

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

**MUNICIPIO DE VILLALBA
AUDITORÍA 2012-2013
30 DE JUNIO DE 2013**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA**

SINGLE AUDIT REPORT

For the Fiscal Year Ended June 30, 2013
(With Independent Auditors' Report thereon)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA**

**Basic Financial Statements and
Supplemental Schedule
Single Audit Report
June 30, 2013**

TABLE OF CONTENTS

FINANCIAL SECTION:

Independent Auditor’s Report.....	3-5
Required Supplementary Information:	
Management’s Discussion and Analysis.....	6-19
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net position.....	20
Statement of Activities.....	21
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	22
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net position.....	23
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of to the Statement of Activities.....	25
Notes to Basic Financial Statements.....	26-68
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund.....	69

FEDERAL AWARD AND SINGLE AUDIT SECTION:

Supplementary Information:	
Financial Data Schedule.....	70-71
Notes to Financial Data Schedule	72
Schedule of Expenditures of Federal Awards.....	73
Notes to Schedule of Expenditures of Federal Awards.....	74
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.....	75-76
Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the OMB Circular A-133.....	77-79
Schedule of Findings and Questioned Costs:	
Section I: Summary of Auditor’s Results.....	80
Section II: Financial Statements Findings and Questioned Costs.....	81-84
Section III: Federal Awards Findings and Questioned Costs.....	85-96
Summary Schedule of Prior Audit Findings.....	97



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Municipal Council
Municipality of Villalba, Puerto Rico

Report on the Financial Statements

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

Management's Responsibility for Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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 assets for \$ 25,523,336 (net of accumulated depreciation of \$13,170,199) as of June 30, 2013, and the related amount of depreciation expense stated at \$1,504,156 for the year then ended. Therefore, we were unable to form an opinion regarding the capital assets and 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 Villalba as of June 30, 2013, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on Governmental Funds

The Municipality did not maintain complete and accurate records of all interfund transactions in the due from and to accounts balance for the fiscal year 2012-13. Therefore, we did not express an opinion on such amounts presented on the financial statements.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to satisfy ourselves on the amounts reported as interfund transactions in the "due from" and "due to" accounts balances, 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 Villalba as of June 30, 2013 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 19 and 69 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

INDEPENDENT AUDITOR'S REPORT
Municipality of Villalba

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 my inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Municipality of Villalba 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 Schedules are presented for purposes of additional analysis as required by the *U.S. Department of Housing and Urban Development, Office of the Inspector General*, and is not a required part of the financial statements. Because of the significance of the matter described in the "Basis for Disclaimer Opinion on Governmental Activities", it is inappropriate to and we do not express an opinion on the other information referred to above.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of 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 *Government Auditing Standards* in considering Municipality of Villalba internal control over financial reporting and compliance.

MENDOZA & RAMOS
CONTADORES PÚBLICOS AUTORIZADOS, C.S.P.

November 4, 2014
Guayama, Puerto Rico

The stamp number 02696916
was affixed to the original of this report.



MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FISCAL YEAR ENDED JUNE 30, 2013

As management of the Municipality of Villalba (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements as of and for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2013. This MD & A is prepared in order to comply with the Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments." 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;
- provides for an evaluation of its financial condition as of the end of fiscal year 2012-2013 compared with prior year results;
- identification of uses of funds in the financing of the Municipality's variety of activities and;
- asses management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

The Municipality's total assets amounted to \$30,639,701 at June 30, 2013, of which \$25,523,336 (83%) consist of capital assets (net of accumulated depreciation and amortization of \$13,170,199), \$179,662 (1%) consist of cash and cash equivalents, \$2,965,450 (10%) consist of cash with fiscal agent (which are restricted principally for capital projects and debt service) and \$1,971,255 (6%) consist of accounts receivable.

The Municipality's total liabilities amounted to \$21,218,422 at June 30, 2013, of which \$8,751,000 (41%) consist of bonds and notes payable, \$4,587,280 (22%) consist of accounts payable and accrued liabilities, \$1,390,205 (7) consist of accrued compensated absences, \$ 2,151,109 (10%) consist of unearned revenues, and \$4,338,823 (20%) consist of other long-term debts.

The Municipality's total assets exceeded its liabilities (net position) by \$9,421,279, at June 30, 2013.

