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

MUNICIPIO DE UTUADO
AUDITORÍA 2012-2013

30 DE JUNIO DE 2013

TORRES-FRED & CO., P.S.C.
Contadores Públicos Autorizados

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DIV. SERVICIOS GENERALES
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SINGLE AUDIT REPORT

For the Fiscal Year Ended June 30, 2013

(With Independent Auditor's Report thereon)

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF UTUADO

Basic Financial Statements and

Supplemental Schedule

Single Audit Report

June 30, 2013

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2013

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2013

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

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Utuado, Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 misstatements.

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

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

Opinions

Basis for Disclaimer of Opinion on Governmental Activities

The Municipality did not have complete, updated and accurate accounting records of the capital assets in order for us to obtain sufficient and appropriate audit evidence related to the capital assets reported in the accompanying statement of net position for $68,396,870 (net of accumulated depreciation of $22,426,488) as of June 30, 2013, and the related amount of depreciation expense stated at $1,859,969 for the year then ended. Therefore, we were unable to form an opinion regarding the capital assets and the related depreciation expense reported in the governmental activities of the Municipality.

Disclaimer of Opinion

Because of the significance of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position of the governmental activities of the Municipality of Utuado as of June 30, 2013, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Municipality of Utuado as of June 30, 2013 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As describe in Note 1 to the financial statements, during the fiscal year the Municipality adopted new accounting guidance, *Governmental Accounting Standards Board* (GASB) Statement No. 63 "Financial Reporting of Deferred Outflows of Resource, and Net Position" and (GASB) Statement No. 65 "Items Previously Reported as Assets and Liabilities". Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 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.

Change of Auditors

The financial statements of the Municipality of Utuado as of June 30, 2012, were audited by other auditors whose report dated March 15, 2013, expressed an unqualified opinion on those statements. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Municipality of Utuado basic financial statements. The 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 not a required part of the basic financial statements. Because of the significance of the matter described in the "Basis for Disclaimer Opinion on Governmental Activities", it is inappropriate to and we do not express an opinion on the other information referred to above.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards,* we have also issued our report dated December, 30, 2014 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results 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* in considering Municipality of Utuado internal control over financial reporting and compliance.

Torres-Fred & Co. PSC

TORRES-FRED & CO, PSC
CERTIFIED PUBLIC ACCOUNTANT
VILLALBA, PUERTO RICO
DECEMBER, 30, 2014

The stamp number E102269
was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

MANAGEMENT'S DISCUSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The management of **MUNICIPALITY OF UTUADO**, Puerto Rico (**Municipality**) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2013. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

This MD&A is prepared in order to comply with the reporting model required by Governmental Accounting Standards Board Statement No. 34 and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- The assets of the Municipality exceeded its liabilities at June 30, 2013 by $66,609,275 and at June 30, 2012 by $72,688,923;
- The Municipality's total net position decrease by $6,079,648 during fiscal year 2012-2013;
- As of June 30, 2013, the Municipality's governmental funds reported combined ending fund balances of $10,066,320, a decrease of $104,646 from the prior year;
- At June 30, 2013, the unrestricted deficit was $11,088,369;
- Loans principal payments were $715,000 and $616,813 in 2013 and 2012, respectively.

USING THIS ANNUAL REPORT

This annual report consists of three components: 1) Management Discussion and Analysis (this section), 2) Basic Financial Statements, and 3) Required Supplementary Information.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are composed of: (1) the statement of net positions and (2) the statement of activities. These financial statements can be found immediately following this MD&A. The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The purpose of the statement of net positions is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

The difference between the Municipality's total assets and total liabilities reported in the statement of net positions is presented as net positions, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net positions, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

The statement of activities presents information showing how the Municipality's net positions changed during the fiscal year ended June 30, 2013, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although the statement of activities looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as net change in net positions, which is essentially the same concept.

The focus of the statement of activities is on the net cost of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include; mayor and municipal legislature, general government, public safety, public works, culture and recreation, health and sanitation, human services and welfare, urban development, education and interests. Property taxes, volume of business taxes, sales taxes, and state and federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

The Municipality's fund financial statements consist of: (1) the balance sheet and (2) the statement of revenues, expenditures and changes in fund balances. These financial statements report the financial position and the results of operations of the Municipality's governmental funds, with an emphasis on the Municipality's major governmental funds.

FUND FINANCIAL STATEMENTS (CONTINUED)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

GOVERNMENTAL FUNDS

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

GOVERNMENTAL NET POSITION

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The net position of the Municipality decreased by $6,079,648 during the current fiscal year. The Municipality's net position include investments in Capital Assets for $64,752,426, net of related debt, and over $1,815,556 restricted for future expenses. The Municipality's net position at the end of the fiscal year ended on June 30, 2013 was $66,609,275, as detailed on **Table 1**.

Table 1 Statement of Net Position	2013	2012
Current and non-current assets	$ 15,060,483	$ 13,124,400
Capital assets	68,396,870	68,676,579
Total Assets	**83,457,353**	**81,800,979**
Current liabilities	4,843,940	1,989,326
Long-term liabilities	12,004,138	7,122,730
Total Liabilities	**16,848,078**	**9,112,056**
Net position:		
Investment in capital assets, net of related debt	64,752,426	68,205,372
Restricted	12,945,218	13,179,050
Unrestricted deficit	(11,088,369)	(8,695,499)
Total Net Position	**$ 66,609,275**	**$ 72,688,923**

The largest portion of the Municipality's net positions reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Municipality's net positions represents resources that are subject to external restrictions on how they may be used.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)
GOVERNMENTAL ACTIVITIES

Governmental activities decreased the Municipality's net positions. Key elements of this decrease are as follows: the Municipality's governmental activities had net expenses of $19,635,014. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues did not exceed net expenses by $6,690,194.

The following schedule (as detailed on **Table 2**) presents the revenues and expenses for the current fiscal year:

Table 2 Statement of Activities (in thousands)	2013	2012
Revenues		
Operating grants and contributions	$ 9,752,215	$ 12,150,813
Capital grants and contributions	-	1,750,335
General revenues:		
Property taxes	2,553,620	2,634,494
Volume of business taxes	692,144	645,264
Sales taxes	1,484,106	1,294,492
Licenses and permits	336,469	723,732
Intergovernmental	7,475,885	11,127,044
Charges for services	-	21,780
Other General revenues	402,626	508,243
Total revenues	22,697,065	30,856,197
Expenses		
Mayor and Municipal Legislature	-	-
General Government	9,114,587	10,025,560
Public safety	791,565	1,613,063
Public works	2,874,798	4,232,542
Health and sanitation	2,243,113	605,095
Culture and recreation	1,499,553	326,171
Human services and welfare	4,496,638	-
Urban development	2,127,265	-
Education	5,925,535	7,207,234
Interest on long-term debts	314,175	619,973
Total expenses	29,387,229	24,629,638
Changes in net position	(6,690,164)	6,226,559
Net position – beginning	72,688,923	70,590,483
Prior Period Adjustment	610,516	(4,128,119)
Net position – ending	**$ 66,609,275**	**$ 72,688,923**

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

The Municipality uses fund accounting to ensure and demonstrate compliance with related legal and contractual requirements.

Table 3

Balance Sheet (in thousands)	2013	2012
Assets:		
Total assets – Major Funds	$ 14,693,509	$ 6,565,397
Total assets – Other Funds	2,370,566	8,264,768
Combined total assets	17,064,075	14,830,165
Liabilities:		
Total liabilities – Major Funds	6,832,672	4,635,347
Total liabilities – Other Funds	165,083	23,752
Combined total liabilities	6,997,755	4,659,099
Deferred Inflows of Resources:		
Total Inflows – Major Funds	-	-
Fund Balances (As Restated):		
Restricted	12,945,218	13,179,050
Committed	-	-
Unassigned	(2,878,898)	(3,007,984)
Combined total fund balances	10,066,320	10,171,066
Total liabilities and fund balances	**$ 17,064,075**	**$ 14,830,165**

Table 4

Changes in Fund Balances (in thousands)	2013	2012
Revenues:		
Total revenues – Major Funds	$ 21,158,782	$ 26,488,617
Total revenues – Other Funds	1,388,060	4,367,580
Combined total revenues	22,546,842	30,856,197
Expenditures:		
Total expenditures – Major Funds	22,104,423	26,591,501
Total expenditures – Other Funds	3,547,681	7,956,576
Combined total expenditures	25,652,104	34,548,077
Other financing sources (uses):		
Proceed from issuance of bonds	2,390,000	-
Transfer – In	311,811	379,096
Transfer – Out	(311,811)	(379,096)
Combined other financing sources (uses), net	2,390,000	-
Net changes in fund balance	(715,262)	(3,691,880)
Fund Balance – beginning, as restated	10,781,582	13,862,946
Fund Balance – ending	**$ 10,066,320**	**$ 10,171,066**

GOVERNMENT FUNDS

The Municipality's Governmental Funds information is useful in assessing the Municipality's financial requirements. At the end of the fiscal year any resource available for spending should be measured by the unassigned fund balance. In the current fiscal year, the Municipality's Governmental Funds reported an ending fund balance of $10,066,320.

Restricted and committed fund balance is to cover balances show as follows:

- $2,153,836 are restricted to pay debt services;
- $10, 791,382 are restricted for other governmental purpose.

The Municipality's Governmental Funds include the General Fund, which is the major operation fund of the Municipality and as of June 30, 2013, it showed an unassigned deficit of $2,878,898. This deficit was caused by the excess of expenditures over revenues during the past years.

CAPITAL ASSETS AND DEBT ADMINISTRATION

INVESTMENT IN CAPITAL ASSETS

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2013 amounted to $68,396,870 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, and bridges. **Table 5** present the major classes of capital assets (net of accumulated depreciation):

Table 5 Capital Assets	Amount
Construction in progress	$ 637,073
Land	6,135,982
Depreciable capital assets	61,623,815
Total Assets	**$ 68,396,870**

LONG-TERM DEBT

At June 30, 2013 the Municipality had a total of $12,004,138 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, $9,909,000 comprises debt backed by the full faith and credit of the government and $2,095,138 are other obligations.

