

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

SINGLE AUDIT REPORT

For the Fiscal Year Ended June 30, 2014

(With Independent Auditor's Report thereon)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

Basic Financial Statements and
Supplemental Schedule

Single Audit Report

June 30, 2014

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2014

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2014

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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, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United 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.



INDEPENDENT AUDITORS' REPORT

(continued)

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 \$67,141,934 (net of accumulated depreciation of (\$23,916,369) as of June 30, 2014, and the related amount of depreciation expense stated at \$1,847,073 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, 2014, 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, 2014 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.

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 13 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.



INDEPENDENT AUDITORS' REPORT

(continued)

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the 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. Also, the Financial Data Schedule are presented for purpose of additional analysis as required by the *U.S. Department of Housing and Urban Development, Office of the Inspector General*, and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards and the Financial Data Schedule are the responsibility of management, were derived from, and relate directly to the underlying accounting and others records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated May, 28, 2015 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. P.S.C

TORRES-FRED & CO, PSC
CERTIFIED PUBLIC ACCOUNTANT
VILLALBA, PUERTO RICO
MAY, 28, 2015



The stamp number E153867
was affixed to the original of this report.



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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014. 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, 2014 by \$67,538,291 and at June 30, 2013 by \$66,609,275;
- ❖ The Municipality's total net position increase by \$649,023 during fiscal year 2013-2014;
- ❖ As of June 30, 2014, the Municipality's governmental funds reported combined ending fund balances of \$11,440,935, an increase of \$1,451,814 from the prior year;
- ❖ At June 30, 2014, the unrestricted deficit was \$7,896,662;
- ❖ Loans principal payments were \$660,000 and \$715,000 in 2014 and 2013, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 increased by \$649,023 during the current fiscal year. The Municipality's net position include investments in Capital Assets for \$63,211,525, net of related debt, and over \$1,115,384 restricted for future expenses. The Municipality's net position at the end of the fiscal year ended on June 30, 2014 was \$67,538,291, as detailed on **Table 1**.

<u>Table 1</u> <u>Statement of Net Position</u>	<u>2014</u>	<u>2013</u>
Current and non-current assets	\$ 14,859,916	\$ 15,060,483
Capital assets	67,141,934	68,396,870
Total Assets	82,001,850	83,457,353
Current liabilities	3,418,981	4,843,940
Long-term liabilities	11,044,578	12,004,138
Total Liabilities	14,463,559	16,848,078
Net position:		
Investment in capital assets, net of related debt	63,211,525	64,752,426
Restricted	12,223,428	12,945,218
Unrestricted deficit	(7,896,662)	(11,088,369)
Total Net Position	\$ 67,538,291	\$ 66,609,275

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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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)
GOVERNMENTAL ACTIVITIES**

Governmental activities increased the Municipality's net positions. Key elements of this increase are as follows: the Municipality's governmental activities had net expenses of \$22,045,857. 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 exceed net expenses by \$649,023.

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

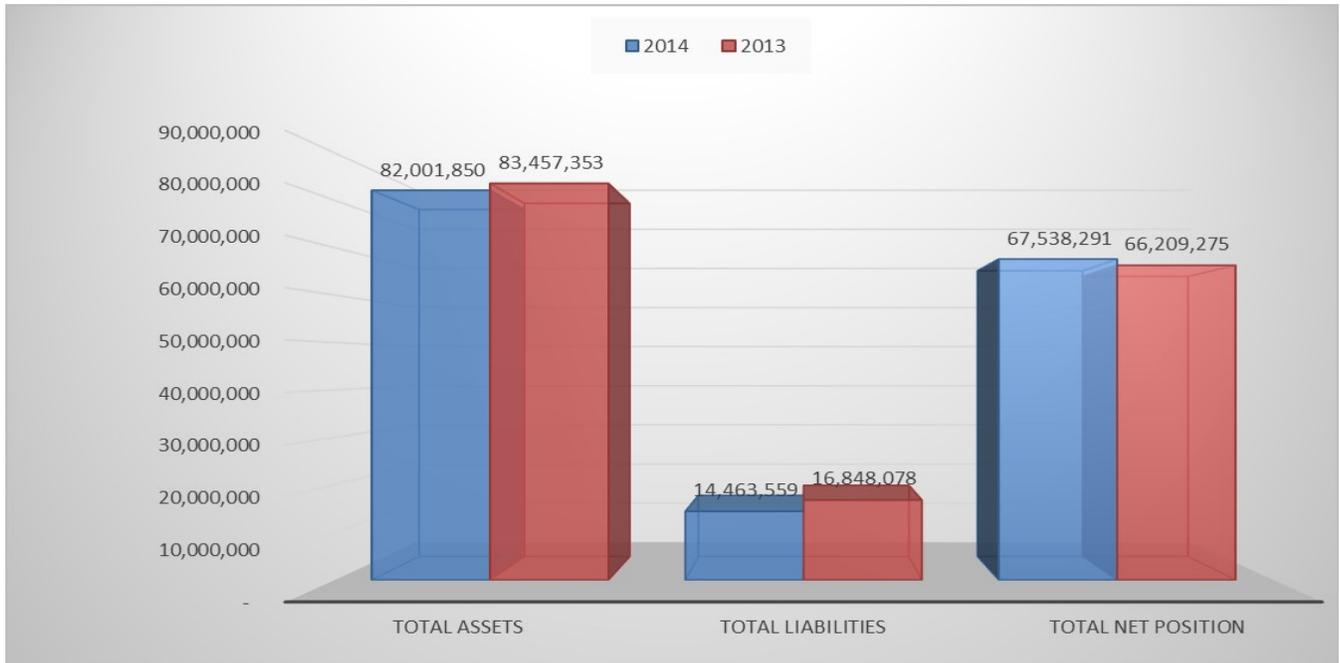
<u>Table 2</u> <u>Statement of Activities (in thousands)</u>	<u>2014</u>	<u>2013</u>
Revenues		
Operating grants and contributions	\$ 9,082,845	\$ 9,752,215
Capital grants and contributions	-	-
General revenues:		
Property taxes	2,314,860	2,553,620
Volume of business taxes	593,913	692,144
Sales taxes	1,518,667	1,484,106
Licenses and permits	247,585	336,469
Intergovernmental	8,532,555	7,475,885
Charges for services	-	-
Other General revenues	404,455	402,626
Total revenues	22,694,880	22,697,065
Expenses		
Mayor and Municipal Legislature	-	-
General Government	5,865,642	9,114,587
Public safety	718,184	791,565
Public works	3,058,657	2,874,798
Health and sanitation	1,634,978	2,243,113
Culture and recreation	1,083,591	1,499,553
Human services and welfare	2,746,160	4,496,638
Urban development	486,159	2,127,265
Education	6,118,877	5,925,535
Interest on long-term debts	333,609	314,175
Total expenses	22,045,857	29,387,229
Changes in net position	649,023	(6,690,164)
Net position – beginning	66,609,275	72,688,923
Prior Period Adjustment	279,993	610,516
Net position – ending	\$ 67,538,291	\$ 66,609,275