The Municipality's total revenues amounted to \$15,101,920 for the fiscal year ended June 30, 2013, of which \$4,298,113 (28%) arose from taxes, \$9,792,137 (65%) arose from intergovernmental grants and contributions, \$529,738 (2%) and \$751,932 (5%) arose from charges for services and miscellaneous revenues.

The Municipality's total expenses amounted to \$15,147,014, for the fiscal year ended June 30, 2013, of which \$7,259,914 (48%) were incurred in providing direct services and benefits to citizens in relation to public works, economic development, health and welfare, public safety, culture and recreation. In

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

addition, the Municipality incurred in \$248,219 (2%) of its total expenses, in interests related to its long-term obligations, and \$7,638,881 (50%) in general government activities to support the Municipality's functions and programs. The Municipality's total expenses include depreciation and amortization of capital assets in the amount of \$ 1,504,156, for the fiscal year ended June 30, 2013.

The Municipality's total net position decreased by \$45,094, during the fiscal year ended June 30, 2013.
Governmental Funds' Highlights:

The total fund balances of governmental funds amounted to (\$2,183,985), at June 30, 2013, of which \$3,814,011 are restricted, committed and assigned, while (\$5,997,996) are presented as unassigned fund.

The fund balances of governmental funds decreased by \$381,991, during the fiscal year ended June 30, 2013.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2013. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

The Municipality's basic financial statements include three components: (1) government-wide financial statements (GWFS), (2) fund financial statements (FFS), and (3) notes to the basic financial statements (NBFS). This report also contains additional required information in addition to the basic financial statements themselves. These components are described below.

The basic financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below.

Government-Wide Financial Statements

The GWFS are composed of: (1) the statements of net position (SNP) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector businesses. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2013. The GWFS are prepared using methods that are similar to those used by most private businesses.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

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

Statement of Net Position

The purpose of SNP is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports of 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 SNP is presented as net assets, 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 assets, 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.

Statement of Activities

The SA presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2013, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA 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 SA 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 assets, which is essentially the same concept.

The focus of SA 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.

GWFS and FFS present all of the Municipality's governmental activities, which are supported mostly by taxes, intergovernmental revenues (such as federal and state grants and contributions), and charge for

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

services. All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; welfare and housing assistance; and urban and economic development.

Fund Financial Statements

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

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. All of the funds of the Municipality can be divided into two categories: governmental funds and proprietary funds.

Governmental funds

Governmental funds are used to account for most of the services provided by the Municipality. These funds are used to account for essentially the same functions reported as governmental activities in the GWFS. Unlike GWFS, the focus of governmental funds in the FFS is directed to specific activities of the Municipality rather than the Municipality as a whole; therefore, governmental funds in FFS report the Municipality's operations in more detail than the GWFS.

Governmental funds in FFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) General Fund, (2) HUD Fund, (3) State Assignment Fund, (4) Debt Service Fund (5) Other Governmental Fund.

Governmental funds FFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, governmental funds FFS focus on near-term inflows and outflows of expendable financial resources, consequently, they measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include capital assets within a very short period of time, but do not include capital assets such as land and buildings. Governmental fund liabilities generally include amounts that normally are going to be paid within a short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is reported as the fund balance or deficit, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

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

The Municipality has four major governmental funds. Each major fund is presented in a separate column in the balance sheet – governmental funds and the statement of revenues, expenditures and changes in fund balances – governmental funds. The four major governmental funds are: (1) general fund, (2) HUD Fund, (3) State Assignment Fund, (4) Debt Service fund and (5) Other governmental fund.

Notes to Basic Financial Statements

The NBFS provide additional information that is essential for a full understanding of the data provided in the GWFS and FFS. The NBFS can be found immediately following the basic financial statements.

Other Supplementary Information

The basic financial statements are followed by a section of other supplementary information consisting of budgetary comparison schedule – general fund.