Table 6 Long Term Debts	Amount
General obligations	$ 9,909,000
Others	2,095,138
Total Long Term Debts	**$ 12,004,138**

LONG-TERM DEBT (CONTINUED)

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave, debt agreements, advances of property taxes and others. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

GENERAL FUND BUDGETARY HIGHLIGHTS:

The Budgetary Comparison Schedule - General Fund shows the original adopted budget, the final revised budget, actual results, and variances between final and actual budgeted amounts for the General Fund. An original budget is presented by the Mayor and approved by the Municipality's Legislative Body in an ordinary session, but it may be revised for various reasons and circumstances, or due to unanticipated budgeted issues that arise during the normal course of the fiscal year.

ECONOMIC FACTOR AND NEXT YEAR'S BUDGETS

The Municipality relies primarily on Intergovernmental Revenues as well as Federal Financial Assistance to carry out the Governmental Activities. Historically, these amounts have been predictable for every fiscal year, providing the Municipality with yearly increases. Federal Financial Assistance may vary if new grants are available, but revenue is also predictable.

Local, national and international economics factors may influence the Municipality's revenues, positively or negatively. Positive economic grow is correlated with increased revenues from property taxes, volume of business tax, charges for services, as well as State and Federal Grants. In a local economy, the growth may be monitored by a variety of indicators such as employment growth, unemployment, new constructions, assessed valuation, and other revenues.

All these factors will be considered when preparing the budget for the year ending on June 30, 2013, as well as the increases in property and volume of business tax rates that will be in effect for that fiscal year.

FINAL COMMENTS

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's general fund.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended various Acts, Regulations and Codes. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions and other procedural changes. On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund, which authorize municipalities to pledge the funds deposited on the Municipal Administration Fund to secure the repayment of any loan, bond, promissory note or other evidence of debt, whose source of repayment are the funds deposited into the Special Fund and to meet any budgeted expenditure of the municipalities and any activity or project of the municipalities; authorize the Government Development Bank for Puerto Rico to

FINAL COMMENTS (CONTINUED)

make disbursements for the purposes set out in the approved Law; amend paragraph (b) of section 4020.01; amended paragraph (b) of section 4020.02, and amend paragraph (a) and repealing paragraph (e) of section 6080.14 of the law No. 1 - 2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico", for the purposes of restructuring the sales and use tax so that tax rate is six (6) percent statewide and one (1) percent at municipal level; to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish)., with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico"; in order to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

CONTACTING THE MUNICIPALITY'S OFFICE OF FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the Municipality's finances and to demonstrate the accountability for the money it receives. If you have any questions about this report or need additional information, contact the Municipality's Finances Department at (787) 894-3505.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

STATEMENT OF NET POSITION

JUNE 30, 2013

	Activities
ASSETS	
Cash	$ 8,237,280
Cash with Fiscal Agent	4,909,945
Receivables (net):	
Property Tax	158,255
Sales Tax	60,487
Intergovernmental	552
Federal Grants	1,693,964
	15,060,483
Capital Assets:	
Land, Work of Arts, and Construction in Progress	6,773,055
Other Capital Assets, Net of Depreciation	61,623,815
Total Capital Assets	68,396,870
TOTAL ASSETS	**83,457,353**
LIABILITIES	
Bank Overdraft	4,441
Accounts Payable and Accrued Expenses	1,545,690
Bonds Payable	715,000
Accrued Interest	159,034
Due to Governmental Units	376,680
Unearned Revenues	2,043,095
Long-Term Liabilities:	
Due within One Year	985,184
Due in More than One Year	11,018,954
TOTAL LIABILITIES	**16,848,078**
NET POSITION	
Invested in Capital Assets, Net of Related Debt	64,752,426
Restricted for:	
Debt Service	2,153,836
HUD Fund	593,761
State Assigment Fund	6,191,655
Bond Issued Fund	1,800,483
Others Purposes	2,205,483
Unrestricted	(11,088,369)
TOTAL NET POSITION	**$ 66,609,275**

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Govenmental Activities:					
General Government	9,114,587		465,289		$ (8,649,298)
Public Safety	791,565		55,326		(736,239)
Public Works	2,874,798				(2,874,798)
Culture and Recreation	1,499,553				(1,499,553)
Health and Sanitation	2,243,113		24,221		(2,218,892)
Human Services and Welfare	4,496,638		1,699,848		(2,796,790)
Urban Development	2,127,265		1,365,616		(761,649)
Education	5,925,535		6,141,915		216,380
Interest on Long-Term Debt	314,175				(314,175)
Total Governmental Activities	**$ 29,387,229**	**$ -**	**$ 9,752,215**	**$ -**	**(19,635,014)**

General Revenues:	
Taxes:	
Property, levied for General Purposes	2,053,168
Property, levied for Debt Services	500,452
Volume of Business	692,144
Sales, levied for Special Purposes	687,719
Sales, levied for Debt Services	796,387
Intergovernmental	7,475,885
Licences and Permits	336,469
Miscellaneous	402,626
Total General Revenues	12,944,850
CHANGE IN NET POSITION	**(6,690,164)**
Net Position - Beginning of Year	73,299,439
NET POSITION - END OF YEAR	**$ 66,609,275**

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

BALANCE SHEET-GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013

	MAJOR FUNDS							
	General Fund	Bond Issue Fund	HUD Programs Fund	State Assignments Fund	Head Start Programs Fund	Debt Service Fund	Other Governmental Fund	Total Governmental Funds
ASSETS								
Cash in commercial banks	$ 1,106,247	$ -	$ 513,059	$ 5,770,054	$ -	$ -	$ 847,920	$ 8,237,280
Cash in fiscal agent	27,641	1,815,556	-	-	-	2,959,351	107,397	4,909,945
Account receivable, net of doubtful accounts:								
Property taxes	150,223	-	-	-	-	8,032	-	158,255
Sales tax		-	-	-	-	60,487	-	60,487
Due from other funds	164,926	-	9,639	421,601	-	-	1,407,426	2,003,592
Intergovernmental							552	552
Federal Grants	-	-	86,739	-	1,599,954	-	7,271	1,693,964
Total assets	$ 1,449,037	$ 1,815,556	$ 609,437	$ 6,191,655	$ 1,599,954	$ 3,027,870	$ 2,370,566	$ 17,064,075
LIABILITIES								
Bank Overdraft	$ -	$ -	$ -	$ -	$ 4,441	$ -	$ -	$ 4,441
Accounts payable	1,514,784	-	15,676	-	-	-	15,230	1,545,690
Intergovernmental	376,680	-	-	-	-	-	-	376,680
Due to other funds	1,838,666	15,073	-	-	-	-	149,853	2,003,592
Unearned Revenues	447,582	-	-	-	1,595,513	-	-	2,043,095
Deferred inflows of resources	150,223	-	-	-	-	-	-	150,223
Matured bonds due and payable		-	-	-	-	715,000	-	715,000
Matured interests due and payable		-	-	-	-	159,034	-	159,034
Total liabilities	4,327,935	15,073	15,676	-	1,599,954	874,034	165,083	6,997,755
FUND BALANCE								
Fund Balance								
Restricted	-	1,800,483	593,761	6,191,655	-	2,153,836	2,205,483	12,945,218
Unassigned	(2,878,898)	-	-	-	-	-	-	(2,878,898)
Total fund balances	(2,878,898)	1,800,483	593,761	6,191,655	-	2,153,836	2,205,483	10,066,320
TOTAL LIABILITIES AND FUND BALANCE	$ 1,449,037	$ 1,815,556	$ 609,437	$ 6,191,655	$ 1,599,954	$ 3,027,870	$ 2,370,566	$ 17,064,075

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Total Fund Balances – Governmental Funds		**$ 10,066,320**
Amounts reported for Governmental Activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	$ 6,773,055	
Depreciable Capital Assets	17,176,477	
Infrastructure Assets	66,873,826	
Accumulated Depreciation	(22,426,488)	
Total Capital Assets		68,396,870
The Municipal Revenue Collection Center revenues will be collected Year end, but are not available soon enough to pay for the current period's Expenditure and therefore, are deferred in the funds		150,223
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General Bonds and Notes Payable	9,909,000	
Compensated Absences	1,830,344	
Law146	264,794	
Total Long-Term Liabilities		(12,004,138)
Total Net Position of Governmental Activities		**$ 66,609,275**

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

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

YEAR ENDED JUNE 30, 2013

	MAJOR FUNDS							
	General Fund	Bond Issue Fund	HUD Programs Fund	State Assignments Fund	Head Start Programs Fund	Debt Service Fund	Other Nonmajor Fund	Total Governmental Funds
REVENUES								
Taxes:								
Property taxes	$ 1,902,945	$ -	$ -	$ -	$ -	$ 500,452	$ -	$ 2,403,397
Municipal license	692,144	-	-	-	-	-	-	692,144
Construction excise taxes	336,469	-	-	-	-	-	-	336,469
Sales tax	687,719	-	-	-	-	796,387	-	1,484,106
Intergovernmental grants and contributions:								
Federal government		-	2,558,432	-	5,817,408	-	1,125,284	9,501,124
State government	7,475,885	-	-	9,435	-	-	241,656	7,726,976
Miscellaneous	349,534	-	27,825	4,147	-	-	21,120	402,626
Total Revenues	$ 11,444,696	$ -	$ 2,586,257	$ 13,582	$ 5,817,408	$ 1,296,839	$ 1,388,060	$ 22,546,842
EXPENDITURES								
Current:								
General government	5,830,892	-	249,069	-	-	-	251,910	6,331,871
Urban and economic development		269,795	1,313,301	359,097	-	-	185,072	2,127,265
Public safety	672,634	-	-	-	-	-	56,119	728,753
Health and Sanitation	2,214,541	-	-	-	-	-	28,572	2,243,113
Public Works	1,486,668			-			163,499	1,650,167
Culture, recreation and education	1,069,371	-	-	-	5,925,535	-	28,000	7,022,906
Welfare and housing assistance	407,987	-	1,211,358	-	-	-	2,834,509	4,453,854
Debt service:								
Principal		-	-	-	-	780,000	-	780,000
Interest		-	-	-	-	314,175	-	314,175
Total Expenditures	11,682,093	269,795	2,773,728	359,097	5,925,535	1,094,175	3,547,681	25,652,104
Excess (Deficiency) of Revenues over expenditures	(237,397)	(269,795)	(187,471)	(345,515)	(108,127)	202,664	(2,159,621)	(3,105,262)
OTHER FINANCING SOURCES (USES)								
Transfer in from other funds	4,147	-	-	-	-	57,664	250,000	311,811
Transfer out to other funds	(307,664)	-	-	(4,147)	-	-	-	(311,811)
Proceeds from bond issuance	670,000	1,720,000	-	-	-	-	-	2,390,000
Total Other Financing Sources (uses)	366,483	1,720,000	-	(4,147)	-	57,664	250,000	2,390,000
NET CHANGE IN FUND BALANCES (DEFICITS)	129,086	1,450,205	(187,471)	(349,662)	(108,127)	260,328	(1,909,621)	(715,262)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED	(3,007,984)	350,278	781,232	6,541,317	108,127	1,893,508	4,115,104	10,781,582
FUND BALANCE AT END OF YEAR	$ (2,878,898)	$ 1,800,483	$ 593,761	$ 6,191,655	$ -	$ 2,153,836	$ 2,205,483	$ 10,066,320