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

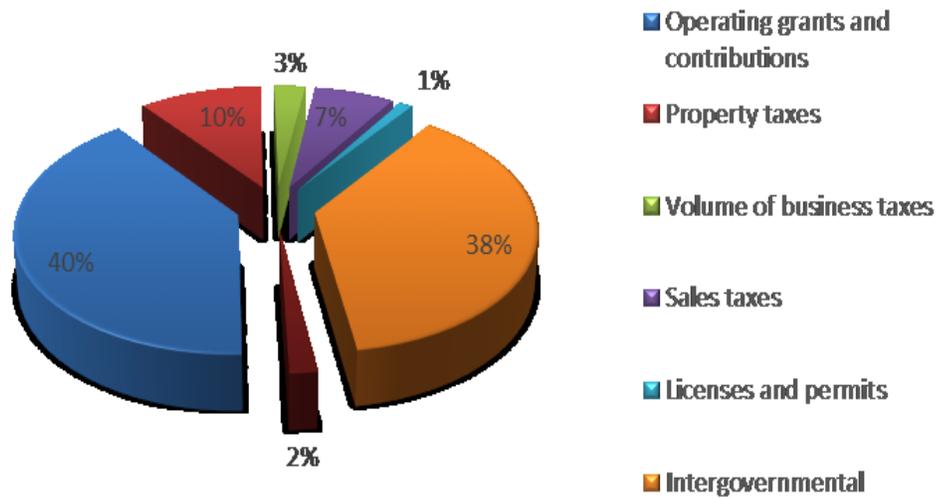
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)
GOVERNMENTAL ACTIVITIES



REVENUES 2014



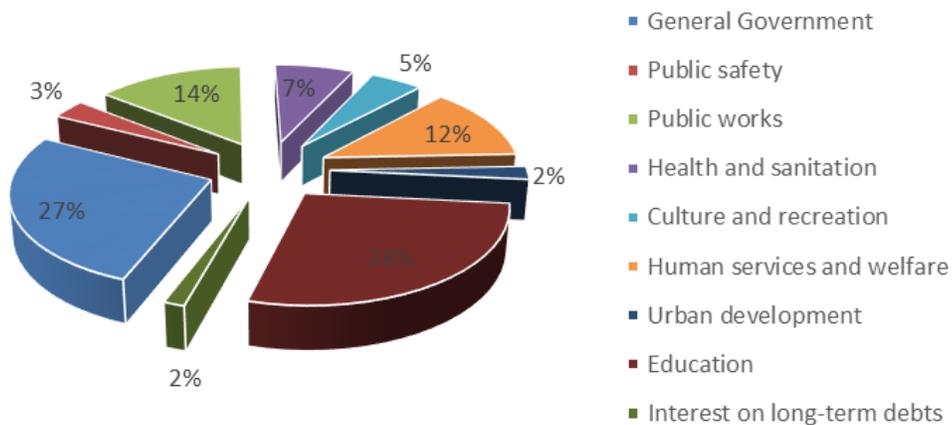
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)
GOVERNMENTAL ACTIVITIES**

EXPENSES 2014



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)

	2014	2013
Assets:		
Total assets – Major Funds	\$ 10,725,996	\$ 14,693,509
Total assets – Other Funds	6,702,180	2,370,566
Combined total assets	17,428,176	17,064,075
Liabilities:		
Total liabilities – Major Funds	5,625,947	6,832,672
Total liabilities – Other Funds	361,294	165,083
Combined total liabilities	5,987,241	6,997,755
Deferred Inflows of Resources:		
Total Inflows – Major Funds	-	-
Fund Balances (As Restated):		
Restricted	14,030,550	12,945,218
Committed	94,158	-
Unassigned	(2,683,773)	(2,878,898)
Combined total fund balances	11,440,935	10,066,320
Total liabilities and fund balances	\$ 17,428,176	\$ 17,064,075

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS (CONTINUED)

<u>Table 4</u> <u>Changes in Fund Balances (in thousands)</u>	<u>2014</u>	<u>2013</u>
Revenues:		
Total revenues – Major Funds	\$ 19,738,924	\$ 21,158,782
Total revenues – Other Funds	3,106,179	1,388,060
Combined total revenues	22,845,103	22,546,842
Expenditures:		
Total expenditures – Major Funds	18,026,261	22,104,423
Total expenditures – Other Funds	3,367,028	3,547,681
Combined total expenditures	21,393,289	25,652,104
Other financing sources (uses):		
Proceed from issuance of bonds		2,390,000
Transfer – In	2,131,615	311,811
Transfer – Out	(2,131,615)	(311,811)
Combined other financing sources (uses), net		2,390,000
Net changes in fund balance	1,451,814	(715,262)
Fund Balance – beginning, as restated	9,989,121	10,781,582
Fund Balance – ending	\$ 11,440,935	\$ 10,066,320

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 \$11,440,935.

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

- \$1,115,384 are restricted to pay debt services;
- \$12,915,166 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, 2014, it showed an unassigned deficit of \$2,589,615. 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, 2014 amounted to \$63,211,525 (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):

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continue)
INVESTMENT IN CAPITAL ASSETS (Continue)**

Table 5 Capital Assets	Amount
Land	6,135,982
Depreciable capital assets	<u>61,005,952</u>
Total Assets	<u>\$ 67,141,934</u>

LONG-TERM DEBT

At June 30, 2014 the Municipality had a total of \$11,044,578 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$9,131,000 comprises debt backed by the full faith and credit of the government and \$1,913,578 are other obligations.

Table 6 Long Term Debts	Amount
General obligations	\$ 9,131,000
Others	<u>1,913,578</u>
Total Long Term Debts	<u>\$ 11,044,578</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

ECONOMIC FACTOR AND NEXT YEAR'S BUDGETS (CONTINUED)

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, 2015, as well as the increases in property and volume of business tax rates that will be in effect for that fiscal year.

FINAL COMMENTS

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

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

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, 2014

	Governmental Activities
ASSETS	
Cash	\$ 11,145,786
Cash with Fiscal Agent	3,529,338
Receivables (net):	
Property Tax	8,032
Sales Tax	117,961
Intergovernmental	26,818
Federal Grants	31,980
	14,859,916
Capital Assets:	
Land, Work of Arts, and Construction in Progress	6,135,982
Other Capital Assets, Net of Depreciation	61,005,952
Total Capital Assets	67,141,934
TOTAL ASSETS	82,001,850
LIABILITIES	
Accounts Payable and Accrued Expenses	1,292,863
Bonds Payable	660,000
Accrued Interest	155,028
Due to Governmental Units	732,154
Unearned Revenues	578,936
Long-Term Liabilities:	
Due within One Year	1,651,847
Due in More than One Year	9,392,731
TOTAL LIABILITIES	14,463,559
NET POSITION	
Invested in Capital Assets, Net of Related Debt	63,211,525
Restricted for:	
Debt Service	1,115,384
Others Purposes	11,108,044
Unrestricted	(7,896,662)
TOTAL NET POSITION	\$ 67,538,291

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Legislature					\$ -
General Government	5,865,642		-		(5,865,642)
Public Safety	718,184		-		(718,184)
Public Works	3,058,657		-		(3,058,657)
Culture and Recreation	1,083,591		-		(1,083,591)
Health and Sanitation	1,634,978		-		(1,634,978)
Human Services and Welfare	2,746,160		2,649,146		(97,014)
Urban Development	486,159		314,822		(171,337)
Education	6,118,877		6,118,877		-
Interest on Long-Term Debt	333,609				(333,609)
Total Governmental Activities	\$ 22,045,857	\$ -	\$ 9,082,845	\$ -	(12,963,012)
General Revenues:					
Taxes:					
Property, levied for General Purposes					1,629,343
Property, levied for Debt Services					685,518
Volume of Business					593,913
Sales, levied for Special Purposes					778,004
Sales, levied for Debt Services					740,663
Intergovernmental					8,532,555
Rent					
Licences and Permits					247,585
Miscellaneous					404,455
Total General Revenues					<u>13,612,035</u>
CHANGE IN NET POSITION					649,023
Net Position - Beginning of Year					<u>66,889,268</u>
NET POSITION - END OF YEAR					\$ <u>67,538,291</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