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Municipality's overall financial position and operations at June 30, 2013 and 2012 are summarized as follows, based on the information included in the accompanying statement of net assets:

	Governmental Activities		Change	
	2013	2012	\$	%
Assets:				
Current assets	\$ 5,116,365	\$ 4,827,786	\$ 288,579	5.98%
Non-current assets:				
Capital assets, net	2,552,336	2,520,698	\$ 322,638	1.28%
Total assets	\$ 3,063,701	\$ 3,002,484	\$ 611,217	2.04%
Liabilities:				
Current liabilities, excluding long-term	\$ 673,389	\$ 607,062	\$ 66,327	10.97%
Long-term obligations:				
Due within one year	169,439	171,634	\$ (1,795)	-0.92%
Due after one year	1,278,519	1,277,415	\$ 1,104	0.05%
Total liabilities	\$ 2,121,422	\$ 2,056,211	\$ 65,211	3.19%
Net position (deficit):				
Invested in capital assets, net of related debt	\$ 1,929,336	\$ 1,687,480	\$ 241,856	14.39%
Restricted	278,361	301,687	(23,326)	-7.93%
Unrestricted	(1,265,418)	(1,042,794)	(222,624)	21.42%
Total net position	\$ 942,279	\$ 946,373	\$ (4,094)	-0.48%

At June 30, 2013, the Municipality's current assets, amounting to \$5,116,365, are mainly composed of restricted and unrestricted cash and cash equivalents (\$179,660), restricted cash with fiscal agent (\$2,965,450), and restricted and unrestricted intergovernmental grants and contributions receivable (\$1,971,255).

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

The Municipality's non-current assets, amounting to \$30,639,701, at June 30, 2013, are substantially composed of capital assets, with a cost basis of \$38,693,535, which are reported net of accumulated depreciation and amortization of \$13,170,199.

At June 30, 2013, the Municipality's current liabilities amounting to \$6,738,387, are mainly composed of unearned revenues (\$2,151,109), accounts payable and accrued liabilities (\$3,039,191), interest payable (\$58,136), intergovernmental payables (\$1,489,953). Unearned revenues principally consist of unearned revenues associated with municipal license taxes and intergovernmental grants and contributions related to state and federally funded grant programs.

The Municipality's non-current liabilities, amounting to \$ 14,480,033, at June 30, 2013, are mainly composed of portion due within one year of bonds and notes payable \$ 1,694,839, and the portion due after one year of bonds and notes payable \$ 12,785,194.

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. The assets of the Municipality exceeded liabilities by \$ 9,421,279 at June 30, 2013. The most significant portion of net position \$ 2,780,361, at June 30, 2013, represents resources that are restricted for debt service payments and to finance the operations of federal and state funded programs. The another significant portion net position \$ 19,297,336, reflects the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, furniture, fixtures, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

The remaining component of total net position consists of unrestricted net liabilities amounting to (\$12,656,418), at June 30, 2013. These unrestricted net liabilities are the consequence of previous budgets that did not provide sufficient funding for incurred long-term obligations, such as bonds and notes payable, compensated absences, etc. Historically, a significant portion of such obligations has been budgeted on a pay-as-you-go basis.

The total net position of the Municipality decreased by \$ 45,094, for the fiscal year ended June 30, 2013. Such increase is due to the excess of total revenues \$ 15,101,920, over total expenses \$ 15,147,014, including depreciation and amortization of capital assets of \$ 1,504,156 for the fiscal year ended June 30, 2013.

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

The following is a condensed presentation of the Municipality's results of operations as reported in the statement of activities for the fiscal years ended June 30, 2013 and 2012:

	Governmental Activities		Change	
	2013	2012	\$	%
Program revenues:				
Program-specific operating grants and contributions	\$ 2499,214	\$ 5565,745	\$ (3066,531)	-55.10%
Charges for services	259,738	350,553	\$ (90,815)	-25.91%
Total program revenues	\$ 2758,952	\$ 5916,298	\$ (3157,346)	-53.37%
General revenues:				
Property taxes	\$ 1265,277	\$ 1616,125	\$ (350,848)	-21.71%
Municipal license taxes	1751,349	1904,393	(153,044)	-8.04%
Sales and use taxes	1054,885	772,303	282,582	36.59%
Unrestricted grants and contributions	7292,923	6456,840	836,083	12.95%
Other local taxes	226,602	228,527	(1,925)	-0.84%
Other general revenues (various sources)	751,932	205,435	546,497	266.02%
Total general revenues	12342,968	11183,623	1159,345	10.37%
Total revenues	\$ 15101,920	\$ 17099,921	(\$ 1998,001)	-11.68%
Program expenses:				
General government	7638,881	6904,261	734,620	10.64%
Urban and economic development	1241037	2102070	(861,033)	-40.96%
Health and welfare	1499263	2402073	(902,810)	-37.58%
Public safety	1102,415	1150,073	(47,658)	-4.14%
Culture and recreation	1224,959	1497,773	(272,814)	-18.21%
Public Works	2192,240	2129,640	62,600	2.94%
Interest on long-term obligations	248,219	368,804	(120,585)	-32.70%
Total expenses	\$ 15147,014	\$ 16554,694	\$ (1407,680)	-8.50%
Net increase (decrease) in net position	(45,094)	545,227	(590321)	-108.27%
Net Position, at beginning of fiscal Year (Restated)	9466,373	8921,146	545,227	6.11%
Net position, at end of fiscal year	\$ 9421,279	\$ 9466,373	(45,094)	-0.48%

