> | <b>\$ 14,830,165</b> | <b>\$ 18,725,991</b> | <b>\$ (3,895,826)</b> | <b>-21%</b> |

The Governmental Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts 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 thru this Statement is limited to the Municipality's 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.

**MUNICIPALITY OF UTUADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

During 2012 the municipality had \$2.5 million cash restricted in the Debt service fund and \$350,278 in the Bond issue fund. Other funds had \$6.5 million balances, compromise to be use for special purpose. Accounts payable of general fund represent 23% of total in accounts payable. Funds balances decreased 21%.

**Statements of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2012 and 2011**

|  | 2012                 | 2011                 | Changes               | %           |
|--|----------------------|----------------------|-----------------------|-------------|
| <b>Revenues:</b>                         |                      |                      |                       |             |
| Property taxes                           | \$ 2,634,494         | \$ 2,539,170         | \$ 95,324             | 4%          |
| Municipal licence tax                    | 645,264              | 654,596              | (9,332)               | -1%         |
| Intergovernmental revenue                | 11,127,044           | 17,857,630           | (6,730,586)           | -38%        |
| Federal grants                           | 13,901,148           | 12,493,476           | 1,407,672             | 11%         |
| Sales Tax                                | 1,294,492            | 1,240,097            | 54,395                | 4%          |
| Other                                    | 1,253,755            | 1,254,863            | (1,108)               | 0%          |
| <b>Total Revenues</b>                    | <b>\$ 30,856,197</b> | <b>\$ 36,039,832</b> | <b>\$ (5,183,635)</b> | <b>-14%</b> |
| Liabilities and Fund Balance             |                      |                      |                       |             |
| <b>Expenditures:</b>                     |                      |                      |                       |             |
| General Government                       | \$ 9,719,022         | \$ 10,020,791        | \$ (301,769)          | -3%         |
| Public safety                            | 1,163,475            | 1,243,965            | (80,490)              | -6%         |
| Public work                              | 3,210,750            | 3,336,170            | (125,420)             | -4%         |
| Health                                   | 482,480              | 482,480              | -                     | 0%          |
| Capital outlays                          | 11,345,210           | 6,679,747            | 4,665,463             | 70%         |
| Bonds, principal and interest            | 857,090              | 753,450              | 103,640               | 14%         |
| Education and training                   | 7,207,234            | 6,621,300            | 585,934               | 9%          |
| Other expenditures                       | 562,816              | 860,249              | (297,433)             | -35%        |
| <b>Total Expenditures</b>                | <b>\$ 34,548,077</b> | <b>\$ 29,998,152</b> | <b>\$ 4,549,925</b>   | <b>15%</b>  |
| <b>Excess of revenues (expenditures)</b> |                      |                      |                       |             |
| Over expenditures (revenues)             | (3,691,880)          | 6,041,680            | (9,733,560)           |             |
| <b>Fund balance ending</b>               | <b>\$ 10,171,566</b> | <b>\$ 13,862,946</b> | <b>\$ 5,717,982</b>   | <b>81%</b>  |

The most significant changes of this statement were as follows:

- Revenues from property tax decreased by \$95,324 due to decrease in property tax in the amount collected. The Intergovernmental revenue increased by \$6.7 million and a Federal grants increased by \$1.4 million, these revenues represent 45% of total revenues. Total revenues decreased by \$5.1 million. Revenue from volume business tax declaration were reduced by \$9,332, Sales tax decreased by \$13,791.

## **MUNICIPALITY OF UTUADO MANAGEMENT'S DISCUSSION AND ANALYSIS**

- Expenditures increased by approximately \$4.5 million. The general government expenditures increased by \$301,769 and Capital outlays increase by \$4.6 million when compared to the prior year. Other expenditures decreased by approximately \$297,433 principally in education and training that increased by approximately \$.5 million.

### **Economic Factors and Next Year Budget**

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central governmental of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which has 14 members exercises the legislative power.

The Municipality provides a full range of services including public works, education Public safety, public housing, health, community development, culture, recreation and other administrative services. The Municipality's principal sources of revenues are property taxes, municipal license taxes, contributions by the state government and federal grants.

The original budget for revenues and expenditures were 12.8 million for the general fund, total revenues decreased \$1.7 when compared to budgeted revenues to the actual revenues. Municipal license tax decrease by \$137,263 and license, permits and fines \$954,609. The actual expenditures were \$562,396 less than budgeted expenditures. The general government expenditures reflect a decreased of \$247,972. Excess of revenues under expenditures reflect a deficiency of \$565,106.

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. There are many construction projects that we expected to received revenues that will decrease the deficit presented.

### **Contacting the Municipality's Financial Management**

The Municipality's financial statements are designed to present users with a general overview of the Municipality's finances. If you have questions about the report or need additional financial information, please contact the Municipality's Director of Finance.

Finance Director, PO Box 190, Utuado, Puerto Rico 00641.  
Telephone (787) 894-3505 Fax: (787) 814-1527

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**INDEPENDENT AUDITOR'S REPORT**

To the Mayor and Municipal Council of  
the Municipality of Utuado  
Utuado, Puerto Rico

We have audited the accompanying financial statements of the Governmental Activities, each major fund and the aggregate remaining fund information of the **Municipality of Utuado**, Puerto Rico (the "Municipality") as of and for the year ended June 30, 2012, which collectively comprise the "Municipality" basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express opinions on these financial statements based on my audit.

We have conducted my 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not the purpose of expressing an opinion on the effectiveness of the Municipality internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that my audit provides a reasonable basis for my opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the "Municipality" as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued my report dated March 15, 2013 on my consideration of the "Municipality" internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 10 and page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the "Municipality" financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not required part of the financial statements. The accompanying schedule of expenditures of federal awards 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 financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such

information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Arecibo, Puerto Rico  
March 15, 2013

The stamp number 2661158  
was affixed to the  
original of this report.

*Juan A. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2013



**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| <br>  |                                    |
| <b><u>ASSETS</u></b>                            |                                    |
| Cash and investments                            | \$ 9,981,415                       |
| Cash with fiscal agent and other                | 2,885,480                          |
| Accounts receivable from government             | 257,505                            |
| Capital assets, net of accumulated depreciation | 68,676,579                         |
| <b>Total assets</b>                             | <b><u>\$ 81,800,979</u></b>        |
| <br>  |                                    |
| <b><u>LIABILITIES AND FUND EQUITY</u></b>       |                                    |
| <br>  |                                    |
| <b>Liabilities:</b>                             |                                    |
| Accounts payable and accrued liabilities        | \$ 1,241,677                       |
| Due to government entity                        | 262,603                            |
| Deferred revenue                                | 485,046                            |
| Non-current liabilities:                        |                                    |
| Due within one year                             | 964,008                            |
| Due in more than one year                       | 6,158,722                          |
| <b>Total liabilities</b>                        | <b><u>9,112,056</u></b>            |
| <br>  |                                    |
| <b><u>NET ASSETS</u></b>                        |                                    |
| Invested in capital assets, net of related debt | 68,205,372                         |
| Restricted for:                                 |                                    |
| Debt service                                    | 1,622,444                          |
| Other activities                                | 702,329                            |
| Capital project activities                      | 8,723,553                          |
| Committed                                       | 2,966,413                          |
| Unrestricted (deficit)                          | (9,531,188)                        |
| <b>Total net assets</b>                         | <b><u>72,688,923</u></b>           |
| <b>Total Liabilities and net Assets</b>         | <b><u>\$ 81,800,979</u></b>        |

See notes to financial statements.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

| Functions/Programs                   | Program Revenues  |                                  |                    | Charges for Services | Operating Grants and Contributions |                         | Net (expense) revenue and change in Net Assets |
|--------------------------------------|-------------------|----------------------------------|--------------------|----------------------|------------------------------------|-------------------------|--|
|                                      | Expenses          | Capital Grants and Contributions |                    |                      | Operating Grants and Contributions | Governmental Activities |  |
| <b>EXPENDITURES:</b>                 |                   |                                  |                    |                      |                                    |                         |  |
| General government                   | \$ 10,025,560     | \$ -                             | \$ (1,750,335)     | \$ -                 | \$ (4,866,130)                     | \$ -                    | \$ 3,409,095                                   |
| Public safety                        | 1,613,063         | (21,780)                         | -                  | (21,780)             | -                                  | -                       | 1,591,283                                      |
| Public works                         | 4,232,542         | -                                | -                  | -                    | -                                  | -                       | 4,232,542                                      |
| Health                               | 605,095           | -                                | -                  | -                    | -                                  | -                       | 605,095  |
| Culture and recreation               | 326,171           | -                                | -                  | -                    | -                                  | -                       | 326,171  |
| Education and training               | 7,207,234         | -                                | -                  | -                    | (7,284,683)                        | -                       | (77,449)                                       |
| Other expenditure                    | 379,696           | -                                | -                  | -                    | -                                  | -                       | 379,696  |
| Interest and fiscal charges          | 240,277           | -                                | -                  | -                    | -                                  | -                       | 240,277  |
| <b>Total governmental activities</b> | <b>24,629,638</b> | <b>(21,780)</b>                  | <b>(1,750,335)</b> | <b>(21,780)</b>      | <b>(12,150,813)</b>                | <b>(10,706,710)</b>     | <b>10,706,710</b>                              |

**GENERAL REVENUES:**

|                                   |                      |
|-----------------------------------|----------------------|
| Property taxes                    | \$ 2,634,494         |
| Municipal licenses tax            | 645,264              |
| Licenses, permits and fines       | 723,732              |
| Intergovernmental revenues        | 11,127,044           |
| Rent of properties                | 224,503              |
| Interest income                   | 40,226               |
| Municipal sales tax               | 1,294,492            |
| Other revenues                    | 243,514              |
| <b>Total general revenues</b>     | <b>16,933,269</b>    |
| Changes in net assets             | 6,226,559            |
| Net assets at beginning of year   | 70,590,483           |
| Prior period adjustment (Note 18) | (4,128,119)          |
| <b>Net assets at end of year</b>  | <b>\$ 72,688,923</b> |

See notes to financial statements.