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Net Change in Fund Balances – Total Governmental Funds		**$ (715,262)**
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. In the current period, these amounts are:		
Urban Development and Capital Outlay	1,580,260	
Depreciation Expense	(1,859,969)	
Excess of Capital Outlay over Depreciation Expense		(279,709)
Revenues in the Statement of Activities that not provide current financial resources are not Reported as revenues in the funds		150,223
Revenues in the Statement of Revenues that correspond to prior year resources are Recorded as revenue in the Statement of Activities		-
Repayment of debt proceeds principal is expenditure in the governmental funds, but the repayment reduces Long–Term Liabilities in the Statement of Net Position. In the current year the repayments were.		780,000
Bonds proceeds provide current financial resources to governmental funds, but issuing debt Increase long-term liabilities in the Statement of Net Position, in the current period, Proceed received was		(2,390,000)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in Bonds	(3,424,247)	
Decrease in Law 146	13,937	
Increase in Compensated Absences	(981,833)	
Decrease in Retirement System Administration – Debt Agreement	79,060	
Decrease in Claims & Judgments	77,667	
Total Additional Expenditures		(4,235,416)
Change in Net Position of Governmental Activities		**$ (6,690,164)**

See accompanying Notes to Basic Financial Statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The MUNICIPALITY OF UTUADO, Puerto Rico (Municipality) was founded in the year 1881, and operates as a local governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

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

The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Financial Reporting Model

The accompanying basic financial statements present the financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Municipality at June 30, 2013, in conformity with *Accounting Principles Generally Accepted in the United States of America* (GAAP), as prescribed by the *Governmental Accounting Standards Board* (GASB). In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2013 in conformity with GAAP.

According to the financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI consists of a (1) Management Discussion and Analysis (MD&A) and a Budgetary Comparison Schedule – General Fund, this is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements.

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2013, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

The Budgetary Comparison Schedule - General Fund is a comparison of the actual results (using the budgetary basis of accounting, which differs from GAAP) with the original budget and the final amended budget for the General Fund. A budget to GAAP reconciliation is presented providing information of differences between the budgetary basis of accounting and GAAP.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality. In accordance with GASB No. 14 and GASB No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow: (1) The organization is legally separate entity; (2) The Municipality appoints a voting majority of the organization's board; (3) There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

Organizations meeting the above criteria are included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are considered to be blended component units of the Municipality: (1) The organization's governing body is substantively the same as the Municipality's governing body and (a) there is a financial benefit or burden relationship between the Municipality and the organization, or (b) management of the Municipality has operational responsibility for the organization; (2) The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it; (3) The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is bases on the nature and significance of the organization's relationship with the Municipality.

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

C. Financial Statement Presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-Wide Financial Statements (GWFS)

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information of all the activities of the Municipality. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the Statement of Net Position is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets and long-term obligations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

The Statement of Net Position presents the reporting entities' assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Net Position are reported in three categories:

- **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

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

When both restricted and unrestricted resources are available for use, generally it is the Municipality's policy to use restricted resources first, then the unrestricted resources as they are needed.

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position or liabilities changed during the fiscal year ended June 30, 2013, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, volume of business taxes, sales taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) mayor and municipal legislature, (2) general government, (3) public safety, (4) public works, (5) culture and recreation, (6) health and sanitation, (7) human services and welfare, (8) urban development and, (9) education. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
C. Financial Statement Presentation (Continued)

Mayor and municipal legislature:
Municipal legislature
Mayor's office

General government:
Department of finance
Department of human resources
Department of municipal secretary
Department of internal audit
Department of Revenues and Income Contributions
Administration

Public safety:
Department of emergency management – civil defense
Department of municipal police

Public works:
Department of public works
Department of municipal facilities- community services

Culture and recreation:
Department of sports and recreation
Department tourism and promotion

Health and sanitation:
Department of conservation and beautification
Department of health
Department of environmental control
Solid waste disposal services

Human service and welfare:
Citizen municipal affairs
Department of municipal facilities- market square
Department of municipal facilities- terminal and transportation
Public housing

Urban development:
Federal programs office

Education:
Educational services

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and, (3) special items.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

Program revenues – These revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.

- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues – These revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes, construction excise taxes and sales and use taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

Special items – These items consist of revenues arising from significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Extraordinary items consist of revenues arising from significant transactions or other events that are both unusual in nature and infrequent in occurrence.

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the FFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

The Municipality classifies the most significant portion of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the FFS.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net position for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements.

The Municipality has operations and activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; and where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Governmental Fund Financial Statements (FFS)

The accompanying FFS are composed of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds.

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, deferred outflow of resources, liabilities, deferred inflow of resources and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

As defined in the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), fund types are as follows:

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

Special Revenue Fund – is a governmental fund used to account for and report the proceeds of specific revenue sources that are legally restricted, committed or assigned to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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

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

The model as defined in GASBS No. 34 established criteria (percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The Municipality reports the following major funds:

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

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

Bond Issue Fund - This is the fund used to account for all financial resources and transactions related to the loans for construction purposes and capital outlays of the Municipality, which is financed by loans from the Government Development Bank of Puerto Rico.

HUD Program Funds - 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.

Head Start Program Funds – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness.

State Assignments Fund - This is the fund used to account for all financial resources and transactions related to the legislative appropriations for construction and welfare assistance purpose of the Municipality.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred. In the case of imposed non-exchange revenue transactions, which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes are generally recorded as revenues in the period when resources are required to be used or the first period that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred inflow of resources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Revenue sources not meeting this availability criterion or collected in advance are recorded as unearned revenues or deferred inflow of resources at June 30, 2013.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2013, has been reported only in the government-wide financial statements.

Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities and the statement of revenues, expenses and changes in fund balances, but are not recorded in the accompanying governmental fund financial statements.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the Municipality may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as assets by the provider and a liability by the recipient.

There are essentially two types of revenue. For some grants, funds must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Balances

According the provisions of GASB No. 54, the fund balances are reported in five categories:

- **Nonspendable** – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.

- **Restricted** – Amounts are restricted by external parties (creditors, grantors, contributors or law/ regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.

- **Committed** – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.

- **Assigned** – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.

- **Unassigned** – Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, commited and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

  Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts is restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely.

However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2013.

When an expenditure is incurred for purposes for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

At June 30, 2013, the accompanying fund financial statements reported fund balances as restricted and unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgetary Data

The Municipality annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts of Proprietary Funds and Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of supplemental appropriations. During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message;

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

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

4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;

5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;

6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;

7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgetary Data (Continued)

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Major and Non Major Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

G. Cash, Cash Equivalent and Investment

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

Cash with fiscal agent represents property and sales tax collections retained by the Municipal Revenues Collection Center and the Government Development Bank of the Commonwealth of Puerto Rico, respectively. Cash with fiscal agent, also represent undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. The sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Receivables

Receivable are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

I. Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

J. Deferred Outflows/ Inflows of Resources

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no deferred outflows of resources .In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period (s) an so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2013 the Municipality presented deferred inflows of resources in the balance sheet.

K. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are $300 on personal property. For improvements other than buildings, the capital outlay must be greater than $1 extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Capital Assets	Years
Buildings and site improvements	20-40
Infrastructure	50
Vehicles and Heavy Equipment	4-10
Furniture and fixtures	10
Computer and electronic equipment	5

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

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

M. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

N. Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2013.

BALANCE JULY 1, 2012	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2013	CURRENT PORTION	LONG-TERM PORTION
$ 848,511	$ 981,833	$ -	$ 1,830,344	$ 256,248	$ 1,574,096

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. Corresponding premiums payable monthly are paid directly by the Municipality. Also, there is an additional insurance cost that is withheld by the Municipal Revenue Collection Center from the monthly advances of annual property tax and subsidy send to the Municipality.

P. Interfund Transactions

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

- **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.

- **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.

- **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

Q. Claims and Judgments

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

R. Use of Estimates

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively , in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

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

T. Risk Financing

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated directly by the Municipality.

Insurance cost paid by the Municipality during fiscal year 2012-2013 amounted $483,866. In addition, cost of the workers compensation insurance that covers all municipal employees and is deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2013 amounted to $294,006.

U. Future Adoption of Accounting Pronouncements

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

- GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This statement is effective for periods beginning after December 15, 2012.
- GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*.
- GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement is effective for periods beginning after June 15, 2014.
- GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for periods beginning after June 15, 2013.
- GASB Statement No. 71 *Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB 68*. This statement is effective for periods beginning after June 15, 2014.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Adoption of New Accounting Pronouncements

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

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Municipality has implemented this Statement in fiscal year 2012-2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Municipality has implemented this Statement in fiscal year 2012-2013.

NOTE 2 – CASH AND CASH EQUIVALENTS

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

Custodial credit risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of $250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013. Therefore, the Municipality's management has concluded that at June 30, 2013 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

The Municipality's bank balances in commercial banks of $1,106,247 in the General Fund, $513,059 in the HUD Programs Fund, $5,770,054 in the State Assignments Fund and the $847,920 in Other Governmental Funds were fully collateralized at June 30, 2013.

The deposits at GDB of $27,641 in the General Fund, $1,815,556 in the Bond Issue Fund, $2,959,351 in the Debt Service Fund, and the $107,397 in Other Governmental Funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3 – RECEIVABLES

A. Property Taxes Receivables

Property taxes receivable of $150,223 and $8,032 in the General Fund and Debt Service Fund, respectively, represents advances from fiscal year 2012-2013, not collected by the Municipality at June 30, 2013.

NOTE 3 – RECEIVABLES (CONTINUED)

B. Sales Tax Receivables

As described below in Note 15, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2007-2008. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. Therefore sales tax receivable of $60,487 in Debt Service Fund, represents the amounts due by the taxpayers at June 30, 2013.