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

As previously mentioned, the Municipality's total net position decreased by \$45,094, during the current fiscal year. Approximately 28% (\$4,298,113), of the Municipality's total revenues for the current fiscal year came from property, municipal license, construction excise and sales and use taxes, while 67% (\$10,051,875), resulted from restricted and unrestricted operating grants and contributions.

The Municipality's expenses cover a wide range of services. The largest expenses of the Municipality for the fiscal year ended June 30, 2013 were related to: (1) general administrative and operating costs (\$7,638,881), which were classified as "general government" and accounted for 50% of total expenses, (2) public safety (\$1,102,415), which accounted for 7% of total expenses, (3) public works (\$2,192,240), which accounted for 14% of total expense, (4) health and welfare (\$1,499,263), which accounted for 10% percent of total expenses (5) culture and recreation (\$1,224,959), which accounted for 8% of total expenses, (6) urban and development (\$1,241,037), which accounted for 8% of total expenses (7) interest on long-term (\$248,219), which accounted for 2% of total expenses. These expenses include depreciation of capital assets and deferred charges in the amount of \$ 1,504,156, for the fiscal year ended June 30, 2013.

FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES

Analysis of Financial Position of Governmental Funds

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's compliance with finance-related legal requirements. Specifically, unreserved fund balance may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year.

At June 30, 2013, the total assets of governmental funds amounted to \$ 12,182,945, which consisted principally of: (1) cash and cash equivalents of \$179,660 (1%), (2) cash in fiscal agent of \$2,965,450 (24%), (3) municipal licenses, property and sales taxes, intergovernmental, accrued interests and other receivables of \$9,037,835 (74%). Such assets include cash, cash equivalents and receivables that are principally used for debt service, capital projects, encumbrances and other specific purposes.

At June 30, 2013, the total liabilities of governmental funds amounted to \$14,366,930, which consisted principally of: (1) unearned revenues of \$2,151,109 (15%), (2) accounts payable and accrued liabilities and another payables of \$10,420,732 (73%), (3) intergovernmental accounts payable of \$1,489,953 (10%) and matured bonds and interests due and payable of \$ 305,136 (2%).

The total fund balances of governmental funds amounted to (\$2,183,985), at June 30, 2013, of which \$3,814,011, are reserved for restricted, committed and assigned, while \$ (5,997,996) represent unassigned fund balance. The fund balances (deficit) of governmental funds increased by \$381,991, during the fiscal year ended June 30, 2013.

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

The following table presents the condensed financial position of governmental funds at June 30, 2013 and 2012:

	2013	2012	Change	
			\$	%
Assets:				
Total assets - major governmental funds	\$ 7583,841	\$ 5900,772	1683,069	29%
Total assets - other governmental funds	4599,104	5716,958	(1117,854)	-20%
Combined total assets	<u>12182,945</u>	<u>11617,730</u>	<u>565215.00</u>	<u>5%</u>
Liabilities:				
Total liabilities - major governmental funds	10184,303	9461,449	722,854	8%
Total liabilities - other governmental funds	4182,627	3958,275	224,352	6%
Combined total liabilities	<u>14366,930</u>	<u>13419,724</u>	<u>947,206</u>	<u>7%</u>
Fund balances (deficits):				
Restricted – major governmental funds	3297,041	1787,117	1509,924	84%
Restricted – other governmental funds	416,477	1758,683	(1342,206)	-76%
Committed – major governmental funds	100,493	819,718	(719,225)	-88%
Unassigned	(5997,996)	(6167,512)	169,516	-3%
Combined total fund balances	<u>(2183,985)</u>	<u>(1801,994)</u>	<u>(381,991)</u>	<u>21%</u>
Total liabilities and fund balances	<u>\$ 12182,945</u>	<u>\$ 11617,730</u>	<u>565,215</u>	<u>28%</u>

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

Major Governmental Funds

General fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$4,646,162, at June 30, 2013. Such assets consist principally of: (1) Cash in commercial banks (\$64,265), (2) accounts receivables and due receivables from governmental entities (\$107,983), (3) short-term amounts due from other funds (\$3,746,808), and (4) restricted cash in fiscal agent (\$727,106).