**MUNICIPALITY OF UTUADO, PUERTO RICO  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2012**

|   | General Fund       | Bond issue Fund   | HUD Programs      | Head Start Programs | Homeland Security Programs | Debt Service Fund   | Other Funds         | Total Governmental Funds |
|---|--------------------|-------------------|-------------------|---------------------|----------------------------|---------------------|---------------------|--------------------------|
| <b>ASSETS</b>                             |                    |                   |                   |                     |                            |                     |                     |                          |
| Cash and investments                      | \$ 276,872         | \$ -              | \$ 617,267        | \$ 232,887          | \$ 2,273,460               | \$ -                | \$ 6,580,929        | \$ 9,981,415             |
| Cash with fiscal agent and other          | -                  | 350,278           | -                 | -                   | -                          | 2,535,202           | -                   | 2,885,480                |
| Accounts receivable from government       | 122,832            | -                 | -                 | -                   | -                          | -                   | -                   | -                        |
| Due from general fund and other funds     | 21,926             | -                 | 83,423            | -                   | -                          | 51,250              | -                   | 257,505                  |
| <b>Total assets and other debits</b>      | <b>\$ 421,630</b>  | <b>\$ 350,278</b> | <b>\$ 700,690</b> | <b>\$ 232,887</b>   | <b>\$ 2,273,460</b>        | <b>\$ 2,586,452</b> | <b>\$ 8,264,768</b> | <b>\$ 14,830,165</b>     |
| <b>LIABILITIES AND FUND BALANCES</b>      |                    |                   |                   |                     |                            |                     |                     |                          |
| <b>Liabilities:</b>                       |                    |                   |                   |                     |                            |                     |                     |                          |
| Accounts payable and accrued liabilities  | \$ 1,040,822       | \$ -              | \$ 9,639          | \$ 124,760          | \$ -                       | \$ 964,008          | \$ -                | \$ 2,139,229             |
| Due to special and general fund           | 1,574,687          | -                 | -                 | -                   | 107,326                    | -                   | 23,752              | 1,705,765                |
| Due to government entity                  | 262,603            | -                 | -                 | -                   | -                          | -                   | -                   | 262,603                  |
| Deferred revenue                          | 485,046            | -                 | -                 | -                   | -                          | -                   | -                   | 485,046                  |
| Accounts employee benefits                | 66,456             | -                 | -                 | -                   | -                          | -                   | -                   | 66,456                   |
| <b>Total liabilities</b>                  | <b>3,429,614</b>   | <b>-</b>          | <b>9,639</b>      | <b>124,760</b>      | <b>107,326</b>             | <b>964,008</b>      | <b>23,752</b>       | <b>4,659,099</b>         |
| <b>Fund balances:</b>                     |                    |                   |                   |                     |                            |                     |                     |                          |
| Debt services                             | -                  | -                 | -                 | -                   | -                          | 1,622,444           | -                   | 1,622,444                |
| Other activities                          | -                  | -                 | 594,202           | 108,127             | -                          | -                   | -                   | 702,329                  |
| Capital project activity                  | -                  | 350,278           | -                 | -                   | 132,259                    | -                   | 8,241,016           | 8,723,553                |
| Committed                                 | 835,689            | -                 | 96,849            | -                   | 2,033,875                  | -                   | -                   | 2,966,413                |
| Unassigned                                | (3,843,673)        | -                 | -                 | -                   | -                          | -                   | -                   | (3,843,673)              |
| <b>Total fund balances</b>                | <b>(3,007,984)</b> | <b>350,278</b>    | <b>691,051</b>    | <b>108,127</b>      | <b>2,166,134</b>           | <b>1,622,444</b>    | <b>8,241,016</b>    | <b>10,171,066</b>        |
| <b>Total liabilities and fund balance</b> | <b>\$ 421,630</b>  | <b>\$ 350,278</b> | <b>\$ 700,690</b> | <b>\$ 232,887</b>   | <b>\$ 2,273,460</b>        | <b>\$ 2,586,452</b> | <b>\$ 8,264,768</b> | <b>\$ 14,830,165</b>     |

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS:**

**TOTAL FUND BALANCE - GOVERNMENTAL FUNDS**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued compensated absence

Bonds payable

Liability for claims and judgments

**Total long-term liabilities**

**TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES**

|  |                      |
|--|----------------------|
|  | \$ 10,171,066        |
|  | 68,676,579           |
|  | \$ 782,055           |
|  | 5,299,000            |
|  | 77,667               |
|  | <u>\$ 6,158,722</u>  |
|  | <u>\$ 72,688,923</u> |

See notes to financial statements.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

|   | General Fund       | Bond issue Fund   | HUD Program       | Head Start Program | Homeland Security Programs | Debt Service Fund   | Other Funds         | Total Governmental Funds |
|---|--------------------|-------------------|-------------------|--------------------|----------------------------|---------------------|---------------------|--------------------------|
| <b>REVENUES:</b>  |                    |                   |                   |                    |                            |                     |                     |                          |
| Property taxes  | \$ 2,031,327       | -                 | -                 | -                  | -                          | \$ 603,167          | -                   | \$ 2,634,494             |
| Municipal license tax   | 645,264            | -                 | -                 | -                  | -                          | -                   | -                   | 645,264                  |
| Licenses, permits, fines and sales tax  | 723,732            | -                 | -                 | -                  | -                          | -                   | -                   | 723,732                  |
| Intergovernmental revenues  | 7,247,183          | -                 | -                 | -                  | -                          | -                   | 3,879,861           | 11,127,044               |
| Rent of properties  | 224,503            | -                 | -                 | -                  | -                          | -                   | -                   | 224,503                  |
| Interest income   | 40,226             | -                 | -                 | -                  | -                          | -                   | -                   | 40,226                   |
| Other revenues  | 265,294            | -                 | -                 | -                  | -                          | -                   | -                   | 265,294                  |
| Municipal sales tax   | 696,179            | -                 | -                 | -                  | -                          | 598,313             | -                   | 1,294,492                |
| Federal financial award   | -                  | -                 | 1,750,335         | 7,284,683          | 4,378,411                  | -                   | 487,719             | 13,901,148               |
| <b>Total revenues</b>   | <b>11,873,708</b>  | -                 | <b>1,750,335</b>  | <b>7,284,683</b>   | <b>4,378,411</b>           | <b>1,201,480</b>    | <b>4,367,580</b>    | <b>30,856,197</b>        |
| <b>EXPENDITURES:</b>  |                    |                   |                   |                    |                            |                     |                     |                          |
| Current:  |                    |                   |                   |                    |                            |                     |                     |                          |
| General government  | 6,449,309          | -                 | 1,672,851         | -                  | -                          | -                   | 1,596,862           | 9,719,022                |
| Public safety   | 1,163,475          | -                 | -                 | -                  | -                          | -                   | -                   | 1,163,475                |
| Public works  | 3,210,750          | -                 | -                 | -                  | -                          | -                   | -                   | 3,210,750                |
| Health  | 482,480            | -                 | -                 | -                  | -                          | -                   | -                   | 482,480                  |
| Capital outlays   | 329,632            | -                 | 200,232           | 77,221             | 4,378,411                  | -                   | 6,359,714           | 11,345,210               |
| Culture and recreation  | 183,120            | -                 | -                 | -                  | -                          | -                   | -                   | 183,120                  |
| Education and training  | -                  | -                 | -                 | 7,207,234          | -                          | -                   | -                   | 7,207,234                |
| Other Expenditures  | 379,696            | -                 | -                 | -                  | -                          | -                   | -                   | 379,696                  |
| Debt service:   |                    |                   |                   |                    |                            |                     |                     |                          |
| Principal retirement  | -                  | -                 | -                 | -                  | -                          | 616,813             | -                   | 616,813                  |
| Interest and fiscal charges   | -                  | -                 | -                 | -                  | -                          | 240,277             | -                   | 240,277                  |
| <b>Total expenditures</b>   | <b>12,198,462</b>  | -                 | <b>1,873,083</b>  | <b>7,284,455</b>   | <b>4,378,411</b>           | <b>857,090</b>      | <b>7,956,576</b>    | <b>34,548,077</b>        |
| Excess of revenues over (under) expenditures                                  | (324,754)          | -                 | (122,748)         | 228                | -                          | 344,390             | (3,588,996)         | (3,691,880)              |
| Other financing sources (uses):   |                    |                   |                   |                    |                            |                     |                     |                          |
| Transfer in (out) to debt service fund  | (379,096)          | -                 | -                 | -                  | -                          | 379,096             | -                   | -                        |
| <b>Total other financing sources (uses)</b>                                   | <b>(379,096)</b>   | -                 | -                 | -                  | -                          | <b>379,096</b>      | -                   | -                        |
| Excess of revenues and other sources over (under) expenditures and other uses | (703,850)          | -                 | (122,748)         | 228                | -                          | 723,486             | (3,588,996)         | (3,691,880)              |
| Net change in fund balances   | (703,850)          | -                 | (122,748)         | 228                | -                          | 723,486             | (3,588,996)         | (3,691,880)              |
| Fund balance June 30, 2011 (deficit)  | (2,221,232)        | 344,887           | 813,799           | 43,965             | 2,017,112                  | 1,382,592           | 10,369,352          | 12,750,475               |
| Prior period adjustment (Note 18)   | (82,902)           | 5,391             | -                 | 63,934             | 149,022                    | 483,634             | 1,460,660           | 1,112,471                |
| Beginning Balance Restated  | (2,304,134)        | 350,278           | 813,799           | 107,899            | 2,166,134                  | 898,958             | 11,830,012          | 13,862,946               |
| <b>Fund balance June 30, 2012 (deficit)</b>                                   | <b>(3,007,984)</b> | <b>\$ 350,278</b> | <b>\$ 691,051</b> | <b>\$ 108,127</b>  | <b>\$ 2,166,134</b>        | <b>\$ 1,622,444</b> | <b>\$ 8,241,016</b> | <b>\$ 10,171,066</b>     |