BALANCE SHEET-GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2014

	MAJOR FUNDS					Total Governmental Funds
	General Fund	State Assignments Fund	Head Start Programs Fund	Debt Service Fund	Other Governmental Fund	
ASSETS						
Cash in commercial banks	\$ 1,894,928	\$ 6,152,679	\$ 7,902	\$ -	\$ 3,090,277	\$ 11,145,786
Cash in fiscal agent	27,641	-	-	1,804,418	1,697,279	3,529,338
Account receivable, net of doubtful accounts:						
Property taxes	-	-	-	8,032	-	8,032
Sales tax	-	-	-	117,961	-	117,961
Due from other funds	261,483	421,601	-	-	1,885,176	2,568,260
Due from Intergovernmental	-	-	-	-	26,818	26,818
Federal Grants	-	-	29,350	-	2,630	31,980
Total assets	\$ 2,184,052	\$ 6,574,280	\$ 37,252	\$ 1,930,411	\$ 6,702,180	\$ 17,428,176
LIABILITIES						
Accounts payable	1,255,611	-	37,252	-	-	1,292,863
Intergovernmental	732,154	-	-	-	-	732,154
Due to other funds	2,306,777	-	-	-	261,483	2,568,260
Unearned Revenues	479,125	-	-	-	99,811	578,936
Matured bonds due and payable	-	-	-	660,000	-	660,000
Matured interests due and payable	-	-	-	155,028	-	155,028
Total liabilities	4,773,667	-	37,252	815,028	361,294	5,987,241
FUND BALANCE						
Fund Balance						
Restricted		6,574,280	-	1,115,384	6,340,886	14,030,550
Committed	94,158	-	-	-	-	94,158
Unassigned	(2,683,773)	-	-	-	-	(2,683,773)
Total fund balances	(2,589,615)	6,574,280	-	1,115,384	6,340,886	11,440,935
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,184,052	\$ 6,574,280	\$ 37,252	\$ 1,930,411	\$ 6,702,180	\$ 17,428,176

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

**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, 2014

Total Fund Balances – Governmental Funds..... **\$ 11,440,935**

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	\$ 6,135,982	
Depreciable Capital Assets	84,922,321	
Accumulated Depreciation	<u>(23,916,369)</u>	
 Total Capital Assets		 67,141,934

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	9,131,000	
Compensated Absences	1,662,721	
Law146	<u>250,857</u>	
 Total Long-Term Liabilities		 <u>(11,044,578)</u>

Total Net Position of Governmental Activities..... **\$ 67,538,291**

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

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

YEAR ENDED JUNE 30, 2014

	MAJOR FUNDS					Total Governmental Funds
	General Fund	State Assignments Fund	Head Start Programs Fund	Debt Service Fund	Other Nonmajor Fund	
REVENUES						
Taxes:						
Property taxes	\$ 1,779,566	\$ -	\$ -	\$ 685,518		\$ 2,465,083
Municipal license	593,913	-	-			593,913
Construction excise taxes	247,585	-	-			247,585
Sales tax	778,004	-	-	740,663		1,518,666
Intergovernmental grants and contributions:						
Federal government		-	6,118,877		2,488,980	8,607,857
State government	7,923,968	474,988	-		608,587	9,007,543
Miscellaneous	395,843	-	-	-	8,612	404,455
Total Revenues	\$ 11,718,878	\$ 474,988	\$ 6,118,877	\$ 1,426,180	\$ 3,106,179	\$ 22,845,103
EXPENDITURES						
Current						
General government	5,905,295	92,363	-		202,813	6,200,471
Urban and economic development		-	-		486,159	486,159
Public safety	653,880	-	-		1,928	655,808
Health and Sanitation	1,600,714	-	-		34,264	1,634,978
Public Works	1,594,916	-	-		247,601	1,842,517
Culture, recreation and education	684,197	-	6,118,877			6,803,074
Welfare and housing assistance	309,410	-	-		2,394,263	2,703,673
Debt service:						
Principal		-	-	733,000	-	733,000
Interest		-	-	333,609		333,609
Capital outlays						
Total Expenditures	10,748,412	92,363	6,118,877	1,066,609	3,367,028	21,393,289
Excess (Deficiency) of Revenues over expenditures	970,466	382,625	-	359,571	(260,849)	1,451,814
OTHER FINANCING SOURCES (USES)						
Transfer in from other funds		-	-	52,408	2,079,207	2,131,615
Transfer out to other funds	(681,183)	-	-	(1,450,432)		(2,131,615)
Total Other Financing Sources (uses)	(681,183)	-	-	(1,398,024)	2,079,207	0
NET CHANGE IN FUND BALANCES (DEFICITS)	289,283	382,625	-	(1,038,453)	1,818,358	1,451,814
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED	(2,878,898)	6,191,655	-	2,153,836	4,522,528	9,989,121
FUND BALANCE AT END OF YEAR	\$ (2,589,615)	\$ 6,574,280	\$ -	\$ 1,115,384	\$ 6,340,886	\$ 11,440,935

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

**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, 2014

Net Change in Fund Balances – Total Governmental Funds..... \$ 1,451,814

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:

Expenditure for Capital Assets.....	234,945	
Less: Depreciation Expense	<u>(1,847,073)</u>	(1,612,128)

Revenues in the Statement of Revenues that correspond to prior year resources are not Recorded as revenue in the Statement of Activities		(150,223)
--	--	-----------

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:

Decrease in Bonds.....	778,000	
Decrease in Law 146	13,937	
Decrease in Compensated Absences	<u>167,623</u>	
Total Additional Expenditures		<u>959,560</u>

Change in Net Position of Governmental Activities \$ 649,023

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTE TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014, 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, 2014 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, 2014, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014, 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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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and, (3) special items.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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.

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.

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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continue)

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014.

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, 2014, 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.

E. Fund Balances

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Balances (Continue)

- ❖ **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, committed 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, 2014.

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, 2014, the accompanying fund financial statements reported fund balances as restricted, committed and unassigned.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgetary Data (Continue)

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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) and so will not be recognized as an inflow of resources (revenue) until that time.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Compensated Absences

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2014.

<u>BALANCE JULY 1, 2013</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS AND CURRENT MATURATES</u>	<u>BALANCE JUNE 30, 2014</u>	<u>CURRENT PORTION</u>	<u>LONG-TERM PORTION</u>
\$ 1,830,344	\$ 810,288	\$ 977,911	\$ 1,662,372	\$ 977,911	\$ 684,810

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 sent 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2013-2014 amounted \$380,232. 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, 2014 amounted to \$381,013.

U. Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2014:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Future Adoption of Accounting Pronouncements (Continue)

- ❖ **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. (fiscal year ended June 30, 2015).
- ❖ **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. (fiscal year ended June 30, 2015).
- ❖ **GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees***. This statement is effective for periods beginning after June 15, 2013. (fiscal year ended June 30, 2015).
- ❖ **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. (fiscal year ended June 30, 2015).

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

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, 2014. Therefore, the Municipality's management has concluded that at June 30, 2014 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 \$1,894,928 in the General Fund, \$7,902 in the Head Start Programs Fund, \$6,152,679 in the State Assignments Fund and the \$3,090,277 in Other Governmental Funds were fully collateralized at June 30, 2014. The deposits at GDB of \$27,641 in the General Fund, \$1,804,418 in the Debt Service Fund, and the \$1,697,279 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 3 – RECEIVABLES (CONTINUE)

A. Property Taxes Receivables (Continue)

Property taxes receivable of \$8,032 in the Debt Service Fund, represents advances from fiscal year 2013-2014, not collected by the Municipality at June 30, 2014.

B. Sales Tax Receivables

As described below in Note 13, 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 \$117,961 in Debt Service Fund, represents the amounts due by the taxpayers at June 30, 2014.