The GF's total liabilities amounted to \$9,610,508, at June 30, 2013. Such liabilities are composed mainly of: (1) unearned revenues (\$1,561,447), (2) due to other funds (\$3,634,733) and (3) accounts payable and accrued liabilities, including amounts due to other governments \$4,414,328.

At the end of the current fiscal year, fund balance for restricted and assigned reached \$ 1,033,650, unassigned fund balance of the GF amounted to \$ (5,997,346), while total fund balance reached (\$4,964,346).

HUD Fund- The HUD Fund total assets amounted to \$81,260, at June 30, 2013, which consist principally of: (1) restricted cash in commercial bank (\$22,425) and (2) due from governmental entities and other fund (\$58,835). The HUD Fund total liabilities amounted to \$64,741, at June 30, 2013, which are composed mainly of (1) accounts payable and accrued liabilities (\$48,713) and (2) due to other funds (\$16,028). At the end of the current fiscal year, the HUD Fund had total restricted fund balances amounted to \$16,519.

State Assignment Fund (SAF)- The SAF total assets amounted to \$1,373,950, at June 30, 2013, which consist mainly of: (1) restricted cash in commercial banks (\$53), (2) due from other funds (\$1,303,799) and (3) due from other governmental entities (\$70,098). The SAF total liabilities amounted to \$ 203,918, at June 30, 2013. At the end of the current fiscal year, SAF had total restricted fund balance reached \$1,170,032.

Debt service fund (DSF)- The DSF's total assets amounted to \$1,482,469 at June 30, 2013, which consist mainly of restricted cash in fiscal agent (\$1,478,135). The DSF's total liabilities amounted to \$305,0136 at June 30, 2013, which are mainly composed of: (1) matured bonds due and payable (\$247,000), and (2) matured interest due and payable (\$58,136). At the end of the current fiscal year, DSF's total and reserved fund balance reached \$1,177,333.

Other governmental funds (OGF)- The OGF's total assets amounted to \$ 4,599,104, at June 30, 2013, which consist mainly of: (1) restricted cash and cash equivalents (\$ 92,917), (2) restricted cash in fiscal agent (\$760,209), (3) due from other funds (\$2,330,934) and (4) receivables from intergovernmental grants and contributions (\$1,403,646). The OGF's total liabilities amounted to \$ 4,182,627, at June 30, 2013, which are mainly composed of unearned revenues (\$589,662), accounts payable and accrued liabilities (\$4,568) and short-term amounts due to other funds (\$ 3,588,397). At the end of the current fiscal year, OGF's total reserved fund balance reached \$ 416,477.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

Analysis of Operating Results of Governmental Funds

Major Governmental Funds

General fund – The total fund balance (deficit) of the GF increased by (\$142,665), during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to \$11,933,895, \$12,583,185, and \$506,625, respectively, for the fiscal year ended June 30, 2013.

Approximately 30% (\$3,634,302), of the GF's total revenues for the current fiscal year came from property, municipal license, construction excise and sales and use taxes, while 61% \$7,287,923, resulted from intergovernmental grants and contributions. Interest revenues, charges for services and miscellaneous revenues, amounting to \$1,011,670, provided 9% of the total revenues for the current fiscal year.

The largest expenses of the GF for the fiscal year ended June 30, 2013 were related to: (1) general administrative and operating costs (\$8,566,663), which were classified as "general government" and accounted for 68% of total expenses, (2) public safety \$901,702, which accounted for 7% of total expenses, (3) public works \$1,547,608 which accounted for 12% percent of total expenses, (4) health and welfare \$701,092, which accounted for 6% of total expenses, (5) culture and recreation \$866,120, which accounted for 7% of total expenses.