C. Intergovernmental Receivables

Receivables in the Other Governmental Funds represent expenditures incurred not yet reimbursed by the state agencies. Following is a detail of the state government receivables:

Description	Amount
State Department of Labor – Law 52	$ 552

D. Federal Grants Receivable

Federal grants receivable amounting to $86,739 and $1,599,954, respectively, in the HUD Grants Fund and Head Start Fund, represents expenditures incurred not yet reimbursed by OCAM and Office of the Governor, the pass-through agencies. Also, receivables in Other Governmental Funds, amounting $7,271, represent expenditures incurred not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the federal grants receivable:

Description	Amount
Department of Education	$4,641
Office of Energy Affairs Administration of Commonwealth of Puerto Rico	2,630
Total	**$ 7,271**

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NOTE 3 – RECEIVABLES (CONTINUED)

E. Due From Other Funds

Interfund receivables and payables at June 30, 2013 are summarized as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Other Governmental Funds	Payroll and reimbursable expenditures	$ 149,853
General Fund	Bond Issue Funds	Interfund Loans	15,073
Other Governmental Funds	General Fund	Interfund Loans	1,407,426
HUD Funds	General Fund	Interfund Loans	9,639
State Assignment Funds	General Fund	Interfund Loans	421,601
Total			**$ 2,003,592**

NOTE 4 – CAPITAL ASSETS

CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of $50 or more, are primarily funded through the issuance of long-term bonds and loans and state and federal assignments. A summary of capital assets and changes occurring in 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

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NOTE 4 – CAPITAL ASSETS AND REAL ESTATE HELD FOR SALE (CONTINUED)

Governmental Activities	Balance July 1, 2012	Adjustments	Additions	Retirements / Reclassifications	Balance June 30,2013
Capital asset, not being depreciated:					
Land	$ 4,422,458	$1,713,524	$ -	$ -	$ 6,135,982
Work of Art			-	-	-
Construction in progress	848,482	(211,409)	-	-	637,073
Total capital assets not being depreciated	5,270,940	1,502,115	-	-	6,773,055
Capital assets, being depreciated:					
Buildings and Building Improvements	11,843,352	-	-	-	11,843,352
Improvements		-	-	-	-
Infrastructure	66,873,826	-	-	-	66,873,826
Machinery and equipment	1,888,742	3,173	-	-	1,891,915
Motor vehicles	3,441,210	-	-	-	3,441,210
Total capital assets being depreciated	84,047,130	3,173	-	-	84,050,303
Less accumulated depreciation for:					
Buildings and Building Improvements	(5,353,126)	-	(254,459)	-	(5,606,585)
Improvements	-	-	-	-	-
Infrastructure	(11,055,610)	-	(1,379,987)	-	(12,435,597)
Machinery and equipment	(1,515,781)	-	(86,574)	-	(1,602,355)
Motor vehicles	(2,717,974)	74,972	(138,949)	-	(2,781,951)
Total accumulated depreciation	(20,641,491)	74,972	(1,859,969)	-	(22,426,488)
Total capital assets being depreciated, net	63,405,639	78,145	(1,859,969	-	61,623,815
Governmental activities capital assets, net	$ 68,676,579	$ 1,580,260	$ (1,859,969)	$ -	$ 68,396,870

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

Governmental activities	Amount
General government	$ 127,560
Public Safety	62,812
Public Works	1,224,631
Culture and Recreation	402,182
Human services and welfare	42,784
Total depreciation expenses	$ 1,859,969

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NOTE 5 – BANK OVERDRAFT

The bank overdraft of $4,441 in Head Start Program Fund was the result of the adjusted cash balance at June 30, 2013, of the Municipality's bank accounts.

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable and accrued expenses liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2012-2013, and not paid by the Municipality at June 30, 2013. Following is a detail of these accounts payable and accrued liabilities:

Major Governmental Funds	Accounts Payable
General Fund	$ 1,514,784
HUD Funds	15,676
Other Governmental Fund	15,230
Total	**$ 1,545,690**

NOTE 7 – BONDS AND NOTES PAYABLE

The Municipality issued general and special obligation bonds and notes, principally to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years and to cover expenditures of special events. At June 30, 2013, the government-wide and fund financial statements presented accounts payable regarding to the outstanding balance of these bond and notes in the amount of $715,000 and accrued interests of $159,034.

NOTE 8 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2013, balance due to other governmental units consists of the following:

Governmental Agency	Amount
State Aqueduct and Sewer Authority	$199,847
Employee's Retirement System of the Government of Puerto Rico	176,833
Total	**$ 376,680**

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NOTE 9 – UNEARNED REVENUES

A. **Volume of business tax** – unearned revenues of $447,582 in the General Fund relates to volume of business taxes collected in fiscal year 2012-2013 that will be earned in fiscal year 2013-2014.

B. **Federal Grants** – unearned revenues presented in the Head Start Grant Funds in the amount of $1,595,513 represents the portion of federal grants received for which qualifying expenditures have not been incurred.

NOTE 10 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the General Fund were unavailable revenues related to property taxes amounting to $150,223 that represents the final liquidation of the property taxes of the fiscal year 2012-2013. This amount was not collected by the Municipality at June 30, 2013.

NOTE 11 – GENERAL LONG-TERM DEBTS

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

Description	Beginning Balance- as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	$ 8,174,000	$ 2,390,000	$ 655,000	$ 9,909,000	$ 715,000
Property Tax Debt – Law 146	278,730	-	13,936	264,794	13,936
Compensated absences	848,511	981,833	-	1,830,344	256,248
State Retirement System Administration- debt agreement	79,060	-	79,060	-	-
Claims & Judgments	77,667	-	77,667	-	-
Total	**$ 9,457,968**	**$ 3,371,833**	**$ 825,663**	**$ 12,004,138**	**$ 985,184**

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NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES

The Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. Bonds and notes payables as of June 30, 2013, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
$1,310,000, Series 2001, for operational purposes, payable in annual installments ranging from $50,000 to $145,000, excluding variable interest from 4.5% to 4.91%, through July 1, 2016	$ 510,000
$535,000, Series 1995, for construction of public recreational facilities, payable in annual installments ranging from $10,000 to $55,000, excluding variable interest from 6.28% to 6.58%, through July 1, 2014	100,000
$330,000, Series 1996, for purchase of equipment, payable in annual installments ranging from $10,000 to $25,000, excluding variable interest from 6.28% to 6.63%, through July 1, 2019	155,000
$610,000, Series 2007, for operational purposes, payable in annual installments ranging from $70,000 to $110,000, excluding variable interest from 1.72% to 5.00%, through July 1, 2013	110,000
$700,000, Series 2009, for operational purposes, payable in annual installments ranging from $80,000 to $125,000, excluding variable interest from 4.75% to 5.00%, through July 1, 2015	345,000
$1,060,000, Series 2004, for operational purposes, payable in annual installments ranging from $15,000 to $80,000, excluding variable interest from 4.73% to 5.02%, through July 1, 2028	850,000
$165,000, Series 1998, for operational purposes, payable in annual installments ranging from $2,000 to $11,000, excluding interest 5.00%, through January 1, 2028	123,000
$341,000, Series 1998, for operational purposes, payable in annual installments ranging from $6,000 to $23,000, excluding interest 5.00%, through January 1, 2028	251,000
$1,510,000, Series 2008, for operational purposes, payable in annual installments ranging from $55,000 to $160,000, excluding variable interest from 1.72% to 5.00%, through July 1, 2022	1,185,000

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NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES (CONTINUED)

Bonds and notes payables as of June 30, 2013, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
$135,000, Series 1998, for operational purposes, payable in annual installments ranging from $3,000 to $9,000, excluding interest 5.00%, through January 1, 2028	$ 100,000
$305,000, Series 2008, for operational purposes, payable in annual installments ranging from $35,000 to $55,000, excluding interest from 1.72% to 5.00%, through July 1, 2014	105,000
$400,000, Series 1997, for operational purposes, payable in annual installments ranging from $10,000 to $40,000, excluding interest from 1.72% to 5.00%, through July 1, 2016	125,000
$235,000, Series 1997, for operational purposes, payable in annual installments ranging from $10,000 to $40,000, excluding interest from 1.72% to 5.00%, through July 1, 2016	75,000
$3,755,000, Series 2008, for construction of public recreational facilities, payable in annual installments ranging from $60,000 to $320,000, excluding variable interest from 1.72% to 7.50%, through July 1, 2023	3,485,000
$380,000, Series 2012, for public improvements and purchase of equipment, payable in annual installments ranging from $45,000 to $65,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2019	380,000
$100,000, Series 2012, for purchase of equipment, payable in annual installments ranging from $10,000 to $20,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2019	100,000
$1,240,000, Series 2012, for construction of public recreational facilities, payable in annual installments ranging from $15,000 to $105,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2037	1,240,000
$670,000, Series 2012, for operational purposes, payable in annual installments ranging from $10,000 to $60,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2027	670,000
Total General Obligations – Bonds	$ 9,909,000

These bonds and notes are payable with the following Municipality's resources:

- Special ad valorem property tax, which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes;
- Municipal sales taxes resources restricted for debt service, and;
- Operational resources.

NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

B. BONDS AND NOTES AMORTIZATION

The annual requirements to amortize the general obligations outstanding as of June 30, 2013 are as follows:

Year Ending June 30,	Principal Payment	Interest Payment	Total
2014	$ 778,000	$ 366,799	$ 1,144,799
2015	733,000	586,437	1,319,437
2016	674,000	541,012	1,215,012
2017	600,000	504,292	1,104,292
2018	422,000	473,334	895,334
2019-2023	2,229,000	1,948,577	4,177,577
2024-2028	1,833,000	1,311,875	3,144,875
2029-2033	1,945,000	631,821	2,576,821
2034-2038	695,000	155,237	850,237
Total	$ 9,909,000	$ 6,519,384	$ 16,428,384

C. COMPENSATED ABSENCES

The government-wide statement of net position includes $1,830,344 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

NOTE 12 – DEBT RETIREMENT

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

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

NOTE 13 – PROPERTY TAXES

The Municipality is authorized by Law No. 81 to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2013 was 6.83%.

NOTE 13 – PROPERTY TAXES (CONTINUED)

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated to 1957 market prices. The total real property tax rate in force at June 30, 2013 was 8.83%).