*Handwritten signature and date: 2012*

See notes to financial statements.

**MUNICIPALITY OF UTUADO  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012**

Net change in fund balance - total governmental funds \$ (3,691,880)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

|                                 |               |                  |
|---------------------------------|---------------|------------------|
| Purchase of property            | \$ 11,345,210 |                  |
| Less: current year depreciation | (2,043,584)   | <b>9,301,626</b> |

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. The transaction, however, has any effect on net assets.

|                    |         |                |
|--------------------|---------|----------------|
| Principal payments | 616,813 | <b>616,813</b> |
|--------------------|---------|----------------|

**Change in net assets of governmental activities** \$ 6,226,559

See notes to financial statements.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**BUDGETARY COMPARISON SCHEDULE (BUDGET BASIS)**  
**GENERAL FUND AND DEBT SERVICE FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

|   | Budgeted Amounts     |                      | Adjusted Actual<br>Note 1 | Variance<br>Favorable<br>(Un-favorable) |
|---|----------------------|----------------------|---------------------------|---|
|   | Original             | Final                |                           |   |
| <b>REVENUES:</b>  |                      |                      |                           |   |
| Property taxes  | \$ 340,721           | \$ 340,721           | \$ 340,721                | \$ -                                    |
| Local taxes   | 782,527              | 782,527              | 645,264                   | (137,263)                               |
| Intergovernmental revenues  | 7,273,423            | 7,273,423            | 7,247,183                 | (26,240)                                |
| Licenses, permits and fines   | 1,678,341            | 1,678,341            | 723,732                   | (954,609)                               |
| Interest income   | 72,000               | 72,000               | 40,226                    | (31,774)                                |
| Rent of properties  | 162,091              | 162,091              | 224,503                   | 62,412                                  |
| Other revenues  | 351,501              | 351,501              | 265,294                   | (86,207)                                |
| Municipal Sales Tax   | 650,000              | 650,000              | 696,179                   | 46,179                                  |
| Other financial sources   | 1,567,774            | 1,567,774            | 1,567,774                 | -                                       |
| <b>Total revenues</b>   | <b>\$ 12,878,378</b> | <b>\$ 12,878,378</b> | <b>11,750,876</b>         | <b>(1,127,502)</b>                      |
| <b>EXPENDITURES:</b>  |                      |                      |                           |   |
| Current:  |                      |                      |                           |   |
| General government  | \$ 6,723,253         | \$ 6,765,336         | 6,517,364                 | 247,972                                 |
| Public works  | 2,974,085            | 3,223,646            | 3,210,749                 | 12,897                                  |
| Public safety   | 1,395,492            | 1,168,733            | 1,163,475                 | 5,258                                   |
| Health  | 611,568              | 482,568              | 482,482                   | 86                                      |
| Culture and recreation  | 843,272              | 672,416              | 183,120                   | 489,296                                 |
| Other expenditure   | 230,708              | 186,583              | 379,696                   | (193,113)                               |
| Transfer-out  | 100,000              | 379,096              | 379,096                   | -                                       |
| <b>Total expenditures</b>   | <b>\$ 12,878,378</b> | <b>\$ 12,878,378</b> | <b>12,315,982</b>         | <b>562,396</b>                          |
| <b>Excess of revenues over (under) expenditures</b>   |                      | <b>\$ -</b>          | <b>\$ (565,106)</b>       | <b>\$ (565,106)</b>                     |
| Explanation of Differences:   |                      |                      |                           |   |
| Sources/inflows of resources:   |                      |                      |                           |   |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule       |                      |                      |                           | \$ 11,750,876                           |
| Differences - budget to GAAP:   |                      |                      |                           |   |
| Revenues reported for financial reporting purposes  |                      |                      |                           | 122,832                                 |
| Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances           |                      |                      |                           | <b>\$ 11,873,708</b>                    |
| Uses/outflow of resources   |                      |                      |                           |   |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule   |                      |                      |                           | \$ 12,315,982                           |
| Differences - budget to GAAP:   |                      |                      |                           |   |
| Non budgeted expenditures   |                      |                      |                           | 261,576                                 |
| Expenditures budgeted this year from prior year   |                      |                      |                           |   |
| Other financial resources transferred to debt service and other funds                                       |                      |                      |                           | (379,096)                               |
| <b>Total expenditures as reported on the statement of revenue, expenditures and change in fund balances</b> |                      |                      |                           | <b>\$ 12,198,462</b>                    |

See notes to budgetary comparison schedule.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**GENERAL ORGANIZATION**

The **Municipality of Utuado (The Municipality)** was founded in 1881. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of fourteen assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

The financial statements of the **Municipality** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles. Certain amounts reported for prior year and notes have been reclassified to conform to the current year's presentation.

The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations,) institute GAAP for governmental units. A summary of **the Municipality's** significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

**The Municipality's** financial statements include the operations of all departments and separate legal entities for which **the Municipality** is financially accountable or for which exclusion would leave the financial statements misleading or incomplete.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, The GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34. The Municipality implemented this Standard for the fiscal year ended June 30, 2004.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**b. Financial Reporting Entity**

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of **the Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units 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 financial statements from those of the Municipality would cause **the Municipality's** basic financial statements to be misleading or incomplete according to GASB Statement No. 14, - *The Financial Reporting Entity (GASB No. 14.)* and *GASB Statement No. 39, Determining Whether Certain Organizations are Component Units - Amendment of GASB Statement No. 14 (GASB No. 39) to determine its financial reporting entity.*

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which in may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but 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 accompanying 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 of **the Municipality** as of June 30, 2012 nor for the year then ended.

As indicate in Note 18, during fiscal year 2012, the Municipality noted that certain adjustments were noted to present properly the net assets and fund balances at June 30, 2011 as a result assets, liabilities and net assets were restated.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**c. Basic Financial Statements-GASB Statement No. 34**

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. In The government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The Government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the sustainability of **the Municipality** as an entity the change in aggregate economic position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the sources and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**d. Basis of Presentation**

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. **The Municipality** reports the following major funds on **Fund Financial Statements**:

***Major Funds***

General Fund – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in another funds.

HUD Programs Fund – This fund accounts for revenues sources for the development of viable urban communities, decent housing suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

Bond issue Fund - Bond issue funds are used to account for the net proceeds of the bond issued debt of other financing sources that are legally restricted specified purposes.

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

Head Start – Program Funds – The special revenue fund of Head Start is a major fund used by **the Municipality** to account for revenues derived from the grant that is legally restricted by outside parties for use on specific purpose. The uses and limitations of this revenue fund are specified by municipal ordinances of federal and state statutes.

Homeland Security Fund – FEMA fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements which are not financed by other funds.