HUD Fund – The total fund balance of the HUD Fund is \$ 16,519, during current fiscal year. Total revenues for the fiscal year ended June 30, 2013 are \$ 1,522,008.

Total expenditures amounted to \$ 1,551,110, for the fiscal year ended June 30, 2013. HUD Fund total expenditures for the current fiscal year came from health and welfare and urban economic development to \$599,162 and \$951,948, respectively.

State Assignment Fund (SAF)- The total fund balance of the SAF decreased by \$45,351, during current fiscal year. Total revenue amounted to \$ 5,000, for the fiscal year ended June 30, 2013.

SAF's total expenditures for the current fiscal year came from health and welfare \$681, public works \$41,670 and culture, recreative and education \$8,000.

Debt service fund (DSF) – The total fund balance of the DSF increased by \$178,724 during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to \$649,568, \$604,219 and \$133,375, respectively, for the fiscal year ended June 30, 2013.

Approximately 42% (\$273,726) of DSF's total revenues for the current fiscal year came from restricted property taxes, while 58% (\$375,842) came from restricted sales and use taxes and interest. DSF's total expenditures for the current fiscal year came from principal and interests on bonds payable (\$604,219).

Other governmental funds (OGF) – The total fund balance of the OGF decreased by \$ 343,587, during current fiscal year. Total revenues and expenditures amounted to \$977,206, and \$1,320,803, respectively, for the fiscal year ended June 30, 2013. Approximately 58% (\$567,274), of OGF's total revenues for the current fiscal year came from intergovernmental grants and \$409,932 (42%) from federal grants.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

The largest expenses of the OGF for the fiscal year ended June 30, 2013 were related to: (1) health and welfare (\$50,295), which accounted for 4% percent of total expenses, (2) urban and economic development (\$32,672), which accounted for 2% of total expenses and (3) public works and public safety (\$ 1,237,836), which accounted for 94%.

BUDGETARY HIGHLIGHTS

a) General Fund

The final budget of the general fund for the fiscal year ended June 30, 2013 amounted to \$12,747,952. Over the course of the fiscal year, the Municipality revised the GF's budget in order to include increases and decreases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. The laws and regulations of the Commonwealth mandate a balanced budget.

The total actual revenues (budgetary basis) of the general fund for the fiscal year ended June 30, 2013 were \$ 11,542,661, which is 9% (\$ 1,205,291), lower than the budgeted revenues. In addition, the total actual expenditures (budgetary basis) of the general fund for the fiscal year ended June 30, 2013 were \$ 11,441,986, which is 9% (\$ 1,118,215), lower than the budgeted expenditures.

The most significant fluctuations in actual revenues occurred in construction excise taxes which had actual revenues that were \$ 1,546,798, lower than budgeted.

Also, the most significant fluctuations in actual expenditures and encumbrances occurred in general government, which had actual expenditures and encumbrances that were \$467,236, lower than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$ 38,693,535 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$ 13,170,199, at June 30, 2013. The net capital assets of governmental activities increased during the current fiscal year due to the current fiscal year's capital additions \$1,826,794, which were partially offset by the depreciation and amortization expense \$ 1,504,156 for the same period.

b) Debt Administration

The Municipality finances a significant portion of its construction activities through bond and note issuances, and through state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

At June 30, 2013, the Municipality's total bonded debt amounted to \$8,504,000, consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013

The following is a summary of the debt activity for the fiscal year ended June 30, 2013:

- Bonds payable increased by (\$27,000) due to the current fiscal year's bonds payable addition which were partially offset by the principal payments on bonds.
- The Municipality has also certain outstanding notes payable due to CRIM (\$1,673,783). Such notes payable decreased by \$46,703, during the current fiscal year mainly due to the principal payments made during the same period.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2012-2013.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all of the Municipality's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Municipality's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Municipality of Villalba, Department of Finance.