Residential real property occupied by its owner is exempt by law from property taxes on the first $15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury assumes payment of the basic to the Municipality, except for property assessed of less than $3,500 (at 1957 market prices), for which no payment is made.

CRIM is responsible for the billing and collections of real and personal property taxes on behalf of the Municipality. Prior to the beginning of each fiscal year, CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, CRIM advances funds to the Municipality based on the initial estimated collections. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

This settlement has to be completed on a preliminary basis not later than each December 31. If CRIM remits to the Municipality property tax advances, which are less than the property tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Law No. 81 provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied and collected by CRIM. Collections of this special tax are remitted to the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth. In addition, 1.30% of the total personal and real property taxes collected by CRIM is restricted for the Municipality's debt service requirements and is retained by GDB for such purposes. The Additional Lottery System of the Commonwealth (the "Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of $26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.

- An additional amount not exceeding $16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35% corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

NOTE 14 – VOLUME OF BUSINESS TAXES

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes on all trade or business activities operated by any natural or legal person within the territorial area of Utuado. This is a self-assessed tax generally based on the business volume measured by gross sales. The Municipality establishes the applicable tax rates. At June 30, 2013, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers. Any taxpayers

NOTE 14 – VOLUME OF BUSINESS TAXES (CONTINUED)

that have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60% and 90% under standard rates.

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax return to be filed every April 15 based on the actual volume of business generated in the preceding calendar year.

Taxpayers with a sales volume of $3 million or more must include audited financial statements with their tax returns. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration.

The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5% discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the GFFS (See Note 9).

NOTE 15 – SALES TAXES

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 0.5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law was 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.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed overall sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on July 1, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

NOTE 16 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government. Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements.

Intergovernmental revenues are accounted for through the General Fund.

NOTE 17 – INTERFUND TRANSFERS

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

Transfer Out	Transfer In	Purpose	Amount
General Fund	Debt Service Fund	To cover bond principal and interest payments	$ 57,664
General Fund	Other Governmental Funds	Budget specific project funding	250,000
State Assignment Fund	General Fund	To cover operating expenditures	4,147
Total			**$ 311,811**

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its instrumentality (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentality and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentality, Assistants of the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The Municipality adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first $550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amendments the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation for each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- The present value of the future pension payments was computed by using a discount of 9%.
- Future pension payments reflect an assumption of a 6% salary increase.

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2006 and prior years were made based on percentages established by the law. Such percentage has not been

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the fiscal year ended on June 30, 2011, 2012 and 2013 were, approximately, $300,300, $256,200 and $214,187 respectively. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2013. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

NOTE 19 – CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal proceedings that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities.

It is management's opinion, based on the advice of the legal counsel, that the other potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsels with the information currently available cannot determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds.

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NOTE 20 – FUND BALANCE (DEFICIT)

As of June 30, 2013, the fund balance (deficit) classifications are as follows:

Fund Balance	General Fund	Debt Service Fund	Bond Issue Fund	HUD Funds	State Assignment Funds	Other Governmental Fund	Total
Restricted for:							
General Government	-	-	-	-	-	993,812	993,812
Public Safety	-	-	-	-	-	(16,932)	(16,932)
Public Works	-	-	-	-	-	301,461	301,461
Human Services and Welfare	-	-	-	503,474	-	506,898	1,010,372
Urban Development	-	-	1,800,483	90,287	6,191,655	275,782	8,358,207
Culture and Recreation	-	-	-	-	-	89,427	89,427
Education	-	-	-	-	-	13,111	13,111
Health & Sanitation	-	-	-	-	-	41,924	41,924
Debt Service	-	2,153,836	-	-	-	-	2,153,836
Unassigned	(2,878,898)	-	-	-	-	-	(2,878,898)
Total Fund Balance	**$(2,878,898)**	**$2,153,836**	**$1,800,483**	**$593,761**	**$6,191,655**	**$2,205,483**	**$ 10,066,320**

NOTE 21 – ACCOUNTING CHANGES AND RESTATEMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

Description	HUD Programs Fund	State Assignment Fund	Debt Service Fund	Other Non Major Funds	Total Governmental Funds
Fund balance, beginning	$ 691,051	$ -	$ 1,622,444	$ 8,241,016	$ 10,554,511
Reclassification of the State Assignment Fund from Other Non Major Funds		6,541,317		(6,541,317)	
Reclassification of the Homeland Security Programs Fund to Other Non Major Funds				2,166,134	2,166,134
Cash Restatement in Sec 8 Program	90,181				9,256
Cash Restatement in Other Governmental Fund				(48,574)	(48,574)
Error in prior year bonds payable			271,064		271,064
Transfer from General Fund to creation of Special funds in prior year	-	-	-	297,845	297,845
Fund balance, beginning as restated	**$ 781,232**	**$ 6,541,317**	**$ 1,893,508**	**$ 4,115,104**	**$ 13,331,161**

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

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

DESCRIPTION	
Net position, beginning	72,688,923
Fund Balance Restatements	610,516
Net position, beginning as restated	**73,299,439**

NOTE 22 – ACCUMULATED DEFICIT

The Municipality has an accumulated deficit of $2,878,898 in the General Fund. Among the actions currently taken by management to reduce the accumulated deficit are; the inclusion of an account for the amortization of the accumulated deficit in the 2013-2014 operational budget, a reduction of the transitory employees maintain in the General Fund, an operational cost reduction plan and a reduction in the operational budget for the fiscal year 2013-2014. Also, the Municipality is identifying other intergovernmental revenues available by the State agencies, which can be used by the Municipality to cover operational costs.

NOTE 23 – SUBSEQUENT EVENTS

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. The ERS financial situation was approached through Act 3, which became effective on July 1, 2013 ("Effective Date"). The Act establishes the following: (i) it freezes and grandfathers the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS's defined benefit formula (those who joined the ERS prior to January 1, 2000 whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service) (the "Defined Benefit Employees"); (ii) it provides that, beginning on July 1, 2013, the retirement benefits accruing on and after the Effective Date for Defined Benefit Employees will be based on a defined contribution plan and will be paid out in the form of a lifetime annuity (upon retirement, the employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013 in the form of a lifetime annuity); (iii) it provides that defined contribution benefits accrued pursuant to System 2000 will also be paid in the form of a lifetime annuity rather than a lump sum payment; (iv) it eliminates the so called "merit pension" that provided to participants who joined the Employees Retirement System prior to April 1, 1990, after attaining 30 years of service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age 55 or greater) of the average salary earned during the highest 36 months of employment; (v) it increases the retirement age for various groups of participants; (vi) it increases the employee contribution to the ERS from 8.275% to a minimum of 10%; (vii) it eliminates or reduces various retirement benefits previously granted by special laws and the System will benefit from the savings generated; (viii) it increases the minimum pension from $400 to $500 per month for current retirees; and (ix) it eliminates or modifies other benefits, such as disability and survivor benefits.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax

NOTE 23 – SUBSEQUENT EVENTS (CONTINUED)

Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948.

All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42).

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund, which authorize municipalities to pledge the funds deposited on the Municipal Administration Fund to secure the repayment of any loan, bond, promissory note or other evidence of debt, whose source of repayment are the funds deposited into the Special Fund and to meet any budgeted expenditure of the municipalities and any activity or project of the municipalities; authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in the approved Law; amend paragraph (b) of section 4020.01; amended paragraph (b) of section 4020.02, and amend paragraph (a) and repealing paragraph (e) of section 6080.14 of the law No. 1 - 2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico", for the purposes of restructuring the sales and use tax so that tax rate is six (6) percent statewide and one (1) percent at municipal level; to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 19 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico"; in order to establish mechanisms for advances of the tax to the municipalities; and for other related purposes. Management has evaluated subsequent events through December 30, 2014, the date the financial statements were available to be issued.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Property taxes	$ 1,873,975	$ 1,873,975	$ 1,902,945	$ 28,970
Volume of Business Taxes	766,600	766,600	692,144	(74,456)
Sales Tax	679,500	679,500	687,719	8,219
Intergovernmental Revenues	7,500,499	7,500,499	7,475,885	(24,614)
Licenses, permits and other local taxes	1,220,000	1,220,000	336,469	(883,531)
Rent of Property	250,000	250,000	174,238	(75,762)
Miscellaneous	263,000	263,000	175,296	(87,704)
Total revenues	12,553,574	12,553,574	11,444,696	(1,108,878)
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
Mayor and Municipal Legislature	509,538	534,565	439,161	95,404
General government	5,290,138	5,436,909	5,451,812	(14,903)
Public safety	799,255	699,220	672,934	26,286
Public works	1,717,139	1,555,529	1,511,335	44,194
Culture and Recreation	937,513	786,771	760,828	25,943
Health and Sanitation	2,230,440	2,453,196	2,428,591	24,605
Education	381,833	317,192	313,884	3,308
Human Service and Welfare	632,468	446,221	408,787	37,434
Transfer Out	55,250	323,971	555,936	16,307
Total expenditures, encumbrances and other financing uses	12,553,574	12,553,574	12,294,996	258,578
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	$ -	$ -	$(850,300)	$(850,300)

EXPLANATION OF DIFFERENCE BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENSES

Sources/inflows of resources:	
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	$ 11,444,696
Differences-budget to GAAP	-
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	**$ 11,444,696**
Uses/outflows of resources:	
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	$ 12,294,996
Differences-budget to GAAP:	
Prior year expenditures are not outflows of budgetary resources, but are expenditure for financial purposes	162,392
Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes	(461,442)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial reporting purposes	
Adjustment to expenditures	(6,189)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	**$ 11,682,093**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

NOTES TO THE BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

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

The Municipality prepares its annual budget including the operations of the General Fund.