This fund accounts for revenue sources to provide comprehensive health, educational, nutritional, social and other services to economically disadvantaged pre-school children so that the children will attain overall social competence.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**e. Basis of Presentation**

However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

*Other Funds (non mayor funds)* – Special revenue funds are used to account for the proceeds of specific revenues sources that are legally restricted to expenditures for specified purposes. Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements, which are not financed by other funds.

**f. Basis of Accounting**

The accounts of **the Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds accounts for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

***Measurement Focus, Basis of Accounting and financial statement presentation***

*Government-wide Financial Statements* – The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non exchange transactions, in which **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**Basis of Accounting**

*Governmental Funds Financial Statement* – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. “Available” means collectible within the current period or 90 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

*Governmental Fund Types / Governmental Activities* – Governmental funds are those through which most governmental functions of **the Municipality** are financed. The acquisition, use, and balances of **the Municipality’s** expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits, and certain charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying FFFS, except for amounts recorded as deferred revenues.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**Basis of Accounting**

All revenues, expenses, gains losses and assets resulting from non-exchanges transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2012.

**g. Encumbrances**

Governmental funds employ encumbrances accounting. Under the encumbrance system, all purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balances and they constitute neither expenditures, nor liabilities. Encumbrances constitute the equivalent of expenditures for budgetary purposes only, and accordingly, are reported with expenditures in all budgetary basis statements.

**h. Budgetary Control**

**The Municipality** follows the following these procedures, which are in accordance with the municipal law; in establishing the annual budget as date reflected in the basic financial statements.

- (1) On or prior to may 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**Budgetary Control (continue)**

- (3) Prior to July 1st. the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances, as described below:

The actual results of operations, presented in the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-General Fund, are reflected in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year. During the fiscal year, the Municipality maintains its original budget for the revenues and expenditures.

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences are as follows:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.
- (2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP basis.
- (3) The Municipality receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.
- (4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

Legal Compliance

Article 7.003, Law No. 81 of August 31, 1991, amended require that Mayor provide to Municipal Legislature an annual balanced budge indicating: 1) interest, amortization and retirement public debt, 2) statutory obligations, 3) judicial claims payments, 4) any amount to cover prior years deficit, 5) contract commitments and operational expenditures. For annual interest and principal debt amortization, CRIM provides annual estimated resources that will be obtained of additional special property tax (municipal) collections. **The Municipality's** management shows budgetary financial statements in general and debt service funds in compliance with state law and which are based in annual activity. The legal level of budgetary control is at the individual department level for general fund (Mayor and Legislature funds) expenditures, and annual principal and interest due for debt service fund.

**i. Deposits**

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

**j. Inventories**

The general fund purchases office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as expenditures and the inventory is not recorded in the basis financial statements since amount is insignificant.

**k. Capital Assets**

Fund Financial Statements

The capital assets acquired are recorded as expenditures at cost in the governmental funds.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

*Government-Wide Financial Statements*

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value at the time they are received by **the Municipality** and is capitalized in the Statement of net Assets. Major renewals and betterment are capitalized: replacement, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations.

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis.

**l. Vacation and Sick Leave and Other Compensated Absences**

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation leave may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31, of prior year. Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, are accounted for the Statement of Net Assets.

**m. Insurance**

**The Municipality** has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other losses. Also, principal officials of **the Municipality** are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the designated agency to obtain the necessary insurance coverage for **the Municipality**.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**n. Restricted Assets**

*Investments and Certificates*

Certain proceeds of the Municipality revenue bonds as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The “revenue bond” maintenance account is used to report those rental proceeds that are restricted for use in maintenance of the properties. The “revenue bond fund account” is used to segregate resources accumulated for debt service payments over the next twelve months. The “Debt Service Account” is used to report resources set aside to make up potential future deficiencies in the “revenue bond fund account”.

*Cash with fiscal agent*

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality’s** debt service (See Note 12) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund. In debt service fund are unsecured and collateralized, as no collateral is required by governmental banks.

**o. Fund Balance**

During year ended June 30, 2011, **the Municipality** implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Type Definitions (“GASB 54”). The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The implementation of this statement had no impact on the total fund balances for **the Municipality’s** governmental funds.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continuation)**

**Fund Balance (continued)**

The Municipality classifies governmental fund balances as follows:

- **Nonspendable**— includes amounts that inherently cannot be spent either because it is not in spendable form (i.e., prepaid, inventories, long-term portions of loans receivable, etc.) or because of legal or contractual requirements (i.e., principal of an endowment, etc.).
- **Restricted** – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal actions made by **the Municipality's** legislative body, which is the highest level of decision making authority, before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those mounts.
- **Assigned** – includes amounts that are intended to be used for specific purposes that are neither consider restricted nor committed; in addition, such assignments are made before the report issuance date.
- **Unassigned** – include amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other government funds, if expenditures incurred for specific purposes exceeded the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**Fund Balance (continued)**

The Municipality generally uses restricted amounts first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, the Municipality generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The Major and Finance Director in accordance to Municipality plans establish the classification of fund balances.

**p. Interfund transaction**

The Municipality has the following type of transaction among funds: Operating Transfer – Legally required transfers that are reported when incurred as “Operating transfer-in” by the recipient fund and as “Operating transfer-out” by the disbursing fund.

**q. 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 and in the Statement of Net Assets.

**r. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of asses and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**s. Totals Column (Memorandum Only) Governmental Funds Statement**

The total data under this column is presented only to facilitate financial analysis. Data in these column do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since Interfund eliminations have not been made.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**2. PROPERTY TAXES**

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the **Municipality of Utuado** and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed.

The tax rate per annum is 8.83% for real property and 6.83% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.5% of both percents belong to **the Municipality**. From the portion belonging to **the Municipality**, 3% represents **the Municipality's** basic rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to **the Municipality** of 1.3% represents the ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service which is accounted for through the debt service fund (See note 11).

**The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

Complete real property tax exemption is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, **the Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer becomes the source of payment in these cases.

Complete exemption from personal taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**2. PROPERTY TAXES (continuation)**

The CRIM reports annually to the Municipality the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advanced to **the Municipality** during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded the general fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$ 68,950 during 2012.

The following is a summary of the property tax advances, that resulted in an account receivable, for the year ended June 30, 2012. The resulting receivable is presented as a revenue in the general fund to Fund Financial Statement and as a revenue in the Government Wide Financial Statements.

Accounts receivable:

| Amortization through collections of property taxes by the CRIM |              |
|--|--------------|
| 07-01-11 - 06-30-12  | \$ 7,253,698 |
| Advance received, 07-01-11 - 06-30-12                          | (7,130,866)  |
| Account receivable   | \$ 122,832   |

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**3. DEPOSITS**

Deposits include certificates of deposits amounting to \$3.75 million. **The Municipality's** cash and investments at June 30, 2012, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico, in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. **The Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, **the Municipality** invested its funds in interest-bearing bank accounts, and short-term certificates of deposit, if due date is not more than 90 days, the certificate considered as cash equivalents.

**4. CONCENTRATION OF CREDIT RISK**

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest bearing bank accounts, and short-term certificates of deposit.

**Custodial Credit Risk**

The following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2012:

**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 of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico*. Accordingly, the Municipality is only allowed

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, 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 is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2012 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. No investments in debt or equity securities were made during the fiscal year ended June 30, 2012. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2012.

**Interest rate risk** - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2011, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates as required by the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the Government Development Bank for Puerto Rico (the adopted policy of the Municipality). At June 30, 2011, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

**Custodial credit risk** — In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of 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, 2012. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

Therefore, the Municipality's management has concluded that at June 30, 2012, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

**Foreign exchange risk** -This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2012.

**5. MUNICIPAL LICENSE TAXES**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declarations by April 15 of each year.

The tax rates are as follow:

1% for financial institutions  
for all other organizations 0.5%

Taxes are payable in two equal semiannual installments on July 1 and January 1 following the levy date. If they are paid before their maturity, the taxpayer is granted certain discounts.

The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the maximum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a 5% discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The **Municipality** recognized an account receivable for the estimated municipal license taxes to be collected during the first two months of next year, but corresponding to current year. Municipal license taxes collected prior to June 30, but pertaining to the next fiscal year are recorded as deferred revenues.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**6. INTERFUND TRANSACTIONS**

Due From/To Other Funds (Fund Financial Statement)

Intra-Entity Transactions – Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from funds. Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balance are as follows:

| Funds             | Due From            | Due To              |
|-------------------|---------------------|---------------------|
| General           | \$ 21,926           | \$ 1,574,687        |
| Homeland Security | -                   | 107,326             |
| Other Funds       | 1,683,839           | 23,752              |
| <b>TOTAL</b>      | <b>\$ 1,705,765</b> | <b>\$ 1,705,765</b> |

For the most part, the effect of interfund activity has been removed from the Statement of Net Assets (Government Wide Financial Statements).