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	\$ 26,818

D. Federal Grants Receivable

Federal grants receivable amounting to \$29,350 Head Start Fund, represents expenditures incurred not yet reimbursed by Office of the Governor, the pass-through agencies. Also, receivables in Other Governmental Funds, amounting \$2,630, 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 Health and Human Services	\$29,350
Office of Energy Affairs Administration of Commonwealth of Puerto Rico	<u>2,630</u>
Total	<u>\$ 31,980</u>

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 3 – RECEIVABLES (CONTINUED)

E. Due From Other Funds

Interfund receivables and payables at June 30, 2014 are summarized as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Other Governmental Funds	Payroll and reimbursable expenditures	\$ 261,483
Other Governmental Funds	General Fund	Interfund Loans	1,885,176
State Assignment Funds	General Fund	Interfund Loans	<u>421,601</u>
Total			<u>\$ 2,568,260</u>

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 2014, 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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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Governmental Activities	Balance July 1, 2013	Adjustments	Additions	Retirements / Reclassifications	Balance June 30, 2014
Capital asset, not being depreciated:					
Land	\$ 6,135,982	\$ -	\$ -	\$ -	\$ 6,135,982
Work of Art			-	-	-
Construction in progress	<u>637,073</u>	<u>-</u>	<u>-</u>	<u>637,073</u>	<u>-</u>
Total capital assets not being depreciated	<u>6,773,055</u>	<u>-</u>	<u>-</u>	<u>637,073</u>	<u>6,135,982</u>
Capital assets, being depreciated:					
Buildings and Building Improvements	11,843,352	-	-	-	11,843,352
Improvements		-	-	-	-
Infrastructure	66,873,826	-	637,073	-	67,570,899
Machinery and equipment	1,891,915	-	9,950	-	1,901,865
Motor vehicles	<u>3,441,210</u>	<u>-</u>	<u>224,995</u>	<u>-</u>	<u>3,666,205</u>
Total capital assets being depreciated	<u>84,050,303</u>	<u>-</u>	<u>872,018</u>	<u>-</u>	<u>84,922,321</u>
Less accumulated depreciation for:					
Buildings and Building Improvements	(5,606,585)	-	(254,459)	-	(5,861,044)
Improvements	-	-	-	-	-
Infrastructure	(12,435,597)	357,192	(1,374,778)	-	(13,453,183)
Machinery and equipment	(1,602,355)	-	(66,615)	-	(1,668,670)
Motor vehicles	<u>(2,781,951)</u>	<u>-</u>	<u>(151,521)</u>	<u>-</u>	<u>(2,933,472)</u>
Total accumulated depreciation	<u>(22,426,488)</u>	<u>357,192</u>	<u>(1,847,073)</u>	<u>-</u>	<u>(23,916,369)</u>
Total capital assets being depreciated, net	<u>61,623,815</u>	<u>357,192</u>	<u>(975,055)</u>	<u>-</u>	<u>61,005,952</u>
Governmental activities capital assets, net	<u>\$ 68,396,870</u>	<u>\$ -</u>	<u>\$ (975,055)</u>	<u>\$ -</u>	<u>\$ 67,141,934</u>

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

Governmental activities	Amount
General government	\$ 126,676
Public Safety	62,376
Public Works	1,216,140
Culture and Recreation	399,393
Human services and welfare	<u>42,487</u>
Total depreciation expenses	<u>\$ 1,847,073</u>

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable and accrued expenses liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2013-2014, and not paid by the Municipality at June 30, 2014. Following is a detail of these accounts payable and accrued liabilities:

Major Governmental Funds	Accounts Payable
General Fund	\$ 1,255,611
Head Start Programs Fund	<u>37,252</u>
Total	\$ 1,292,863

NOTE 6 – 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, 2014, the government-wide and fund financial statements presented accounts payable regarding to the outstanding balance of these bond and notes in the amount of \$660,000 and accrued interests of \$155,028.

NOTE 7 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2014, balance due to other governmental units consists of the following:

Governmental Agency	Amount
State Aqueduct and Sewer Authority	\$327,277
Municipal Revenue Collection Center	292,034
Employee's Retirement System of the Government of Puerto Rico	112,843
Total	\$ 732,154

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 – UNEARNED REVENUES

A. Volume of business tax – unearned revenues of \$479,125 in the General Fund relates to volume of business taxes collected in fiscal year 2013-2014 that will be earned in fiscal year 2014-2015.

B. Federal Grants – unearned revenues presented in the Head Start Grant Funds in the amount of \$32,157 and Other Fund Non Major in the amount of \$99,811, represents the portion of federal grants received for which qualifying expenditures have not been incurred.

NOTE 9 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2014, was as follows:

Description	Beginning Balance- as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$ 9,909,000	\$ -	\$ 778,000	\$ 9,131,000	\$ 660,000
Property Tax Debt – Law 146	264,794	-	13,936	250,897	13,936
Compensated absences	1,830,344	810,288	977,911	1,662,721	684,810
Total	\$ 12,004,138	\$ 810,288	\$ 1,769,847	\$ 11,044,578	\$ 1,651,847

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 – 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, 2014, 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	\$ 400,000
\$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	55,000
\$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	135,000
\$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	240,000
\$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	820,000
\$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	117,000
\$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	239,000
\$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	1,100,000

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES (CONTINUED)

Bonds and notes payables as of June 30, 2014, 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	\$ 95,000
\$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	55,000
\$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	100,000
\$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	60,000
\$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	3,405,000
\$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	335,000
\$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	90,000
\$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	1,225,000
\$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	<u>660,000</u>
Total General Obligations – Bonds	<u><u>\$ 9,131,000</u></u>

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 – GENERAL LONG-TERM DEBTS (CONTINUED)

B. BONDS AND NOTES AMORTIZATION

The annual requirements to amortize the general obligations outstanding as of June 30, 2014 are as follows:

Year Ending June 30,	Principal Payment	Interest Payment	Total
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	448,000	445,695	893,695
2020-2024	2,102,000	1,813,488	3,915,488
2025-2029	1,917,000	1,183,088	3,100,088
2030-2034	1,655,000	497,812	2,152,812
2035-2039	<u>580,000</u>	<u>107,425</u>	<u>687,425</u>
Total	<u>\$ 9,131,000</u>	<u>\$ 6,152,584</u>	<u>\$ 15,283,584</u>

C. COMPENSATED ABSENCES

The government-wide statement of net position includes \$1,662,721 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

NOTE 10 – 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 11 – 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, 2014 was 6.83%.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 11 – 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, 2014 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.

On December 9, 2013, Law No. 145 "Getting Caught Up with Past Due CRIM Taxes – Incentive Plan for the Payment of Due Taxes" was approved granting an amnesty from the payment of interest, surcharges and penalties on real and personal property taxes owed from the fiscal years prior to 2013-2014. This amnesty/incentive plan was available from December 18, 2013 to March 27, 2014. This plan also awarded CRIM the faculty to grant payment plans to taxpayers up to a maximum of four years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 12 – 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, 2014, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers. Any taxpayers 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 8).

NOTE 13 – 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 13 – SALES TAXES (CONTINUED)

On June 30, 2013, the Commonwealth approved Act No. 40 which among other things, reduces the municipal sales and use tax from 1.5% to 1% and increasing the Commonwealth sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

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

Act No. 18 of January 24, 2014

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

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

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

After July 1, 2014, the 6% corresponding to the Commonwealth’s sales and use tax will be deposited in COFINA. From these funds the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act’s provisions. The Municipality of Salinas signed the agreement to be covered.

For municipalities covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities has the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 13 – SALES TAXES (CONTINUED)

- 1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

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

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

Act No. 19 of January 24, 2014

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

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

NOTE 14 – 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 15 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended at June 30, 2014, are summarized as follows:

Transfer Out	Transfer In	Purpose	Amount
General Fund	Debt Service Fund	To cover bond principal and interest payments	\$ 52,408
General Fund	Other Governmental Funds	Budget specific project funding	628,755
Debt Service Fund	Other Governmental Funds	To specific project funding	<u>1,450,432</u>
Total			<u>\$ 2,131,615</u>

NOTE 16 – EMPLOYEE'S RETIREMENT PLAN

A. Act 447 and System 2000 (until June 30, 2013)

As of June 30, 2014 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The system operates under *Act 447, approved on May 15, 1951* effective on January 1, 1952 and *Act 1 of February 16, 1990* for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Act No. 305 of September 24, 1999 amended *Act No. 447 of 1951* and *Act 1 of February 16, 1990* to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan. There would be a pool of pension assets, which would be invested by the System, together with those

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 16. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account.