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2013 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2012.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	$ 404,861
Total U.S. Department of Agriculture			**404,861**
U.S. DEPARTMENT OF ENERGY:			
Indirect Programs:			
Pass-Through State - Office of the Energy Affairs Administration of Commonwealth of Puerto Rico:			
Energy Efficiency and Conservation Block Grant Program (ARRA)	81.128	04R-2010-DE-EE0000945	52,315
Total U.S. Department of Energy			**52,315**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Section 8- Housing Choice Vouchers	14.871	RQ-033	1,211,358
Indirect Programs:			
Pass-Through State - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State's Program	14.228	08-AB-FC 08-DR-DRES 09-AB-FC 10-AB-FC 11-AB-FC 12-AB-FC	1,562,370
Total U.S. Department of Housing and Urban Development			**2,773,728**
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Department of Justice of the Commonwealth of Puerto Rico:			
Crime Victim Assistance	16.575	2010-VA-CMU-01	33,321
Total U.S. Department of Justice			**33,321**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-Through the Commonwealth of Puerto Rico Governor Office – Public Security Affairs Office			
Disaster Grants - Public Assistance	97.036	DR-PR-1919 DR-PR-1946 DR-PR-1613 DR-PR-1798 DR-PR-4004 DR-PR-4017	2,429,648
Total U.S. Department of Homeland Security:			**2,429,648**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE			
Direct Programs:			
Early Head Start	93.600	02CH5004/01 02CH5004/02	500,819
Indirect Programs:			
Pass-Through The Commonwealth of PR - Office of Governor, Office for the Care and Integral Development of Children:			
Head Start	93.600	02-CH-0483-36	5,424,716
Total U.S. Department of Health and Human Services:			**5,925,535**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 11,619,408**

See Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the MUNICIPALITY OF UTUADO, Puerto Rico (Municipality) and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
2. The Municipality in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
3. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 – FEDERAL CFDA NUMBER

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

NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and identifying number assigned by the pass-through entity for federal awards received as a sub recipient. Numbers identified as N/AV are not available.

NOTE 5 – MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

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

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Utuado
Utuado, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Utuado, Puerto Rico (Municipality), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated December, 30, 2014. The report on the governmental funds financial statements was unqualified. In addition, the report on the governmental activities statement has a disclaimer opinion because of the inadequacies of the capital assets subsidiary ledger.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Questioned Costs,* we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

the deficiency described in finding 13-001 included in the accompanying *Schedule of Findings and Questioned Costs* to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as item 13-001.

Municipality's Response to Findings

Municipality's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. Municipality's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

Purpose of this Report

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

Torres-Fred & Co. PSC

TORRES-FRED & CO, PSC
CERTIFIED PUBLIC ACCOUNTANT
VILLALBA, PUERTO RICO
DECEMBER, 30, 2014

TORRES-FRED & CO. PSC
PUERTO RICO
PSC-280
Contadores Públicos Autorizados

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was affixed to the original of this report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Utuado
Utuado, Puerto Rico

Report on Compliance for Each Major Federal Programs

We have audited the Municipality of Utuado, Puerto Rico (Municipality)'s, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2013. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Others Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as item 2013-002 through 2013-012. Our opinion on each major federal program is not modified with respect to these matters.

Municipality's responses to the noncompliance findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Cost*. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-012 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-002 through 2013-011 to be significant deficiencies.

Municipality's responses to the internal control over compliance findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this report

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

Torres-Fred & Co. PSC

TORRES-FRED & CO, PSC
CERTIFIED PUBLIC ACCOUNTANT
VILLALBA, PUERTO RICO
DECEMBER, 30, 2014

The stamp number E102268
was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Section I. Summary of Auditor's Results:

Part I. Financial Statements

1. Type of Auditor's report issued:

- [ ] Unqualified Opinion, except for disclaimer opinion for government-wide financial statements
- [X] Qualified Opinion
- [ ] Adverse Opinion
- [X] Disclaimer Opinion

2. Material weakness(es) identified?

[X] YES [ ] NO

3. Significant deficiency(ies) identified?

[ ] YES [X] NO

4. Noncompliance material to financial statements noted?

[X] YES [ ] NO

Part II. Federal Awards

1. Type of auditor's report issued on compliance for major programs:

- [X] Unqualified Opinion
- [ ] Qualified Opinion
- [ ] Adverse Opinion
- [ ] Disclaimer Opinion

2. Material weakness(es) identified?

[X] YES [ ] NO

Part II. Federal Awards (Continued)

3. Significant deficiency(ies) identified?

[X] YES [ ] NO

4. Audit finding required to be reported under Section 510 (a) of Circular A-133:

[X] YES [ ] NO

5. Major Programs:

CFDA Number (s)	Federal Program Grantor and Program Name
14.228	Community Development Block Grant
14.871	Section 8 Housing Choice Vouchers
97.036	Disaster Grants-Public Assistance
93.600	Head Start
93.600	Early Head Start

6. Dollar threshold used to distinguish Type A and Type B programs: $300,000

7. Auditte qualified as Low-risk auditee?:

[ ] YES [X] NO

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MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION II – Financial Statements Finding and Questioned Costs

FINDING	2013-001
CATEGORY	INTERNAL CONTROL
NONCOMPLIANCE	**CAPITAL ASSETS**
TOPIC SENTENCE	Fixed/ Capital Assets and Expenditures – Subsidiary Ledger
CONDITION	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and the expenses of the governmental activities is not determinable.
CRITERIA	Chapter IX, Article 3.002 of the State Act Number 81 of August 30, 1991 states that the municipality should maintain updated property accounting records. Also the GASB Statements No. 34 *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* require that all capital assets, including infrastructure, must be presented in the Statements of Net Assets and that these assets must be depreciated during its useful life. Also, provisions of GASB Statement No. 42, *Accounting and Financial Reporting of Impairments of Capital Assets and for Insurance Recoveries*, requires the Municipality to evaluate prominent events or changes in circumstances affecting capital assets to determine whether an impairment of the capital assets has occurred. Furthermore, provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* require that all intangible assets not specifically excluded by its scope provisions be classified as capital assets.
CAUSE	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
EFFECT	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
RECOMMENDATION	We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, to comply with the requirements of the GASB Statement No. 34, GASB Statement No. 42 and GASB Statement No. 51.
QUESTIONED COSTS	None.

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION II – Financial Statements Finding and Questioned Costs

FINDING	2013-001 (CONTINUED)
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The Municipality is gathering information related to the capital assets as one of its priority on the Finance Department. The person that has been assigned for this work is been obtaining relevant information on a daily basis and such information it's been recorded on our accounting system. We will provide as much support as we could possibly can to comply with this requirement.
RESPONSIBLE PERSON	Mrs. Yomaira Torres González 787-814-4227; 787-894-5127

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MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-002
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) (CFDA NO. 14.218) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS (OCAM)
CATEGORY	COMPLIANCE
NONCOMPLIANCE	**CASH MANAGEMENT**
TOPIC SENTENCE	Non-Compliance with Cash Management Requirements
CONDITION	The Community Development Block Grant Program (CDBG) does not have adequate controls over the timing of disbursements once federal funds are received. During the fiscal year 2012 - 2013, the Municipality received approximately $1.6 million. In order to determine compliance with the applicable cash management requirements, we selected for testing six transfers of funds received during the fiscal year amounting approximately $619,000 (40%). The time elapsed between the receipt and the disbursement of such funds was from seven to ten days.
CRITERIA	As stated in 24 CFR 85.20(b)(7) and 31 CFR 205.33, Subpart B, grantees must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. OCAM's Agreement provision 17(b): "The Municipality will not keep on hand the money seized from OCAM for no more than three days period".
CAUSE	The aforementioned condition is mainly due to the lack of adequate controls and procedures between Program's administration and Municipality's Finance department in order to guarantee the adequate and promptly disbursement of federal funds once they are received.
EFFECT	If the recipient fails to expend those Federal assistance funds within a reasonable period, or fails to establish procedures to minimize the time between the transfer and payout of funds, the Municipality could be subject to penalties from the Federal Government and be adversely affected in the benefits they are entitled to receive in the future.

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-002 (CONTINUED)
RECOMMENDATION	The Program should implement adequate internal control procedures which allow the promptly use of federal funds received. This could be attained by evaluating the receipts and payments procedures followed by both the CDBG Program and the Municipality's Finance Department in order to minimize the time between the transfer and payout of funds.
QUESTIONED COSTS	None.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	We will be in conversation with the Finance's Department to expedite the process since it is the Finance' Department who is responsible for the processing of payments.
RESPONSIBLE PERSON	Mrs. Margie Lafontaine Andujar 787-814-4227; 787-894-5127

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING 2013-003

FEDERAL PROGRAM COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) (CFDA NO. 14.218) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS (OCAM)

CATEGORY COMPLIANCE

NONCOMPLIANCE **REPORTING**

TOPIC SENTENCE Non compliance with reporting requirements

CONDITIONS Accumulated expenditures reported to the Lead Agency (OCAM) as of June 30, 2013 were incorrect. We noted that the amounts reported to the Lead Agency (OCAM) on the last quarter report from April to June 2013 were (under)/overstated as follows:

Program Year	Amount Reported	Amount per Financial Records	Difference
08-FC-62-002	$ 70,667.31	$ 67,544.56	$ 3,122.75
Adm FC 2008	37,390.43	37,793.12	(402.69)
08-AB-62-002	52,500.00	55,735.73	(3,235.73)
Adm AB 2008	62,057.01	61,876.76	180.25
09-FC-62-001	216,318.90	216,269.00	49.90
09-FC-62-002	51,244.28	77,721.18	(26,476.90)
09-FC-62-003	54,082.38	62,183.52	(8,101.14)
Adm FC 2009	101,511.00	99,120.17	2,390.83
09-AB-62-002	48,042.00	47,738.60	303.40
Adm AB 2009	60,278.41	61,957.40	(1,678.99)
10-FC-62-002	92,526.85	24,581.35	67,945.50
10-FC-62-003	79,831.20	91,496.88	(11,665.68)
Adm FC 2010	101,186.54	107,977.51	(6,790.97)
10-AB-62-002	52,085.51	47,269.08	4,816.43
Adm AB 2010	57,968.52	59,364.77	(1,396.25)
11-FC-62-002	48,410.11	32,603.25	15,806.86
11-FC-62-003	55,145.83	51,371.20	3,774.63
Adm FC 2011	5,000.00	6,715.85	(1,715.85)
11-AB-62-002	42,370.80	41,572.50	798.30
Adm AB 2011	4,000.00	15,829.57	(11,829.57)
12-AB-62-002	21,149.10	36,804.60	(15,655.50)