**7. INTERGOVERNMENTAL REVENUES**

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and in lieu of tax” payments from certain “quasipublic” corporations, such as the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, along others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

**8. DUE TO GOVERNMENT ENTITIES AND DUE FROM GOVERNMENTAL ENTITIES**

As of June 30, 2012 balances due to governmental entities of the general fund consists of the following:

| Governmental Entities                 | Due to            |
|---------------------------------------|-------------------|
| Puerto Rico Department of Treasury    | \$ 5,467          |
| Puerto Rico Water and Sewer Authority | 132,267           |
| Puerto Rico Association of Employees  | 17,605            |
| Puerto Rico Retirement System         | 84,086            |
| General Administration Services       | 420               |
| Puerto Rico Department of Labor       | 22,758            |
| <b>Totals</b>                         | <b>\$ 262,603</b> |

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**9. CAPITAL ASSETS**

Include those changes pursuant to the implementation of GASB Statement No. 34, follows.  
land and construction in progress are not subject to depreciation.

|  | Balance<br>6/30/2011 | Additions           | Retirements<br>and Transfers<br>dispositions | Balances<br>6/30/2012 |
|--|----------------------|---------------------|--|-----------------------|
| <b>Governmental activities:</b>                    |                      |                     |  |                       |
| Capital assets, not being depreciated:             |                      |                     |  |                       |
| Land   | \$ 969,237           | \$ 3,453,221        | \$ -   | \$ 4,422,458          |
| Construction in progress                           | 664,241              | 5,490,540           | (5,306,299)                                  | 848,482               |
| Total capital assets not being depreciated         | <u>1,633,478</u>     | <u>8,943,761</u>    | <u>(5,306,299)</u>                           | <u>5,270,940</u>      |
| Capital assets, being depreciated                  |                      |                     |  |                       |
| Buildings and building improvements                | 13,794,638           | -                   | (1,951,286)                                  | 11,843,352            |
| Infrastructure                                     | 59,857,184           | 1,710,343           | 5,306,299                                    | 66,873,826            |
| Equipment  | 1,773,535            | 115,207             | -  | 1,888,742             |
| Vehicles   | 3,259,512            | 575,899             | (394,201)                                    | 3,441,210             |
| Total capital assets being depreciated             | <u>78,684,869</u>    | <u>2,401,449</u>    | <u>2,960,812</u>                             | <u>84,047,130</u>     |
| Less accumulated depreciation for:                 |                      |                     |  |                       |
| Buildings and building improvements                | 6,760,792            | 254,459             | (1,663,125)                                  | 5,352,126             |
| Infrastructure                                     | 9,644,493            | 1,411,117           | -  | 11,055,610            |
| Equipment  | 1,406,755            | 114,276             | (5,250)                                      | 1,515,781             |
| Vehicles   | 2,457,914            | 263,732             | (3,672)                                      | 2,717,974             |
| Total accumulated depreciation                     | <u>20,269,954</u>    | <u>2,043,584</u>    | <u>(1,672,047)</u>                           | <u>20,641,491</u>     |
| Total capital assets being depreciated, net        | <u>58,414,915</u>    | <u>357,865</u>      | <u>4,632,859</u>                             | <u>63,405,639</u>     |
| <b>Governmental activities capital assets, net</b> | <b>\$ 60,048,393</b> | <b>\$ 9,301,626</b> | <b>\$ (673,440)</b>                          | <b>\$ 68,676,579</b>  |

*Depreciation expense was charged to functions as follows:*

|   |                     |
|---|---------------------|
| Governmental activities:                                  |                     |
| General government  | \$ 306,538          |
| Public safety   | 449,588             |
| Public work   | 1,021,792           |
| Culture and recreation                                    | 143,051             |
| Health  | 122,615             |
| <b>Total depreciation expense governmental activities</b> | <b>\$ 2,043,584</b> |

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**Government Wide Financial Statements**

Capital assets purchased are carried at historical costs. Contributed assets are recorded at fair value as of the date donated. Additions, Improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

|                                   |       |       |
|-----------------------------------|-------|-------|
| Vehicles, Heavy Equipment         | 4-10  | \$300 |
| Furniture and Fixture             | 10    | \$300 |
| Computer and Electronic Equipment | 5     | \$300 |
| Buildings                         | 40    | \$ 1  |
| Infrastructure                    | 50    | \$ 1  |
| Improvements                      | 20-40 | \$ 1  |

In addition, the Municipality assigned a 10% residual value on most Capital Assets.

**Fund Financial Statements**

The Municipality charged costs of capital outlays as expenditures categories in the Governmental Fund Financial Statements.

**10. CHANGES IN GENERAL LONG-TERM DEBT**

| Description               | Payable at<br>July 1, 2012 | Adjustment | Reductios  | Ending<br>Balance |
|---------------------------|----------------------------|------------|------------|-------------------|
| General Obligations Bonds | \$ 8,750,813               | \$ 40,000  | \$ 616,813 | \$ 8,174,000      |

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

GENERAL LONG-TERM DEBT

*General Obligation Bonds:*

| Description  | Balance<br>June/30/2012 | Due within<br>one year |
|--|-------------------------|------------------------|
| Series 2001, 1,310,000 payable in annual installments of \$50,000 to \$145,000 until 2016; with interest ranging from 2.7% to 5%     | \$615,000               | \$105,000              |
| Series 1995, \$535,000 payable annual installments of \$10,000 to \$55,000 until 2014; with interest ranging from 4.7% to 7.25%      | 145,000                 | 45,000                 |
| Series 1996, \$330,000 payable in annual installments of \$10,000 to \$25,000 until 2019; with interest ranging from 4.7% to 6.5%    | 170,000                 | 15,000                 |
| Series 2007, \$610,000 payable in annual installments of \$70,000 to \$110,000 until 2013, with interest ranging from 3.93% to 7%    | 210,000                 | 100,000                |
| Series 2009, \$700,000 payable in annual installments of \$85,000, to \$125,000 until 2015, with interest ranging from 4.75% to 7.5% | 445,000                 | 100,000                |
| Series 2004, \$1,060,000 payable in annual installments of \$15,000 to \$80,000 until 2028; wit interest of 5%                       | 880,000                 | 30,000                 |
| Series 1998, \$165,000 payable in annual installments \$2,000 to \$11,000 until 2007; with interest of 5%                            | 128,000                 | 5,000                  |
| Series 1998, \$341,000 payable in annual installments of \$3,000 to \$9,000 until 2028; with interest of 5%                          | 104,000                 | 4,000                  |
| Series 1998, \$341,000 payable in annual installments of \$6,000 to \$23,000 until 2028; with interest of 5%                         | 262,000                 | 11,000                 |
| Series 2008, \$1,510,000 payable in annual installments of \$55,000 To \$160,000 until 2012  | 1,260,000               | 75,000                 |
| Series 2008, \$305,000 payable in annual installments of \$35,000 to \$55,000 until 2014; with interest ranging from 3.93% to 7.5%   | 150,000                 | 45,000                 |
| SUB-TOTAL  | 4,369,000               | 535,000                |

*Operational Bonds:*

| Description   | Balance<br>June/30/2012 | Due within<br>one year |
|---|-------------------------|------------------------|
| Series 1997, 400,000 payable in annual installments of \$10,000 to \$40,000 until 2016; with interest ranging from 3.28% to 7.81% | 155,000                 | 25,000                 |
| Series 1997, 235,000 payable in annual installments of \$5,000 to \$20,000 until 2016; with interest ranging from 3.28% to 8%     | 90,000                  | 15,000                 |
| SUB-TOTAL   | 245,000                 | 40,000                 |

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

*General Obligation Bonds:*

| Description  | Balance<br>June/30/2012 | Due within<br>one year |
|--|-------------------------|------------------------|
| Series 2008, \$3,755,000 payable in annual installments of \$60,000 to \$3,320,000 until 2015; with interest ranging from 5% to 7.5% | 3,560,000               | 70,000                 |
| <b>SUB-TOTAL</b>   | <b>3,560,000</b>        | <b>70,000</b>          |
| <b>TOTAL</b>   | <b>\$8,174,000</b>      | <b>\$645,000</b>       |

*The annual requirements to amortize all bonded debt outstanding as June 30, 2012 follows:*

| Year Ending      | Principal           | Interest            | Total                |
|------------------|---------------------|---------------------|----------------------|
| 2013             | \$ 650,000          | \$ 530,046          | \$ 1,180,046         |
| 2014             | 703,000             | 486,224             | 1,189,224            |
| 2015             | 648,000             | 442,500             | 1,090,500            |
| 2016             | 579,000             | 403,325             | 982,325              |
| 2017             | 454,000             | 398,637             | 852,637              |
| Subsequent years | 5,140,000           | 3,165,023           | 8,305,023            |
| <b>TOTAL</b>     | <b>\$ 8,174,000</b> | <b>\$ 5,425,755</b> | <b>\$ 13,599,755</b> |

**The Municipality** is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the **Municipality**, for bonds to be repaid with the proceeds of property tax restricted for debt services. Other obligations include compensated absences, LIMS refinance debt, claims and judgments.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**11. DEBT SERVICE FUND**

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and informed by the CRIM (See Note 2). The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality. Interest income is for the payment of interest or special obligations notes and property taxes are for the debt service requirements of the general obligations bonds and notes.