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2013

Assets	
Current assets:	
Cash in commercial banks	\$ 179,660
Cash in fiscal agent	2965,450
Accounts receivable, net of allowance for doubtful accounts:	
Property taxes	314,961
Intergovernmental	1530,541
Sales tax	-
Municipal license	-
Miscellaneous	125,753
Total current assets	5116,365
Noncurrent assets:	
Capital assets, net of accumulated depreciation and amortization of \$13,170,199	25523,336
Total noncurrent assets	25523,336
Total assets	30639,701
 Current Liabilities (due within one year):	
Accounts payable	2890,152
Bank Overdraft	149,039
Intergovernmental payables	1489,953
Accrued interest payable on long-term debt	58,136
Unearned revenues	2151,109
Current portion of long-term obligations:	
Bonds payable	417,000
Other debts	1277,839
Total current liabilities	8433,228
Noncurrent liabilities (due in more than one year):	12785,194
Total liabilities	21218,422
 Net position (deficit):	
Invested in capital assets, net of related debt	19297,336
Restricted for:	
Hud Fund	16,519
Debt service	1177,333
State Assignment Fund	1170,032
Special Revenue	416,477
Unrestricted net (deficit)	(12656,418)
Total net position (deficit)	\$ 9421,279

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

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Functions/programs	Expenses	Program Revenues		Net Expenses and Charges in Net Position	
		Charges for services	Operating grants and contributions		Capital grants and contributions
Governmental activities :					
General government	\$ 7638,881	\$ -	\$ 205,512	\$ -	\$ (7433,369)
Health and welfare	1499,263	-	599,050	-	(900,213)
Public works	2192,240	-	586,700	-	(1605,540)
Public safety	1102,415	-	123,332	-	(979,083)
Culture, recreation and education	1224,959	259,738	-	-	(965,221)
Urban and economic development	1241,037	-	984,620	-	(256,417)
Interest on long-term obligation	248,219	-	-	-	(248,219)
Total governmental activities	<u>\$ 15147,014</u>	<u>\$ 259,738</u>	<u>\$ 2499,214</u>	<u>\$ -</u>	<u>\$ (12388,062)</u>

General Revenues:

Taxes:

Property taxes	1265,277
Municipal license taxes	1751,349
Sales taxes	1054,885
Construction excise taxes	226,602
Total taxes	<u>4298,113</u>
Grants and contributions, not restricted to specific programs	7292,923
Miscellaneous	751,932
Total general revenues	<u>12342,968</u>
Net changes in net position	(45,094)
Net position at beginning of the year (Restated)	9466,373
Net position at the end of the year	<u>\$ 9421,279</u>

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

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

BALANCE SHEET – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	MAJOR FUNDS					
	General Fund	HUD Fund	State Assignment Fund	Debt Service Fund	Other Governmental Fund	Total Governmental Funds
ASSETS						
Cash in commercial banks	\$ 64,265	\$ 22,425	\$ 53	\$ -	\$ 92,917	\$ 179,660
Cash in fiscal agent	727,106	-	-	1478,135	760,209	2965,450
Account receivable, net of doubtful accounts:						
Other	107,983	2,038	-	4,334	11,398	125,753
Due from other funds	3746,808	-	1303,799	-	2330,934	7381,541
Due from governmental entities	-	56,797	70,098	-	1403,646	1530,541
Total assets	<u>\$ 4646,162</u>	<u>\$ 81,260</u>	<u>\$ 1373,950</u>	<u>\$ 1482,469</u>	<u>\$ 4599,104</u>	<u>\$ 12182,945</u>
LIABILITIES						
Accounts payable	2775,336	48,713	61,535	-	4,568	2890,152
Bank Overdraft	149,039					149,039
Intergovernmental	1489,953					1489,953
Due to other funds	3634,733	16,028	142,383	-	3588,397	7381,541
Unearned revenue	1561,447	-	-	-	589,662	2151,109
Matured bonds due and payable	-	-	-	247,000	-	247,000
Matured interests due and payable	-	-	-	58,136	-	58,136
Total liabilities	<u>9610,508</u>	<u>64,741</u>	<u>203,918</u>	<u>305,136</u>	<u>4182,627</u>	<u>14366,930</u>
FUND BALANCE						
Fund balance:						
Restricted	933,157	16,519	1170,032	1177,333	416,477	3713,518
Committed	100,493	-	-	-	-	100,493
Unassigned	(5997,996)	-	-	-	-	(5997,996)
Total fund balances (deficit)	<u>(4964,346)</u>	<u>16,519</u>	<u>1170,032</u>	<u>1177,333</u>	<u>416,477</u>	<u>(2183,985)</u>
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	<u>\$ 4646,162</u>	<u>\$ 81,260</u>	<u>\$ 1373,950</u>	<u>\$ 1482,469</u>	<u>\$ 4599,104</u>	<u>\$ 12182,945</u>