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-003 (CONTINUED)
	2008 Disaster Recovery Funds and 2009 Emergency Funds expenditures as of June 30, 2013 were $648,453 and $99,921, respectively. Such expenditures were not reported to OCAM.
CRITERIA	As specified in 24 CFR 85.20(b)(1) and (2), accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
CAUSE	Accounting records are not reconcile against Municipality's electronic accounting system before quarterly reports are prepared.
EFFECT	The continuance occurrence of this situation inhibits the Lead Agency (OCAM) and other Federal award agencies from monitoring the programs financial performance. In addition, the Program could be sanctioned by the federal awarding agency due to the inaccurate filing of financial reports.
RECOMMENDATION	The Municipality should establish a plan and implement the corresponding internal controls to reconcile general ledger accounts on a monthly basis and ensure that all Program's transactions and activities are properly recorded on a timely basis before quarterly reports are prepared.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	Prior to prepare any report, CDBG's Accountant will be reconciling monthly payments against checks registered in the accounting system for each Program's year. This information will be registered in the general ledger so quarterly reports and general ledger accounts' balances match.
RESPONSIBLE PERSON	Mrs. Margie Lafontaine Andujar 787-814-4227; 787-894-5127

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-004
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) (CFDA NO. 14.218) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS (OCAM)
CATEGORY	COMPLIANCE
NONCOMPLIANCE	**EQUIPMENT AND REAL PROPERTY MANAGEMENT**
TOPIC SENTENCE	Lack of controls over property and equipment acquired with Federal Funds.
CONDITIONS	The Municipality and the Community Development Block Grant Program (CDBG) are not maintaining adequate internal controls over property and equipment items acquired with Federal Funds. In testing property and equipment we noted the following: - The property records do not indicate, among other things the source of the property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, use and condition of the property, and any ultimate disposition data including the date of disposal. - The CDBG Program did not count with a general ledger or a property subsidiary ledger where all property and equipment transactions are registered. For such reason, we could not ascertain that all capital outlays and property dispositions were recorded. In addition, related annual depreciation is not being calculated and accounted for. - We could not ascertain that all the property and equipment acquired it is being used by the Program's personnel and for Program's purposes. - CDBG's property register contains information related to other federal programs.
CRITERIA	24 CFR 85.32(d) establishes that procedures for managing equipment will, as a minimum, meet the following requirements: (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-004 (CONTINUED)
	24 CFR 85.20 (b)(3), establishes that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgratees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
	Chapter VII, Section 3, 14 and 15 of Municipality's Basic Standards, establish that the Municipality's Finance Director is responsible for the custody, conservation and use of municipal property against theft, damage or inadequate use. The Finance Director, also, will be responsible for the accounting of all property transactions and records maintenance. All property acquired must be numbered and properly identified. A property record detailing unit number, name, description, cost, acquisition date, brand, serial number, and property location must be completed for each property acquired.
CAUSE	The Municipality has inadequate internal control procedures that guarantee adequate records, registering and safeguarding of property and equipment.
EFFECT	Due to the lack of internal controls and property accounting records, we could not validate the accuracy and completeness of the annual physical inventory report and any other related report against an accounting general ledger accounts.
	The Municipality is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and property records. In addition, sanctions could be imposed by the State CDBG Program or the federal awarding agency.
RECOMMENDATION	The Property Division must require each office, department and federal program that acquires property and equipment to submit a report including a full description of the assets, location, use, responsible person, cost, and any other pertinent data. In addition, the CDBG Program and the Accounting Department should establish a property control account and a subsidiary ledger to provide for the reconciliation of property. A physical inventory of the Municipality's property should be performed as soon as possible for all departments and all differences should be investigated, adjusted and reconciled with the property records maintained by the Municipality's federal program offices.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	We will be asking to the Municipality's Property Manager to update the inventory belonging to Federal Programs, so property and equipment acquired, transferred or disposed could be added or removed from the inventory and subsidiary accounts in order to maintain correct

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-004 (CONTINUED)
	and clear balances. After that, the CDBG Accountant will be maintaining files for each property or equipment acquired as recommended by the Single Audit.
RESPONSIBLE PERSON	Mrs. Margie Lafontaine Andujar 787-814-4227; 787-894-5127

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MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-005
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) (CFDA NO. 14.218) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS (OCAM)
CATEGORY	INTERNAL CONTROL
NONCOMPLIANCE	**INTERNAL CONTROL**
TOPIC SENTENCE	Inadequate accounting records
CONDITIONS	Municipality's Community Development Block Grant Program does not maintain adequate accounting records. The accounting records do not reflect the transactions related to assets, liabilities and fund balance accounts. Month-end and year-end closing procedures were not performed according to Program's federal regulations.
CRITERIA	As stated in 24 CFR 92.20(b) establishes that the financial management systems of other grantees and subgrantees must meet the following standards: (2) grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income; (3) Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.
CAUSE	Transactions related to balance sheet accounts are not recorded by the CDBG's Accountant. In contrast, only transactions related to receipts and expenditures are recorded.
EFFECT	These conditions inhibit the Municipality from having current accurate and reliable financial reports and information necessary for management to take efficient and effective actions, including corrective actions plans. Also, Municipality's failure to have accurate and complete accounting records could result in the qualification of the general purposes financial statements audit opinion.
RECOMMENDATION	The general ledger should be revised to ensure that all Program's transactions and activities are properly recorded and fairly presented in accordance with program requirements.

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-005 (CONTINUED)
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The CDBG Program will be taken into consideration all audit recommendations and a trial balance will be incorporated.
RESPONSIBLE PERSON	Mrs. Margie Lafontaine Andujar 787-814-4227; 787-894-5127

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MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-006
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) (CFDA NO. 14.218) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS (OCAM)
CATEGORY	COMPLIANCE
NONCOMPLIANCE	**SPECIAL TEST AND PROVISIONS**
TOPIC SENTENCE	Lack of internal controls and deficiencies regarding residential rehabilitation activities
CONDITIONS	During the fiscal year 2012-2013, the Community Development Block Grant Program (CDBG) expended approximately $126,300 in residential rehabilitation for low and moderate income families. Such amount represents approximately 9% of total Program fiscal year expenditures. In order to test compliance with the rehabilitation special test requirement we selected for testing two beneficiaries' files which rehabilitation costs amount approximately $25,000 or 20% of the fiscal year rehabilitation expenditures. After performing the test we noted the following deficiencies: - The procedures that were followed at the time of granting the aid to the families were not according to the guidelines established by the Program. We could not determine which procedures were followed to establish priorities among the different families requesting the aid. - One of the two (50%) beneficiaries' files examined never formed part of the list of people who had requested assistance.
CRITERIA	As stated in 24 CFR 570.506(b) each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipient has met the requirements of this part. Also, the aforementioned conditions were not according Provision 8 of the Moderate Rehabilitation Operational Guide established by the Municipality's CDBG Program in June 2013.
CAUSE	Lack of an adequate supervision over the duties performed by the personnel in charge of the rehabilitation program.

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-006 (CONTINUED)
EFFECT	The Municipality could be subject to penalties from the State CDBG Program or the Federal Government and be adversely affected in the benefits they are entitled to receive in the future.
RECOMMENDATION	The CDBG Program must make sure that the personnel in charge of the Rehabilitation Program follows the process that it has been established in the Moderate Rehabilitation Operational Guide at the time of selecting and granting the aid to those families of low or moderate income.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The CDBG Program will proceed according to the Operational Guide of the Housing Rehabilitation Program for each proposals submitted to OCAM. At present, we are registering in a book each person which request housing rehabilitation benefits and are being asked for information such as address and phone number, so the Program's Coordinator can visit their residences and assess those participants with greatest need.
RESPONSIBLE PERSON	Mrs. Margie Lafontaine Andujar 787-814-4227; 787-894-5127

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SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-007
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) (CFDA NO. 14.218) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS (OCAM)
CATEGORY	INTERNAL CONTROL
NONCOMPLIANCE	**PROCUREMENT**
TOPIC SENTENCE	Procurement files were not provided
CONDITION	In testing compliance with the procurement requirement, we requested the procurement files and related documents of the following two auctions: • Asphalt General Auction • "Estudio, Diseño y Rehabilitación Edificio Centro Servicios Múltiples" The award of these two auctions resulted in granted contracts of approximately $608,300. The Municipality could not provide us the original files relating to such auctions so we were prevented from verifying that the followed procedures to grant such contracts were according to Municipality's and Federal regulations.
CRITERIA	As stated in 24 CFR 85.20(b) establishes that the financial management systems of other grantees and subgrantees must meet the following standards: (2) grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income; (3) Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets; (6) Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.
CAUSE	Changes in the personnel responsible for guarding and manage auction's files.
EFFECT	This condition makes it impossible to verify the proper adjudication of auctions, contracts granted and that the procedures followed were according to the applicable Municipality's and Federal regulations.

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-007 (CONTINUED)
RECOMMENDATION	The Auction Division's staff must make an inventory and record of all those auctions that were held and awarded during each fiscal year and locate such files.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The CDBG Program has been in communication with the Secretary's Office to try to locate the bid records, since the Secretary's Office is responsible for ensuring these documents are accessible and safe.
RESPONSIBLE PERSON	Mrs. Margie Lafontaine Andujar 787-814-4227; 787-894-5127

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MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-008
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CATEGORY	COMPLIANCE
NONCOMPLIANCE	**CASH MANAGEMENT**
TOPIC SENTENCE	Non-Compliance with Cash Management Requirements
CONDITION	Section 8 Housing Choice Voucher Program does not have adequate controls over the timing of disbursements once federal funds are received. During the fiscal year 2012 - 2013, the Municipality received approximately $984,153 from Section 8 Housing Choice Vouchers grant funds. In order to determine compliance with the applicable cash management requirements, we selected for testing four out of twelve transfers of funds received during the fiscal year amounting $293,774 (30%). The time elapsed between the receipt and the disbursement of such funds was for more than a month. Monthly cash account balances during the fiscal year exceed $200,000 each month.
CRITERIA	As stated in 24 CFR 85.20(b)(7) and 31 CFR 205.33, Subpart B, grantees must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes.
CAUSE	The aforementioned condition is mainly due to the lack of adequate controls that guarantee the adequate and promptly disbursement of federal funds transactions. In addition, a lot of time elapsed between the issuance of checks to beneficiaries and landlords and the time when those checks were paid by the bank.
EFFECT	If the recipient fails to expend those Federal assistance funds within a reasonable period, or fails to establish procedures to minimize the time between the transfer and payout of funds, the Municipality could be subject to penalties from the Federal Government and be adversely affected in the benefits they are entitled to receive in the future.
RECOMMENDATION	The Program should implement adequate internal control procedures which allow the promptly use of federal funds received. This could be attained by evaluating the procedures followed regarding payments to participants, homeowners and Programs' providers.