Principal and interest on these obligations are paid by the Government Development Bank for Puerto Rico from funds obtained from the Following:

|                       |                     |
|-----------------------|---------------------|
| Property taxes        | \$ 603,167          |
| Municipal sales taxes | 598,313             |
| General fund          | 379,096             |
| <b>TOTAL</b>          | <b>\$ 1,580,576</b> |

*Expenditures for the year 2011-2012 was as follows:*

|              |                   |
|--------------|-------------------|
| Principal    | \$ 616,813        |
| Interest     | 240,277           |
| <b>TOTAL</b> | <b>\$ 857,090</b> |

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**12. RETIREMENT PLAN**

**Plan Description**

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, "Retirement Pensions, Disability and Death Benefits", as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at GPO Box 42005, San Juan, Puerto Rico 00940.

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

**OLD PLAN (LAW 447)**

**Eligibility**

**Pension Benefits**

Age 55 and 30 years  
Of service

75% of average highest compensation  
during any years of credited service

Under 55 and 30 years  
Of service

65% of average highest compensation  
during any 3 years of credit service

Participants in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

No benefit is payable if the participant receives a refund of his accumulated contributions.

**Additional information of ERS is provided in its financial statements for the year ended June 30, 2012 a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.**

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**13. RETIREMENT PLAN (Continuation)**

**NEW PLAN (REFORMA 2000)**

Eligibility

Age 65 with 10 years  
of service

Pension Benefits

1.5% of average compensation during  
the final 5 years of credited services  
multiples by the numbers of years  
credited service

For both plans, the employees are vested when attaining ten years of plan participation. Disability and death benefits are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

Reforma 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. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon 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 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 Reforma 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

**Funding Policy**

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**13. RETIREMENT PLAN (Continuation)**

**Contribution Requirements**

The Municipality's total payroll for the fiscal year 2012 amounted to approximately \$9,402,431. Common wealth legislation requires employees to contribute 5.775% of gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600. Municipality is required to contribute 9.275% of gross salary annually during year 2012. Municipality is required and actual contribution under Act 447 and Reform 2000 were \$169,037 and \$208,847 respectively.

**Actuarial Valuation**

As of June 30, 2011, the ERS has an unfunded accrual liability of approximately \$17.1 billion, representing a 9.7% funding ratio. This information is not available by each participating government agency or municipalities.

Net assets of the system consist principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

|                                    |  |
|------------------------------------|--|
| a) Interest rate                   | 6.4% a year  |
| b) Salary increases                | 3.0% year  |
| c) Pre-retirement Mortality        | For General Employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. |
| Post-retirement Health Mortality   | Gender-specific mortality rates were developed based on a study of plan's experience from 2003 to 2007. Sample rates shown below are as of 2005 and are thereafter projected on a generational basis using Scale AA.   |
| Post-retirement Disabled Mortality | RP 2000 Disabled Annuitant Mortality Rates, without projection.  |

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**13. RETIREMENT PLAN (Continuation)**

*Actuarial Valuation (Continued)*

d) Termination

Withdrawal rates vary by employee category.  
 For general employees  
 For police and fire  
 For Mayors

e) Disability

Rates are based on the six month elimination period rates in the 1987 Commissioners Group Disability Table, adjusted as set forth in the table below. Rates of disability cease to apply once a member is eligible for the 75% of the Highest Salary maximum benefit.

| <b>Adjustment to 1987 CGDT</b> |   |                      |
|--------------------------------|---|----------------------|
| <b>Act</b>                     | <b>Members Covered under Act 127</b>  | <b>Other Members</b> |
| 447                            | 100%  | 75%                  |
| 1                              | 100%  | 75%                  |
| 2000                           | 100% if more than 10 years from retirement eligibility.<br><br>300% if at or past retirement eligibility.<br><br>Interpolated from 100% to 300% in the 10 years leading up to retirement eligibility. | 75%                  |

100% of disabilities occurring while in active service are assumed to be occupational for members covered under Act 127. For other members, 90% of disabilities occurring while in active service are assumed to be occupational and 10% are assumed to be non-occupational.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**13. RETIREMENT PLAN (Continuation)**

*Actuarial Valuation (Continued)*

f) Retirement

Rates of retirement vary by employment category, Act, and by age and years of Creditable Service.

| <b>Act 447 General Employees (Includes General Hazardous Employees)</b> |                          |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | <b>Service Condition</b> |                 |                 |
| <b>Age</b>  | <b>10 years</b>          | <b>25 years</b> | <b>30 years</b> |
| 45 to 49  |                          |                 | 10.0%           |
| 50 to 53  |                          |                 | 15.0            |
| 54  |                          |                 | 20.0            |
| 55 to 57  |                          | 10.0%           | 20.0            |
| 58  | 5.0%                     | 10.0            | 20.0            |
| 59 to 64  | 10.0                     | 15.0            | 20.0            |
| 65 to 69  | 15.0                     | 15.0            | 20.0            |
| 70  | 100.0                    | 100.0           | 100.0           |

| <b>System 2000 General Employees</b> |                      |                  |
|--------------------------------------|----------------------|------------------|
| <b>Age</b>                           | <b>Non-hazardous</b> | <b>Hazardous</b> |
| 60 to 66                             | 15.0%                | 12.0%            |
| 67                                   | 100.0                | 100.0            |

| <b>Act 447 Police &amp; Fire</b> |                          |                 |                 |
|----------------------------------|--------------------------|-----------------|-----------------|
|                                  | <b>Service Condition</b> |                 |                 |
| <b>Age</b>                       | <b>10 years</b>          | <b>25 years</b> | <b>30 years</b> |
| 45 to 48                         |                          |                 | 10.0%           |
| 49                               |                          |                 | 15.0            |
| 50                               |                          | 7.0%            | 15.0            |
| 51 to 56                         |                          | 15.0            | 20.0            |
| 57                               |                          | 20.0            | 30.0            |
| 58                               | 2.5%                     | 20.0            | 100.0           |
| 59 to 64                         | 10.0                     | 25.0            |                 |
| 65 to 69                         | 10.0                     | 30.0            |                 |
| 70                               | 100.0                    | 100.0           |                 |

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**13. RETIREMENT PLAN** (Continuation)

*Actuarial Valuation (Continued)*

| <b>System 2000 Police &amp; Fire</b> |                          |                 |                 |
|--------------------------------------|--------------------------|-----------------|-----------------|
| <b>Age</b>                           | <b>Service Condition</b> |                 |                 |
|                                      | <b>10 years</b>          | <b>25 years</b> | <b>30 years</b> |
| 45 to 48                             |                          |                 | 9.0%            |
| 49                                   |                          |                 | 13.5            |
| 50                                   |                          | 6.3%            | 13.5            |
| 51 to 56                             |                          | 13.5            | 18.0            |
| 57                                   |                          | 18.0            | 27.0            |
| 58                                   | 2.25%                    | 18.0            | 27.0            |
| 59 to 64                             | 9.0                      | 22.5            | 27.0            |
| 65 to 69                             | 9.0                      | 27.0            | 31.5            |
| 70                                   | 100.0                    | 100.0           | 100.0           |

- g) Proportion of participants with spouses 50% of participants assumed to be married at retirement, with females assumed to be four years younger than males.
- h) Number of employees electing high contributions 15% of retiring employees assumed to pay retroactive contributions at retirement.
- i) Cost-of-living adjustments 3% every third year

Accordingly, the pension expense for fiscal year 2012 was approximately \$377,883 that represented 100% of the contributions required by funding policies of the Plan.

**14. LONG TERM LIABILITIES**

**Compensated Absences**

The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

The changes in Compensated absences for the year ended June 30, 2012 are as follows:

| Governmental activity | June 30, 2011       | Net decrease     | June 30, 2012     | Due within One year |
|-----------------------|---------------------|------------------|-------------------|---------------------|
| Compensated Absences  | <b>\$ 1,177,151</b> | <b>\$328,640</b> | <b>\$ 848,511</b> | <b>\$ 66,456</b>    |

**15. LEASES**

*Operating Leases*

The Municipality has several short-term operating lease agreements covering some of the Municipality's premises and equipment. Most of the agreements are renewed annually. Total rental expenditures for the year ended June 30, 2012, were approximately \$76,450 included in all funds.

**16. CLAIMS AND CONTINGENCIES**

*Contingencies*

Contingencies per Act No. 72 of September 7, 1993, Act of the Health Insurance of PR Administration", (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform. The Municipality paid \$482,480 during the year to Health Insurance of PR Administration.

On July 1, 1997, there was a amendment to Act No. 72 in which it was established that the balance due to HIA from October 1994 to June 30, 1997 will be earned on the additional lottery games.