The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was \$10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

The Act 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 11.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

B. Act 3 of 2013 (beginning July 1, 2013)

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").
- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.
- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.
- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 16. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.
- Increased employee contributions from 8.275% to a minimum of 10.000%.
- After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.
- Retirement age was modified as follows:
 - Act 447 regular employees: age 58 to 61,
 - Act 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
 - Act 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).

Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).

- Due to changes to Special Laws (see note 15), the minimum monthly pension for current retirees was increased from \$400 to \$500.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 (\$5,000 x .25%).
- Survivor benefits were modified.

The total pension expenditures recorded in the category of administration for the fiscal year ended on June 30, 2013 and 2014 were, approximately, \$400,357 and \$346,387 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.

C. Act 32 of 2013 (beginning July 1, 2013)

On June 25, 2013, Act 32 was approved in order to amend Act 447 of 1957 by creating a new Article 5-117 *Additional Uniform Contribution (AUC)*, with the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 16. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

Act 32 defines the concept of the AUC as follows:

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars (\$140,000,000)
- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars (\$1,000,000,000). If, for any fiscal, the certified AUD is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year.

For the fiscal year 2013-2014, \$41.142 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)). The subsidy received by the Municipality covered in its entirety the expenditure of the AUC in the amount of \$131,718.

NOTE 17. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 16, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits.

However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from \$600 to \$200 (current retirees),
- Elimination of summer bonus of \$100 (current retirees),
- No change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 (current retirees)
- Eliminated all Special Law benefits to future retirees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 17. POSTEMPLOYMENT BENEFITS (CONTINUED)

Act 3 also established that employers will contribute \$2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

For the fiscal year 2013-2014, \$20 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of net incremental cost of the \$2,000 contribution per retiree for any municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on the same two parameters evaluated for the Additional Uniform Contribution (AUC) subsidy (financial indicators and population).

NOTE 18- 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

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2014, these programs are still subject to financial and compliance audits by the granting agencies. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, not to be material.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 19 – FUND BALANCE (DEFICIT)

As of June 30, 2014, the fund balance (deficit) classifications are as follows:

Fund Balance	General Fund	Head Start Programs Fund	State Assignment Fund	Debt Service Fund	Other Governmental Fund	Total
Committed for:						
General Government	36,860					
Public Works	54,533					
Culture and Recreation	2,765					
Restricted for:						
General Government	-	-	-	-	653,168	690,028
Public Safety	-	-	-	-	7,634	7,634
Public Works	-	-	-	-	89,504	144,037
Human Services and Welfare	-	-	-	-	353,010	353,010
Urban Development	-	-	6,574,280	-	5,101,909	11,703,830
Culture and Recreation	-	-	-	-	-	2,765
Education	-	-	-	-	-	-
Health & Sanitation	-	-	-	-	135,661	135,661
Debt Service	-	-	-	1,115,384	-	1,115,384
Unassigned	<u>(2,683,773)</u>	-	-	-	-	<u>(2,711,414)</u>
Total Fund Balance	<u>\$(2,589,615)</u>	<u>\$ -</u>	<u>\$6,574,280</u>	<u>\$1,115,384</u>	<u>\$6,340,886</u>	<u>\$ 11,440,935</u>

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 20 – 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	General Fund	HUD Programs Fund	State Assignment Fund	Debt Service Fund	Other Non Major Funds	Total Governmental Funds
Fund balance, beginning	(\$2,878,898)	-	\$6,191,655	\$2,153,836	\$4,599,727	\$10,066,320
Error in prior year bonds payable					77,199	77,199
Transfer from General Fund to creation of Special funds in prior year						
Fund balance, beginning as restated	(\$2,878,898)	-	<u>\$6,191,655</u>	<u>\$2,153,836</u>	<u>\$4,522,528</u>	<u>\$9,989,121</u>

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	66,609,275
Fund Balance Restatements	279,993
Net position, beginning as restated	66,889,268

NOTE 21 – ACCUMULATED DEFICIT

The Municipality has an accumulated deficit of \$2,589,615 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 2014-2015 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 2014-2015. Also, the Municipality is identifying other intergovernmental revenues available by the State agencies, which can be used by the Municipality to cover operational costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 22 – SUBSEQUENT EVENTS

A. Implementation of Acts 18 and 19 of 2014

The dispositions established by Acts 18 and 19 of 2014 related to the municipal sales and use tax became effective on July 1, 2014 (see note 3). The most significant changes are the creation of the Municipal Finance Corporation (COFIM) and, for the municipalities covered by these Acts, the new collection method of the 1% municipal sales and use tax and the establishment of a monthly advances system for the transfers of the .2% destined for the Municipal Development Fund (FDM) and of the .2% related to the Municipal Redemption Fund (FRM).

For those municipalities that signed the agreement to be covered by these Acts (including the Municipality of Utuado, the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM and FRM with the monthly advances made to each municipality. If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act 19, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and, thereafter, 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the FRM as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act.

On September 1, 2014, the sixteen municipalities that collect their sales and use tax through the P.R. Department of Treasury (Aguadilla, Aibonito, Arroyo, Barranquitas, Ciales, Culebra, Hatillo, Juncos, Lajas, Lares, Maricao, Maunabo, Naguabo, Patillas, Peñuelas and Rincon) began participating on a pilot program for the collection of the 1% municipal sales and use tax through COFIM. In this program, a standard monthly sales and use tax return was created to be used by the retailers of these municipalities. The monthly returns were filed in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico (BPPR). BPPR would electronically process the returns and submit their data to COFIM. However, beginning November 1, 2014, the retailers also had the option of using COFIM's internet portal to electronically file and pay the return.

On the other hand, the Governing Board of COFIM has not established an implementation date for the remaining 62 municipalities. However, for those municipalities that voluntarily decided to use COFIM's internet portal or collection process through the BPPR, their implementation date was December 1, 2014. For those municipalities that want to be certified as collection agents for COFIM, the implementation date is January 1, 2015. As collection agents for COFIM, the retailers of these municipalities have the option of filing and paying the monthly sales and use tax in the municipality's Collection Office. The Collection Office's personnel have the responsibility to deposit the daily sales and use tax collections in the bank account designated by COFIM, and also submit electronically the returns' data to the agency for processing in COFIM's database.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows)				
Property Taxes	\$ 1,811,539	\$ 2,071,600	\$ 2,071,600	\$ -
Volume of Business Taxes	651,000	\$ 591,759	593,913	2,154
Sales Tax	679,500	\$ 777,475	778,004	528
Intergovernmental Revenues	7,624,103	\$ 7,742,003	7,742,003	(0)
License and Permits	457,000	\$ 247,135	247,585	450
Rent	175,000	\$ 166,908	165,858	(1,050)
Miscellaneous	214,137	\$ 229,799	229,986	187
Total Resources (Inflows)	<u>11,612,279</u>	<u>11,826,678</u>	<u>11,828,947</u>	<u>2,270</u>
Charges to Appropriations (Outflows)				
Mayor and Municipal Legislature	718,260	661,060	571,231	89,829
General Government	4,566,031	4,632,501	5,097,561	(465,060)
Public Safety	804,785	667,985	653,880	14,105
Public Work	1,391,485	1,546,464	3,254,815	(1,708,351)
Culture and Recreation	824,710	728,570	708,557	20,013
Health and Sanitation	2,617,189	2,417,595	-	2,417,595
Education	264,411	247,121	243,400	3,721
Human Services and Welfare	367,408	299,543	189,247	110,295
Transfer Out	58,000	625,839	681,182	(55,343)
Total Charges to Appropriations	<u>11,612,279</u>	<u>11,826,678</u>	<u>11,399,874</u>	<u>426,804</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 429,074</u>	<u>\$ 429,074</u>