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-008 (CONTINUED)
QUESTIONED COSTS	None.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	Program accounting will be recorded in a monthly manner as to reflect what has been actually paid and not recorded in an accrual accounting procedures. System accounts will be revised and corrected.
RESPONSIBLE PERSON	Mr. Jorge Collazo Rivera 787-814-0868

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING 2013-009

FEDERAL PROGRAM SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CATEGORY COMPLIANCE

NONCOMPLIANCE **REPORTING**

TOPIC SENTENCE Noncompliance with reporting requirements

CONDITIONS Reported HAP monthly expenditures through the VMS Data Collection Report did not agree to general ledger HAP expenditures account balances as follows:

Date	HAP Total per General Ledger	HAP Total per VMS Data Collection Report	Difference
7/31/2012	$ 70,745.50	$ 77,928.00	$ 7,182.50
8/31/2012	94,958.50	80,402.00	(14,556.50)
9/30/2012	90,911.26	78,813.00	(12,098.26)
10/31/2012	160,849.50	80,441.00	(80,408.50)
11/30/2012	598.00	80,209.00	79,611.00
12/31/2012	86,939.70	81,160.00	(5,779.70)
1/31/2013	-	82,207.00	82,207.00
2/28/2013	150,974.25	81,338.00	(69,636.25)
3/31/2013	86,236.90	83,245.00	(2,991.90)
4/30/2013	71,989.50	85,726.00	13,736.50
5/31/2013	94,307.45	86,715.00	(7,592.45)
6/30/2013	77,619.85	84,065.00	6,445.15
	$ 986,130.41	$ 982,249.00	$ (3,881.41)

CRITERIA As specified in 24 CFR 85.20(b)(1) accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant.

CAUSE Accounting records are not reconcile against Municipality's electronic accounting system before VMS Data Collection Report is prepared.

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-009 (CONTINUED)
EFFECT	The continuance occurrence of this situation inhibits Federal award agencies from monitoring the programs financial performance. In addition, the Program could be sanctioned by the federal awarding agency due to the inaccurate filing of financial reports.
RECOMMENDATION	The Municipality should establish a plan and implement the corresponding internal controls to reconcile general ledger accounts on a monthly basis and ensure that all Program's transactions and activities are properly recorded on a timely basis before reports are prepared.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	In order to repair this fault, a meeting with the Director of the Municipality's Finance Department and pertaining faculty will schedule to revise the payment process.
RESPONSIBLE PERSON	Mr. Jorge Collazo Rivera 787-814-0868

MUNICIPALITY OF UTUADO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-010
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
NONCOMPLIANCE	**INTERNAL CONTROL**
TOPIC SENTENCE	Inadequate accounting records

CONDITIONS

Municipality's Section 8 Housing Choice Vouchers Program does not maintain adequate accounting records. After an evaluation of the Program's general ledger accounts we identified the following deficiencies:

- Proper accounting policies regarding revenue recognition, expenditures, assets, liabilities and fund balance were not adequately followed.
- Differences were noted between general ledger cash account's balance and the amount presented as such in the monthly bank account reconciliation.
- Daily cash transactions are not detailed in the general ledger. Instead, monthly lump sums were registered.
- Equipment general ledger account's balance ($111,130) could not be traced to any detailed property and equipment subsidiary.
- Accounts payable ledger account's balance ($9,247) could not be traced to any detailed payable subsidiary.
- HAP and Administrative Fees receipts and payments transactions were neither segregated nor detailed between general ledger accounts.
- Month-end and year-end closing procedures were not performed according to Program's federal regulations.

CRITERIA

As stated in 24 CFR 982.158(a) the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. In addition, 24 CFR 85.20(b) establishes that the financial management systems of other grantees and subgrantees must meet the following standards: (1) Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant; (2) grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income; (3) Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-010 (CONTINUED)
CAUSE	Program's accountant does not count with the necessary accounting knowledge and training to correctly perform their duties.
EFFECT	These conditions inhibit the Municipality from having current accurate and reliable financial reports and information necessary for management to take efficient and effective actions, including corrective actions plans. Also, Municipality's failure to have accurate and complete accounting records could result in the qualification of the general purposes financial statements audit opinion.
RECOMMENDATION	Accounting personnel should be trained so they can adequately perform their duties. Furthermore, they should be oriented regarding the related federal requirements. The general ledger should be revised to ensure that all Program's transactions and activities are properly recorded and fairly presented in accordance with program requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	Accountant will ensure that every transaction will be recorded within the General Ledger. Monthly reports will be solicited to the Finance Department to record actual and proper accounts.
RESPONSIBLE PERSON	Mr. Jorge Collazo Rivera 787-814-0868

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-011
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS THROUGH "ADMINISTRACIÓN PARA EL CUIDADO Y DESARROLLO INTEGRAL DE LA NIÑEZ" (ACUDEN)
CATEGORY	COMPLIANCE
NONCOMPLIANCE	**EQUIPMENT AND REAL PROPERTY MANAGEMENT**
TOPIC SENTENCE	Lack of controls over property and equipment acquired with Federal Funds.
CONDITIONS	The Head Start Program is not maintaining adequate internal controls over property and equipment items acquired with Program's Federal Funds. In testing property and equipment we noted the following: - The property records do not indicate, among other things, who holds title, use and condition of the property, and any ultimate disposition data including the date of disposal. - Equipment and property general ledger accounts' balances did not agree to equipment and property's subsidiary ledger balances. For such reason, we could not ascertain that all capital outlays and property dispositions were recorded. In addition, related annual depreciation is not being calculated and accounted for. - We could not ascertain that all the property and equipment acquired it is being used by the Program's personnel and for Program's purposes. - As of June 30, 2013 a physical inventory of all property and equipment had not been conducted.
CRITERIA	45 CFR 92.32(d) establishes that procedures for managing equipment will, as a minimum, meet the following requirements: (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property; (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years; (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

SECTION III – Federal Award Findings and Questioned Costs

FINDING

2013-011 (CONTINUED)

45 CFR 92.20 (b)(3), establishes that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgratees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Delegation of funds contract, provision 19 (3), establishes that the program is committed to maintaining inventory control of equipment and materials for the project.

Chapter VII, Section 3, 14 and 15 of Municipality's Basic Standards, establish that the Municipality's Finance Director is responsible for the custody, conservation and use of municipal property against theft, damage or inadequate use. The Finance Director, also, will be responsible for the accounting of all property transactions and records maintenance. All property acquired must be numbered and properly identified. A property record detailing unit number, name, description, cost, acquisition date, brand, serial number, and property location must be completed for each property acquired.

CAUSE

By that time the Program did not have a person in charge of registration, custody and safeguarding of property. Furthermore, no monthly conciliations were performed between the physical inventory and general ledger accounts' balances.

EFFECT

Due to the lack of internal controls and property accounting records, we could not validate the accuracy and completeness of equipment and property related reports against accounting general ledger accounts.

The Municipality is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and property records. In addition, sanctions could be imposed.

RECOMMENDATION

The Property Division must require to each office that acquires property and equipment to submit a report including a full description of the assets, location, use, responsible person, cost, and any other pertinent data. In addition, Program's Property Division and the Accounting Department should establish a property control account and a subsidiary ledger to provide for the reconciliation of property. A physical inventory of the Program's property should be performed as soon as possible and all differences should be investigated, adjusted and reconciled with the property records maintained by the Accounting Department.

QUESTIONED COSTS

None

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-011 (CONTINUED)
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	A person of the Property Division will perform a physical inventory of all the existing property either in the centers and the offices of the Program. The inventory report will identify the responsible person for the property; it will also identify the property number, the date in which it was acquired and the cost of acquisition. The Property Division will established internal controls to ensure that the property is being used for the purposes that it was acquired. In addition, the Property Division will work with the Accounting division of the Finance Department in order to prepared a subsidiary ledger and reconcile on a quarterly basis the property information with the accounting records and to make any adjustments, if needed.
RESPONSIBLE PERSON	Mrs. Yolanda Hernández Maldonado 787-894-5127

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MUNICIPALITY OF UTUADO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2013-012
FEDERAL PROGRAM	DISASTER GRANTS – PUBLIC ASSISTANCE (CFDA NO. 97.036) DEPARTMENT OF HOMELAND SECURITY
CATEGORY	INTERNAL CONTROLS
NONCOMPLIANCE	**INTERNAL CONTROLS**
TOPIC SENTENCE	Lack of accounting and operational records
CONDITION	The Municipality did not retain nor could provide us with the accounting records and other related documentation regarding the receipts and expenditures of funds received from the Federal Emergency Management Agency (FEMA).
CRITERIA	As stated in 44 CFR 13.42(b)(1)(2) and (c); except as otherwise provided, records must be retained for three years from the day the grantee submits its final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due. If any litigation, claim, negotiation, audit or other action involving the records has been started before the expiration of the 3-year period, the records must be retained until completion of the action and resolution of all issues which arise from it, or until the end of the regular 3-year period, whichever is later.
CAUSE	Custody and retention of accounting records were lost due to changes in management and program's staff.
EFFECT	This condition prevented us from testing compliance with the following requirements: cash management, period of availability, matching and reporting.
RECOMMENDATION	The Municipality should immediately gather all documentation regarding accounting and projects execution. Moreover, should organize all documents that gave rise to the receipts, expenditures and obligations of such funds in order that they can be subject to audit.
QUESTIONED COSTS	None.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	Due to the Administration transition of January 2013, there were some files that we did not get from the previous administration. Nonetheless, we will keep looking in other offices in order to find them, but in the meantime, we will re-do the files with the documentation we have available in other files.
RESPONSIBLE PERSON	Mrs. Yomaira Torres González 787-894-5127

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SUMMARY SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

1- AUDIT FINDING THAT HAVE BEEN FULLY CORRECTED:

2012-03- Eligibility 14.871

2- AUDIT FINDING NOT CORRECTED OR PARTIALLY CORRECTED:

FINDING NUMBER	CFDA	QUESTIONED COST	COMMENTS
2012-01-General Fund Deficit		None	Situation still prevail
2012-02-Cash Management	97.036	None	Situation still prevail

3- CORRECTION ACTION TAKEN IS SIGNIFICANTLY DIFFERENT FROM CORRECTIVE ACTION PREVIOUSLY REPORTED:

NONE

4- AUDIT FINDING IS NO LONGER VALID:

NONE

END OF SCHEDULE