*Federal Programs*

The Municipality participates in a number of federal financial assistance programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant program requirements, the Municipality may be required to reimburse the grantor agency. Accordingly, the Administration's compliance with applicable grant requirements will be established at some future date.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

Comptroller's Office Audits

The Municipality of Utuado Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office has issued a final report related to the financial operations of the Municipality before the period of the single audit. These audit report do not cover any findings subsequently disclosed to Municipality operations by the Comptroller's Office.

Contingencies and claims and judgments against the Municipality

The **Municipality** is a defendant in a number of lawsuits arising principally from claims against the **Municipality** for alleged improper actions. It is management's opinion, based on the advise of the legal counsel, that the probable claims against the **Municipality** not covered by insurance are by the amount of \$77,667 at June 30, 2012.

**17. MUNICIPAL SALES TAX**

Pursuant to the provisions of the Law number 80 of July 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contribution of 1.5% in the following activities; solid waste disposal cost, recycle, public works and improvements, health services and security services.

The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by Treasury Department. The Act provides and optional surtax on the un-processed food. This surtax must be approved by the Municipal Legislature. The Treasury Department is responsible to create the Municipal Development Fund (.02%), the Municipal Redemption Fund (.02%) and the Municipal Improvements Fund (.01%) with the remaining 0.5%. The Municipality collected \$696,179 during the year ended June 30, 2012

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**18. RESTATEMENT OF 2011 FINANCIAL STATEMENTS**

During the fiscal year ended June 30, 2012 the **Municipality** notes that certain liabilities had been overstated or understated as well as other differences related with adjustments to capital assets and reclassification of certain fund balances. As a result the net assets and other funds at June 30, 2011, have been adjusted as previously reported,

|                        | <b>Head</b>  | <b>Bond</b> | <b>Homeland</b> | <b>Debt</b>    | <b>General</b> | <b>Other</b>  | <b>Net</b>    |
|------------------------|--------------|-------------|-----------------|----------------|----------------|---------------|---------------|
|                        | <b>Start</b> | <b>Fund</b> | <b>Security</b> | <b>Service</b> | <b>Fund</b>    | <b>Fund</b>   | <b>Assets</b> |
| Beginning balance at   |              |             |                 |                |                |               |               |
| June 30, 2011          | \$ 43,965    | \$ 344,887  | \$ 2,017,112    | \$ 1,382,592   | \$ (2,221,232) | \$ 10,369,352 | \$ 70,483,590 |
| Accounts Payable       |              |             |                 |                |                |               |               |
| prior year             | -            | -           | -               | -              | (82,902)       | -             | (82,902)      |
| Reclassification       | 63,934       | 5,391       | 149,022         | (483,644)      | -              | 1,460,660     | 1,195,363     |
| Net Adjusted to        |              |             |                 |                |                |               |               |
| Capital asset          | -            | -           | -               | -              | -              | -             | (5,240,590)   |
| Beginning balance, as  |              |             |                 |                |                |               |               |
| restated June 30, 2011 | \$ 107,899   | \$ 350,278  | \$ 2,166,134    | \$ 1,382,592   | \$ (2,304,134) | \$ 11,830,012 | \$ 66,355,461 |

**19. SUBSEQUENT EVENTS**

In preparing these financial statements, the Municipality evaluated events and transactions that occurred often the financial statements date for potential recognition or disclosure through March 15, 2013, the date on which the financial statements were issued.

**JUAN A. FELICIANO CHARNECO**  
**Certified Public Accountant**

151 Calle Miguel Salas  
Arecibo, PR 00612

Tel: (787) 879-4433  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

To the Mayor and Municipal Council of  
The Municipality of Utuado  
Utuado, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Utuado, Puerto Rico, (the "Municipality") as of and for the year ended June 30, 2012 and has issued my report thereon dated March 15, 2012. 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**

Management of Municipality of Utuado is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Municipality's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Utuado internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

*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 Municipality's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Cost that we consider to be significant deficiency is a deficiency, or 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of 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 non compliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 12A and 12B.

We noted certain matters that I reported to management of Municipality of Utuado, Puerto Rico in a separate letter dated March 15, 2013.

Municipality of Utuado, Puerto Rico's response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. We did not audit Municipality of Utuado, Puerto Rico's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the management, Municipal Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Arecibo, Puerto Rico  
March 15, 2013

The stamp number 2661159  
was affixed to the  
original of this report



*Juan A. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2013

**JUAN A. FELICIANO CHARNECO**  
**Certified Public Accountant**

151 Calle Miguel Salas  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB-CIRCULAR A-133**

**Independent Auditor's Report**

To the Mayor and Municipal Council of  
the Municipality of Utuado  
Utuado, Puerto Rico

**Compliance**

We have audited the compliance of the Municipality of Utuado, Puerto Rico, (the "Municipality") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on to each of its major federal programs for the year ended June 30, 2012. The Municipality major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the "Municipality" management. Our responsibility is to express an opinion on of Municipality compliance based on my audit.

We conducted my 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 the "Municipality" is 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. Our audit does not provide a legal determination of the "Municipality" is compliance with those requirements.

In our opinion, the Municipality of Utuado complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned cost as item 2012-02.

### **Internal Control over Compliance**

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

A *deficiency* in an entity's 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The "Municipality" is response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. We did not audit the "Municipality" response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Municipal Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Arecibo, Puerto Rico  
March 15, 2013

The stamp number 2661160  
was affixed to the  
original of this report

  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263.  
Expires December 1, 2013



**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

| Federal Grantor / Pass-through Grantor Program Title   | Federal<br>CFDA<br>Number | Pass-through<br>Grantors Number | Federal<br>Expenditures |
|--|---------------------------|---------------------------------|-------------------------|
| <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>  |                           |                                 |                         |
| <u>Direct Program:</u>   |                           |                                 |                         |
| Department of Housing and Urban Development Public<br>and Indian Housing   |                           |                                 |                         |
| Section 8-Housing Choice Voucher Program   | 14.871                    | RQ46-VO-54-001                  | \$ 1,175,037            |
| <b>ARRA - Homeless Prevention and Rapid Re-housing</b>   | 14.257                    | N/A                             | 238,111                 |
| <u>Pass-through State - Commissioner Office of Municipal Affairs:</u>  |                           |                                 |                         |
| Community Development Block Grant<br>Small Cities Program - SBGP   | 14.228                    | B-01 to 10-<br>MC-72-0016       | 429,935                 |
| <b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>  |                           |                                 | <b>1,843,083</b>        |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)</u>  |                           |                                 |                         |
| <u>Passed-through The Commonwealth of P.R. Governors office for<br/>the Care and Integral Development of Children:</u> |                           |                                 |                         |
| Head Start   | 93.600                    | 02-CH-0483-36                   | 6,635,188               |
| <b>ARRA - Early Head Start</b>   | 93.709                    | N/A                             | 649,268                 |
| <b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)</b>  |                           |                                 | <b>7,284,456</b>        |
| <u>U.S. DEPARTMENT OF AGRICULTURE</u>  |                           |                                 |                         |
| <u>Passed through The Commonwealth of P.R. Governors office for:<br/>Department of Education</u>                       |                           |                                 |                         |
| Child and Adult Care Food Program  | 10.558                    | N/A                             | 442,295                 |
| <b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>  |                           |                                 | <b>442,295</b>          |
| <u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>  |                           |                                 |                         |
| <u>Passed through Commonwealth of P.R. Governors Office<br/>Authorized Representative to FEMA (GAR)</u>                |                           |                                 |                         |
| Disaster Grant Public Assistance - George 1247   | 97.036                    | 1919<br>1946                    |                         |
| <b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>  |                           |                                 | <b>4,378,408</b>        |
| <u>U.S. DEPARTMENT OF JUSTICE</u>  |                           |                                 |                         |
| <u>Passed through Department of Justice of Puerto Rico<br/>Edward Burne Memorial Justice Grant Program</u>             |                           |                                 |                         |
|  | 16.738                    | N/A                             | 10,679                  |
| <b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>  |                           |                                 | <b>10,679</b>           |
| <u>U.S. DEPARTMENT OF ENERGY</u>   |                           |                                 |                         |
| <u>Passed through a Commonwealth of PR Energy Affairs Administration<br/>Energy Efficiency and Conservation Block</u>  |                           |                                 |                         |
|  | 81.128                    | 2011-132020                     | 67,246                  |
| <b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>  |                           |                                 | <b>67,246</b>           |
| <b>TOTAL FEDERAL ASSISTANCE</b>  |                           |                                 | <b>\$ 14,026,167</b>    |

*See notes to the schedule of expenditures of federal awards.*

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS**  
**FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2012**

(1) GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Utuado, Puerto Rico and is presented on the modified accrual basis of accounting. The reporting entity is defined in Note 1 to the basic financial statements. Federal financial awards received directly from Federal agencies as well as Federal financial awards passed through other government agencies are included in the schedule.