Reconciliation of differences:

Sources/inflows of financial resources:

Actual amounts (budgetary basis) "available for appropriations"
from the budgetary comparison schedule

\$ 11,828,947

Differences - budgetary basis to GAAP:

Differences in bases of accounting:

GAAP adjustment to revenues

(110,069)

Total revenues and as reported on the statement of
revenues, expenditures and changes in fund balances

\$ 11,718,878

Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appropriations"
from the budgetary comparison schedule (including transfer out to other funds)

\$ 11,399,874

Differences - budgetary basis to GAAP:

Timing differences:

Current year encumbrances recorded as expenditures for budgetary purposes

(1,178,918)

Prior year encumbrances recorded as expenditures for GAAP purposes

Entity differences:

Non-budgeted transfers to other funds

(681,183)

Non-budgeted expenditures

1,208,639

Total expenditures and transfer out to other funds as reported on the
statement of revenues, expenditures and changes in fund balances

\$ 10,748,412

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

NOTES TO THE BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2014

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, 2014 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2014.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

FINANCIAL DATA SCHEDULE

YEAR ENDED JUNE 30, 2014

Balance Sheet	June,	14.871 Housing
30 2014		Choice
		Vouchers
111 Cash - Unrestricted		\$179,715
113 Cash - Other Restricted		\$128,398
100 Total Cash		<u>\$308,113</u>
150 Total Current Assets		<u>\$308,113</u>
290 Total Assets and Deferred Outflow of Resources		<u>\$308,113</u>
509.3 Restricted Fund Balance		\$179,715
512.3 Unassigned Fund Balance		\$128,398
513 Total Equity - Net Assets / Position		<u>\$308,113</u>
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net		<u><u>\$308,113</u></u>

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

FINANCIAL DATA SCHEDULE

YEAR ENDED JUNE 30, 2014

Revenue and Expense Summary June,30,2014	14.871 Housing Choice Vouchers
70600 HUD PHA Operating Grants	\$1,113,300
70000 Total Revenue	\$1,113,300
91100 Administrative Salaries	\$173,695
91900 Other	\$26,092
91000 Total Operating - Administrative	\$199,787
96900 Total Operating Expenses	\$199,787
97000 Excess of Operating Revenue over Operating Expenses	\$913,513
97300 Housing Assistance Payments	\$1,008,497
97350 HAP Portability-In	\$23,178
90000 Total Expenses	\$1,231,462
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	(\$118,162)
11030 Beginning Equity	\$475,946
11040 Prior Period Adjustments, Equity Transfers and Correction	(\$49,671)
11170 Administrative Fee Equity	\$128,398
11180 Housing Assistance Payments Equity	\$179,715
11190 Unit Months Available	2364
11210 Number of Unit Months Leased	2236

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

NOTES TO THE FINANCIAL DATA SCHEDULE

YEAR ENDED JUNE 30, 2014

NOTE A: BASIS OF PRESENTATION

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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	\$ 571,095
Total U.S. Department of Agriculture			571,095
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Section 8- Housing Choice Vouchers	14.871	RQ-033	1,113,300
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	580,050
Total U.S. Department of Housing and Urban Development			1,693,350
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	1,928
Total U.S. Department of Justice			1,928
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	166,523
Total U.S. Department of Homeland Security:			166,523

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE		
Direct Programs:		
Early Head Start	93.600	02CH5004/01 02CH5004/02 458,945
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 5,659,931
Total U.S. Department of Health and Human Services:		<u>6,118,877</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 8,551,772</u>

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, 2014

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, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated May 28, 2015. The report on the governmental funds financial statements was unmodified. In addition, the report on the governmental –wide financial statement has a disclaimer opinion because we were unable to obtain sufficient and competent evidential matter related to capital assets.

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.



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

(Continued)

Internal Control Over Financial Reporting (Continued)

We consider the deficiency described in finding 14-001 included in the accompanying *Schedule of Findings and Questioned Costs* to be material weaknesses. There were no significant deficiency as described in the accompany Schedule of Findings and Questioned Costs.

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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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. P.S.C

TORRES-FRED & CO, PSC
CERTIFIED PUBLIC ACCOUNTANT
VILLALBA, PUERTO RICO
MAY, 28, 2015



The stamp number E153868 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, 2014. 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, 2014.



**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**

(continued)

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 2014-002 through 2014-013. 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 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 did not identify any deficiencies in internal control over compliance that we consider 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.



**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**

(continued)

Report on Internal Control Over Compliance (continued)

We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-002 through 2014-013 to be significant deficiencies.

Municipality's Response to Findings

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. P.S.C.

**TORRES-FRED & CO, PSC
CERTIFIED PUBLIC ACCOUNTANT
VILLALBA, PUERTO RICO
MAY 28, 2015**



The stamp number E153869
was affixed to the original of this report.



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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Section I. Summary of Auditor's Results:

Part I. Financial Statements

1. Type of Auditor's report issued:

- Governmental – Wide Financial Statements
- Governmental – Fund Financial Statements

Disclaimer
Unmodified

2. Material weakness(es) identified?

YES NO

3. Significant deficiency(ies) identified?

YES NO

4. Noncompliance material to financial statements noted?

YES NO

Part II. Federal Awards

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

- | | |
|-------------------------------------|--------------------|
| <input checked="" type="checkbox"/> | Unmodified Opinion |
| <input type="checkbox"/> | Qualified Opinion |
| <input type="checkbox"/> | Adverse Opinion |
| <input type="checkbox"/> | Disclaimer Opinion |

2. Material weakness(es) identified?

YES NO

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Part II. Federal Awards (Continued)

3. Significant deficiency(ies) identified?

YES

NO

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

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

10.558

Child and Adult Care Food Program

93.600

Head Start

93.600

Early Head Start

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

7. Auditee qualified as Low-risk auditee?:

YES

NO

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION II – Financial Statements Finding and Questioned Costs

FINDING	2014-001
CATEGORY	INTERNAL CONTROL
NONCOMPLIANCE	CAPITAL ASSETS
TOPIC SENTENCE	Fixed/ Capital Assets and Expenditures – Accounting Record
CONDITION	<p>At June 30, 2014, the Municipality does not have an effective system to account for fixed/ capital assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. These Capital Assets should be reported according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality has not performed periodical physical inventories of its Capital Assets during the last two fiscal years. This finding is repeated from prior years.</p> <p>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.</p>
CRITERIA	<p>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 <i>Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments</i> 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, <i>Accounting and Financial Reporting of Impairments of Capital Assets and for Insurance Recoveries</i>, 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, <i>Accounting and Financial Reporting for Intangible Assets</i> require that all intangible assets not specifically excluded by its scope provisions be classified as capital assets.</p>
CAUSE	<p>The Municipality did not maintain an adequate control of the accountability of its capital assets. Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION II – Financial Statements Finding and Questioned Costs

FINDING	2014-001 (CONTINUED)
EFFECT	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in net position of the Municipality.
RECOMMENDATION	We recommend management and the Property Division of the Municipality to make an inventory of the capital assets and reconcile with the capital assets subsidiary ledger. In addition, the Municipality should implement adequate internal control procedures to improve the accountability of its capital assets. 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.
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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-002
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	<p>The Community Development Block Grant Program (CDBG) does not have adequate controls over the timing of disbursements once federal funds are received.</p> <p>During the fiscal year 2013 - 2014, the Municipality received approximately \$482,000. 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 \$366,130 (76%). The time elapsed between the receipt and the disbursement of such funds was from eight to 17 days.</p>
CRITERIA	<p>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.</p> <p>OCAM's Agreement provision 17(b) establishes that the Municipality will not keep on hand the money seized from OCAM for no more than three days period.</p>
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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-002 (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, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING 2014-003

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, 2014 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-62-003	\$ 51,170.00	\$ 51,053.54	\$ 116.46
Adm FC 2008	40,958.74	37,793.12	3,165.62
08-AB-62-002	52,500.00	55,735.73	(3,235.73)
Adm AB 2008	63,000.80	61,876.76	1,124.04
09-FC-62-001	257,663.81	216,269.00	41,394.81
09-FC-62-002	81,365.61	84,298.13	(2,932.52)
09-FC-62-003	54,082.38	62,183.52	(8,101.14)
Adm FC 2009	101,511.00	99,529.69	1,981.31
09-AB-62-002	52,500.00	47,738.60	4,761.40
Adm AB 2009	62,783.39	61,957.40	825.99
10-FC-62-001	275,657.12	281,759.42	(6,102.30)
10-FC-62-002	92,526.85	102,887.39	(10,360.54)
10-FC-62-003	90,807.99	91,496.88	(688.89)
Adm FC 2010	108,028.46	108,187.51	(159.05)
10-AB-62-001	217,152.30	211,050.00	6,102.30
10-AB-62-002	52,085.51	47,269.08	4,816.43
Adm AB 2010	61,522.30	60,655.07	867.23
11-FC-62-002	48,410.11	48,277.71	132.40
11-FC-62-003	55,145.83	51,371.20	3,774.63
Adm FC 2011	50,178.96	78,661.89	(28,482.93)
11-AB-62-002	42,370.80	41,572.50	798.30
Adm AB 2011	59,015.02	58,106.85	908.17
Adm FC 2012	5,000.00	24,002.84	(19,002.84)
Adm AB 2012	5,000.00	54,110.48	(49,110.48)
13-AB-62-004	14,800.84	-	14,800.84

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-003 (CONTINUED)
	2008 Disaster Recovery Funds expenditures as of June 30, 2014 were \$235,594 and such expenditures were not reported to OCAM on the quarterly report.
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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-004
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	<p>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:</p> <ul style="list-style-type: none">- 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	<p>24 CFR 85.32(d) establishes that procedures for managing equipment will, as a minimum, meet the following requirements:</p> <p>(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</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	<p>2014-004 (CONTINUED)</p> <p>ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.</p> <p>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 subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.</p> <p>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.</p>
CAUSE	<p>The Municipality has inadequate internal control procedures that guarantee adequate records, registering and safeguarding of property and equipment.</p>
EFFECT	<p>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.</p> <p>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.</p>
RECOMMENDATION	<p>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.</p>
QUESTIONED COSTS	<p>None</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-004 (CONTINUED)
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 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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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-005
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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-005 (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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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-006
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	<p>During the fiscal year 2013-2014, the Community Development Block Grant Program (CDBG) expended approximately \$105,000 in residential rehabilitation for low and moderate income families. Such amount represents approximately 22% of total Program fiscal year expenditures.</p> <p>In order to test compliance with the rehabilitation special test requirement we selected for testing three beneficiaries' files which rehabilitation costs amount approximately \$70,200 or 69% of the fiscal year rehabilitation expenditures. After performing the test we noted the following deficiencies:</p> <ul style="list-style-type: none">- 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.- Two of the three (66%) beneficiaries' files examined never formed part of the list of people who had requested assistance.
CRITERIA	<p>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.</p> <p>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.</p>
CAUSE	Lack of an adequate supervision over the duties performed by the personnel in charge of the rehabilitation program.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-006 (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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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-007
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	<p>In testing compliance with the procurement requirement, we requested the procurement files and related documents of the following two auctions:</p> <ul style="list-style-type: none">• Asphalt general auction for the fiscal year 2012-2013.• Construction materials general auction for the fiscal year 2011-2012. <p>The award of these two auctions resulted in granted contracts of approximately \$330,500.</p> <p>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.</p>
CRITERIA	<p>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.</p>
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.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-007 (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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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-008
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	<p>Section 8 Housing Choice Voucher Program does not have adequate controls over the timing of disbursements once federal funds are received.</p> <p>During the fiscal year 2013 - 2014, the Municipality received approximately \$1,087,279 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 \$326,947 (30%). The time elapsed between the receipt and the disbursement of such funds was for more than a month. Monthly cash bank accounts balances during the fiscal year were between \$289,000 to \$520,000.</p>
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-008 (CONTINUED)
QUESTIONED COSTS	None.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	In order for this problem to be resolved in a more efficient manner we have contacted personnel from the Finance Department of the Municipality of Utuado and will be seriously considering implementing direct deposit to all Section 8 participant (landlords & tenants). The implementation of direct deposit is not only cost effective but will also solve the problem of cash management. We will also be revising all payment procedures to ensure effectiveness within document intervention and timely payment.
RESPONSIBLE PERSON	Mr. Jorge Collazo Rivera 787-814-0868

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

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SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-009
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CATEGORY	COMPLIANCE
NONCOMPLIANCE	ALLOWABLE COSTS / COST PRINCIPLE
TOPIC SENTENCE	Incorrect determination of Housing Assistance Payment
CONDITIONS	<p>From approximately 180 Section 8 Housing Choice Voucher's participants receiving housing assistance payment (HAP) during the fiscal year 2013-2014, we selected for testing 30 participants' files (17%) to evaluate participant's income eligibility.</p> <p>The test revealed that the calculated HAP amounts for two out of 30 participants examined (7%) were incorrect since "Payment Standards Amounts" (PSA) used to determine HAP amounts were incorrect.</p>
CRITERIA	<p>The foregoing condition is not in accordance with 24 CFR 982.505 (a) to (c) which establish that a payment standard is used to calculate the monthly housing assistance payment for a family. The "payment standard" is the maximum monthly subsidy payment. The PHA shall pay a monthly housing assistance payment on behalf of the family that is equal to the lower of: (1) The payment standard for the family minus the total tenant payment; or (2) The gross rent minus the total tenant payment. The payment standard for the family is the lower of: (i) The payment standard amount for the family unit size; or (ii) The payment standard amount for the size of the dwelling unit rented by the family.</p>
CAUSE	Incorrect PSA was used when computing HAP amount.
EFFECTS	<p>The improper use of a Payment standard amount (PSA) could cause that housing assistance payment (HAP) and negative rent amounts could be incorrectly determined and the Program might be making payments in excess or below the corresponding amounts. That may expose the Municipality to cost disallowance and adversely affect the Municipality's ability to be awarded with future funds.</p>

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MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-009 (CONTINUED)
RECOMMENDATION	At the moment of calculating HAP amounts, Program's personnel should adhere to the policies and procedures established by HUD approved Program's Administrative Plan and applicable federal laws and regulations.
QUESTIONED COSTS	Since questioned cost threshold of \$25,000 was not exceeded, questioned costs were not determined.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>We have commenced means of repayment for the amounts paid in excess in both cases. Nevertheless, please take note that these two errors were noticed and corrected at a later date and corresponding payment standards were applied.</p> <p>Although, these two cases were a small percentage of the files reviewed, we are more alert as to the importance and severity of this mishap and have taken measures as to corroborate that proper amounts have been applied and calculations are correct. We will be performing quality control over this matter.</p>
RESPONSIBLE PERSON	Mr. Jorge Collazo Rivera 787-814-0868