(2) MAJOR FEDERAL AWARDS

The Community Development Block Grants Programs, Housing Assistance Payments Programs, Health, Human Services Programs, Department of Agriculture Programs, Homeland Security Programs, and **American Recovery and Reinvestment Act Programs** are the major federal financial awards of the Municipality. Major federal awards represent 94% of total expenditures.

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name review of grant contract information and the office of management and budget catalog of Federal Domestic Assistance.

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the Municipality of Utuado, Puerto Rico Combined Statement of Revenues, Expenditures and Change in Fund Balances - All Governmental and Types as follow:

| Description                    | Hud Programs        | Head Start Programs | Homeland Security Program | Other funds         | Total                |
|--------------------------------|---------------------|---------------------|---------------------------|---------------------|----------------------|
| Federal Programs Expenditures  | \$ 1,873,083        | \$ 7,284,455        | \$ 4,378,411              | \$ 490,218          | \$ 14,026,167        |
| State & Municipal Expenditures | -                   | -                   | -                         | 7,466,358           | \$ 7,466,358         |
| <b>TOTAL</b>                   | <b>\$ 1,873,083</b> | <b>\$ 7,284,455</b> | <b>\$ 4,378,411</b>       | <b>\$ 7,956,576</b> | <b>\$ 21,492,525</b> |

**MUNICIPALITY OF UTUADO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**SECTION I - SUMMARY OF AUDIOTR'S RESULTS**

**Part I - Financial Statements**

1. Type of auditor's report issued: Unqualified
2. Internal control over financial reporting:
- Material weakness (es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified not considered  
to be material weaknesses? \_\_\_\_\_ Yes   X   No
- None reported
3. Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Part II - Federal Awards**

1. Internal control over mayor programs:
- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified not  
Considered being material weaknesses? \_\_\_\_\_ Yes   X   No
2. Type of auditor's report issued on compliance considered  
For major programs qualified
3. Any audit findings disclosed that are required to be  
Reported in accordance with Circular A-133,  
Section .510(a) are reported on part C, of this schedule   X   Yes \_\_\_\_\_ No

**MUNICIPALITY OF UTUADO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

Identification of Major Programs

| CFDA<br>Numbers | Name of Federal Program or Cluster                      |
|-----------------|---|
| 14.228          | Community Development Block Grant                       |
| 14.257          | ARRA – Homeless Prevention and Rapid Re-Housing Program |
| 14.871          | Section 8 – Housing Choice Voucher                      |
| 93.600          | Head Start  |
| 97.036          | Disaster Grant Public Assistance                        |
| 93.709          | Early Head Start  |

Dollar threshold used to distinguish  
Between type A and type B Programs

\$420,785

Auditee qualified as low-risk auditee

Yes  No

**B - Financial Statements Findings**

No matters were reported regarding reportable conditions, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with paragraph 5.18 through 5.20 of Governmental Auditing Standards.

**C - Federal Award Findings and Questioned Cost**

Federal Program Information

**MUNICIPALITY OF UTUADO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Program: Accounting and Finance Department  
General Fund – Deficit  
Year ended June 30, 2012**

| Ref. No. | Finding / Noncompliance                    | Questioned<br>Cost |
|----------|--|--------------------|
| 2012-01  | <u>Statement of Condition and Criteria</u> | -0-                |

It was noted in my test of balance of accounts that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems for Regulations for Municipal Administration; and with GASB codifications 1700, with requirements stated in OMB Circular A-133.

Cause

The Municipality has significant deficiencies in its accounting and financial management systems, and financial reporting practices as related to budgets for the General Fund.

Effect

- a) The lack of To provide services to citizens without affecting them. budget results does not permit the Municipality:
- b) To determine compliance with finance – related legal and contractual provisions.

Auditors Recommendation

The Municipality should revised and evaluate in a monthly basis revenues and disbursements to adjust disbursements to the revenues receipts to comply with Budget requirements of Municipal Law number 81 of August 30, 1991 as amended. Implement measure to reduce the Municipal deficit. Evaluate the impact in the revenues of the change in construction tax and the increase of the real and personal taxes. Evaluate the impact in the disbursement to reduce hours of services of employees, evaluate and revised transitory contracts with employees, approve only necessary professional services, reduce confidence employees salary and consolidate services.

Municipality Response

We concur with auditor’s recommendations. The Municipality will evaluate the actual administrative procedures being followed to make the necessary improvements in the monthly evaluation of budget to comply with the Budget requirements of Municipal Law number 81 of August 30, 1991 as amended.

**MUNICIPALITY OF UTUADO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Department of Homeland Security  
CFDA No. 97.036  
Grant No. Disaster Grant - Public Assistance  
Year ended June 30, 2012**

| Ref. No. | Finding / Noncompliance                    | Questioned<br>Cost |
|----------|--|--------------------|
| 2012-02  | <u>Statement of Condition and Criteria</u> | -0-                |

It was noted in my test of compliance that the Municipality's financial management system did comply with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Governor's Office Authorized Representative to FEMA (GAR) and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Cause

The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States as per Title 44 of CFR, part 13.20 (cc) (7).

Effect

The Municipality did not maintain adequate procedures for the Administration of cash.

Auditor's Recommendation

The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds and establish internal procedures to minimize the time elapsed to disburse the funds receive.

Municipality Response:

The Municipality recognizes the importance of minimizing the time to disburse funds transferred from FEMA, but the funds are approved and received in advance from the authorized representative, funds are disburse in the time required.

**MUNICIPALITY OF UTUADO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012  
(continued)**

**Department of Housing and Urban Development Public  
And Indian Housing  
CFDA No. 14.871  
Grant – Section 8 - Voucher  
Year Ended June 30, 2012**

| Ref. No. | Finding / Noncompliance<br>-----           | Questioned<br>Cost<br>----- |
|----------|--|-----------------------------|
| 2012-03  | <u>Statement of Condition and Criteria</u> |                             |

It was noted in our test of compliance that Municipality's does not comply with the selection from the HCVP waiting list of the program.

Cause

The Municipality select one tenants that is not included on the HCVP waiting list. The Municipality's does not follow the tenant admission process establish on the 24 CFR sections 982.202 through 982.207.

Effect

The Municipality did not maintain adequate procedures for the tenant admission in noncompliance with the admission policy of the program.

Auditor's Recommendation

The Municipality should establish adequate procedures in order to compliance with the admission policy of the program.

Municipality Response:

We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to admit only tenants included on the HCVP waiting list.

**MUNICIPALITY OF UTUADO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

2011-Finding No. 1: Accounting and Finance Department  
General Fund – Budget Deficit  
Year ended June 30, 2011  
**Finding reported again.**

2011-Finding No. 2: U.S. Department of Home Land Security  
Public and Indian Housing  
CFDA No. 97.03  
Grant Disaster Public Grant  
Year ended June 30, 2011  
**Finding reported again.**

2011-Finding No. 3: U.S. Department of Home Land Security  
Public and Indian Housing  
CFDA No. 97.03  
Grant Disaster Public Grant  
Year ended June 30, 2011  
**Finding corrected.**

**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2012**

Ref. No. Finding /Corrective Action  
2012-01 Planned/Person Responsible:

Anticipated  
Completion Date

Statement of Condition:

The General Fund is not complying with budget balances and criteria established by the Standards of Financial Management System for Regulations for Municipal Administration, with GASB codification 1700, with requirements stated in OMB Circular A-133 and with Budget requirements of Municipal Law number 81 of August 30, 1991 as amended.

On or before  
end of 2012-13  
fiscal year

Corrective Action Planned:

The Finance Director will establish adequate procedure to prepare reliable budget to comply with the, requirements and laws that apply.

Person Responsible:  
Finance Director

Ref. No. Finding /Corrective Action  
2012-02 Planned/Person Responsible:

Anticipated  
Completion Date

Statement of Condition:

The Homeland Security Program cash balance was over \$5,000 for periods larger than 3 days.

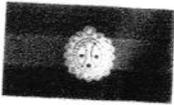
On or before  
end of 2012-  
fiscal year

Corrective Action Planned:

The Homeland Security Program administration will evaluate and implement adequate procedures to control, use and invest in effective manner, federal funds.

Person Responsible:  
Finance Director

*Estado Libre Asociado de Puerto Rico*  
*Gobierno Municipal*  
*Utuaado, P.R.*



Oficina del Alcalde

**CORRECTIVE ACTION PLAN**  
**YEAR ENDED JUNE 30, 2012**

Ref. No. Finding /Corrective Action  
2012-03 Planned/Person Responsible:

Anticipated  
Completion Date

Statement of Condition:

It was noted in our test of compliance that the Municipality's  
The Municipality does not comply with selection from HCVP  
waiting list of the program.

On or before  
end of 2012-13  
fiscal year

Corrective Action Planned:

The Municipality should establish adequate procedures in  
order to compliance with the admission policy of the  
program.

Person Responsible:

Finance Director