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-010
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 monthly HAP 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
7/31/2013	\$ 75,563.46	\$ 84,107.00	\$ 8,543.54
8/31/2013	87,592.90	83,342.00	(4,250.90)
9/30/2013	78,298.50	82,544.00	4,245.50
10/31/2013	151,525.40	80,814.00	(70,711.40)
11/30/2013	4,725.65	80,036.00	75,310.35
12/31/2013	92,379.95	79,255.00	(13,124.95)
1/31/2014	2,989.10	78,848.00	75,858.90
2/28/2014	153,170.05	77,008.00	(76,162.05)
3/31/2014	68,959.95	76,727.00	7,767.05
4/30/2014	80,467.19	75,736.00	(4,731.19)
5/31/2014	64,752.82	73,470.00	8,717.18
6/30/2014	148,072.14	73,100.00	(74,972.14)
	<u>\$ 1,008,497.11</u>	<u>\$ 944,987.00</u>	<u>\$ (63,510.11)</u>

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.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-010 (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 reconcile against Municipality's electronic accounting system, 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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-011
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	DAVIS-BACON ACT
TOPIC SENTENCE	Non-Compliance with Davis-Bacon Act
CONDITION	<p>During the fiscal year 2013-14, the Head Start program granted contracts amounting approximately \$200,000 for the renovations and repairs of various Head Start Centers.</p> <p>We noted that Program's staff did not visit the Head Start centers where improvements and repairs were made nor interviewed the personnel who worked in these locations to ensure that the Contractor was complying with the Davis-Bacon Act requirements. Copies of weekly payrolls reports, statements of compliance, on-site visits reports and other related forms were not requested to the contractors or prepared during the development of the projects in order to determine that all employed laborers were paid according to the wages and salaries established by Federal Department of Labor.</p>
CRITERIA	Davis-Bacon Act, as amended (40 USC 276a), establishes that contractors and subcontractors must pay their laborers and mechanics employed under the contract no less than the locally prevailing wages and fringe benefits for corresponding work on similar projects in the area.
CAUSE	Municipality did not develop an adequate monitoring system to ensure contractors and subcontractors compliance with the Act. Laborers must be interviewed by Program's staff at the beginning, at a middle stage and at the end of the project.
EFFECT	As a result of this deficiency, the Municipality could have procured services from an organization that is not complying with the applicable Department of Labor regulations and could result in cost disallowances by the federal awarding agency.
RECOMMENDATION	We recommend management to develop a monitoring system that includes obtaining prevailing wage rates from the Department of Labor, the assignment of specific responsibility to one municipal employee to monitor contractors and subcontractors for compliance, obtaining contractor's payrolls and perform the interviews to contractor's and subcontractor's laborers accordingly to the established requirements.

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MUNICIPALITY OF UTUADO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-011 (CONTINUED)
QUESTIONED COSTS	None.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	Besides adding Davis Bacon Act provision to contracts granted with Federal funds, we will be visiting projects sites in order to interview Contractor's employees regarding salaries' hourly rates and filling applicable forms. In addition, we will be requesting certified Contractor's weekly payroll to comply with Davis Bacon Act regulation.
RESPONSIBLE PERSON	Mrs. Yolanda Hernández Maldonado 787-894-9191

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO
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YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-012
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	<p>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:</p> <ul style="list-style-type: none">- 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.- Real property general ledger account balance (\$282,212) was not reported in the property and equipment annual report as of February 28, 2014.- 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, 2014 a physical inventory of all property and equipment had not been conducted.
CRITERIA	<p>45 CFR 92.32(d) establishes that procedures for managing equipment will, as a minimum, meet the following requirements:</p> <ol style="list-style-type: none">(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;

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO
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YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-012 (CONTINUED) (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. 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 subgrantees 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.

COMMONWEALTH OF PUERTO RICO
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MUNICIPALITY OF UTUADO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING 2014-012 (CONTINUED)

QUESTIONED COSTS None

MANAGEMENT RESPONSE
AND CORRECTIVE ACTION
PLAN

Physical inventory will be taken and reconciled against property subsidiary and general ledger accounts balance. We will be written off all equipment not found as part of the physical inventory. Property subsidiary, including equipment, vehicles and real property will be reconciled against general ledger capital assets accounts. Head Start's staff will be oriented regarding the use and transfer of property under their control. Receipt, transfer and requisition forms will be used to maintain adequate control over all property and equipment acquired with federal funds. All property will be registered and adequately numbered.

RESPONSIBLE PERSON Mrs. Yolanda Hernández Maldonado
787-894-5127

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COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO
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SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-013
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	PROCUREMENT
TOPIC SENTENCE	Lack of Federal Contracts Provisions
CONDITION	<p>As part of the evaluation of contracts granted during the fiscal year 2013-14, we examined six contracts granted to different contractors amounting approximately \$200,000 for the renovations and repairs of various Head Start Centers.</p> <p>We noted that six of the six contracts examined (100%) did not contain the following Federal contract provisions required by federal regulations:</p> <ul style="list-style-type: none">• Compliance with Executive Order 11246 of September 24, 1965, entitled “Equal Employment Opportunity,”;• Compliance with the Copeland “Anti-Kickback” Act;• Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.
CRITERIA	<p>45 CFR 92.36(i) establishes that a grantee’s and subgrantee’s contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy.</p> <p>(3) Compliance with Executive Order 11246 of September 24, 1965, entitled “Equal Employment Opportunity,” as amended by Executive Order 11375 of October 13, 1967, and as supplemented in Department of Labor regulations. (All construction contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees).</p> <p>(4) Compliance with the Copeland “Anti-Kickback” Act (18 U.S.C. 874) as supplemented in Department of Labor regulations (29 CFR Part 3). (All contracts and subgrants for construction or repair).</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPALITY OF UTUADO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION III – Federal Award Findings and Questioned Costs

FINDING	2014-013 (CONTINUED)
	(11) Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.
CAUSE	The staff responsible for preparing the contracts had no knowledge of the applicable federal regulations which require that such provisions must be included on those contracts granted with federal funds.
EFFECT	Non compliance with applicable federal regulations.
RECOMMENDATION	We recommend to management to assess all contracts awarded and those who are to be granted to ensure that all the clauses required by federal regulations are included. If necessary should consult with a lawyer or the Municipality's Secretary Office before a contract is granted.
QUESTIONED COSTS	None.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	Federal required contracts provisions will be added to next contracts granted with federal funds. We will be oriented regarding applicable Federal regulations to comply with applicable laws and regulations.
RESPONSIBLE PERSON	Mrs. Yolanda Hernández Maldonado 787-894-9191

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF UTUADO**

SUMMARY SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

1- AUDIT FINDING THAT HAVE BEEN FULLY CORRECTED:

None

2- AUDIT FINDING NOT CORRECTED OR PARTIALLY CORRECTED:

FINDING NUMBER	CFDA	QUESTIONED COST	COMMENTS
2013-001-Capital Assets		None	Finding Repeated in the current year (See Finding 2014-001)
2013-002-Cash Management	14.218	None	Finding Repeated in the current year (See Finding 2014-002)
2013-003- Reporting	14.218	None	Finding Repeated in the current year (See Finding 2014-003)
2013-004- Equipment and Real Property Management	14.218	None	Finding Repeated in the current year (See Finding 2014-004)
2013-005- Internal Control	14.218	None	Finding Repeated in the current year (See Finding 2014-005)
2013-006- Special Test and Provision	14.218	None	Finding Repeated in the current year (See Finding 2014-006)
2013-007- Procurement	14.218	None	Finding Repeated in the current year (See Finding 2014-007)
2013-008- Cash Management	14.871	None	Finding Repeated in the current year (See Finding 2014-008)
2013-009- Reporting	14.871	None	Finding Repeated in the current year (See Finding 2014-010)
2013-010- internal Control	14.871	None	In the current year audit, this finding was not repeated
2013-011- Equipment and Real Property Management	93.600	None	Finding Repeated in the current year (See Finding 2014-012)
2013-012- Internal Control	97.036	None	In the current year audit, this finding was not repeated

END OF SCHEDULE