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

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2013

Aggregate fund balance reported in the balance sheet - governmental funds	\$ (2183,985)
Governmental activities' amounts reported in the statement of net position and the balance sheet - governmental funds are different because:	
Some of the Municipality's revenues will be collected after year-end but are not available soon enough to pay the current period's expenditures.	
	314,961
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources, therefore, are not reported in the governmental funds	25523,336
The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds:	
Bonds payable	(8504,000)
Convertible Line of Credit	(1961,083)
Notes payable to Municipal Revenue Collection Center (CRIM)	(1673,783)
Compensated absences	(1390,205)
Other Debts	<u>(703,962)</u>
Net position as reported in the accompanying statement of net position	<u>\$ 9421,279</u>

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

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	MAJOR FUNDS					Total Governmental Funds
	General Fund	HUD Fund	State Assignment Fund	Debt Service Fund	Other Governmental Fund	
REVENUES						
Taxes:						
Property taxes	\$ 977,308	\$ -	\$ -	\$ 273,726	\$ -	\$ 1251,034
Municipal license	1751,349	-	-	-	-	1751,349
Construction excise taxes	226,602	-	-	-	-	226,602
Sales tax	679,043	-	-	375,842	-	1054,885
Charges of service	259,738	-	-	-	-	259,738
Intergovernmental grants and contributions:						
Federal government	-	1522,008	-	-	567,274	2089,282
State government	7287,923	-	5,000	-	409,932	7702,855
Miscellaneous	751,932	-	-	-	-	751,932
Total Revenues	<u>\$ 11933,895</u>	<u>\$ 1522,008</u>	<u>\$ 5,000</u>	<u>\$ 649,568</u>	<u>\$ 977,206</u>	<u>\$ 15087,677</u>
EXPENDITURES						
Current:						
General government	8566,663	-	-	-	-	8566,663
Health and welfare	701,092	599,162	681	-	50,295	1351,230
Public works	1547,608	-	41,670	-	1117,801	2707,079
Public safety	901,702	-	-	-	120,035	1021,737
Culture, recreation and education	866,120	-	8,000	-	-	874,120
Urban and economic development	-	951,948	-	-	32,672	984,620
Debt service:						
Principal	-	-	-	356,000	-	356,000
Interest	-	-	-	248,219	-	248,219
Total Expenditures	<u>12583,185</u>	<u>1551,110</u>	<u>50,351</u>	<u>604,219</u>	<u>1320,803</u>	<u>16109,668</u>
Excess (Deficiency) of Revenues over expenditures	<u>(649,290)</u>	<u>(29,102)</u>	<u>(45,351)</u>	<u>45,349</u>	<u>(343,597)</u>	<u>(1021,991)</u>
OTHER FINANCING SOURCES (USES)						
Transfer in from other funds	-	-	-	133,375	-	133,375
Transfer out to other funds	(133,375)	-	-	-	-	(133,375)
Proceeds from debt issuance	640,000	-	-	-	-	640,000
Total Other Financing Sources (uses)	<u>506,625</u>	<u>-</u>	<u>-</u>	<u>133,375</u>	<u>-</u>	<u>640,000</u>
NET CHANGE IN FUND BALANCES (DEFICITS)	(142,665)	(29,102)	(45,351)	178,724	(343,597)	(381,991)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR (Restated)	(4821,681)	45,621	1215,383	998,609	760,074	(1801,994)
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ (4964,346)</u>	<u>\$ 16,519</u>	<u>\$ 1170,032</u>	<u>\$ 1177,333</u>	<u>\$ 416,477</u>	<u>\$ (2183,985)</u>

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

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

Net change in fund balances- total governmental funds		\$ (381,991)
Governmental activities amounts reported in the statement of activities and the statement of Revenues, expenditures and changes in fund balances governmental funds are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		
	14,243	
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:		
Governmental Activities:		
Capital Outlay	1826,794	
Depreciation Expense	<u>(1504,156)</u>	
Excess of Capital Outlay over Depreciation Expense		322,638
Some expenses reported in the Statements of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in Long-term obligations	(640,000)	
Decrease in Compensated Absences	159,761	
Decrease in Other Debt	<u>124,255</u>	
Total Additional Expenditures		(355,984)
Repayment of principal of long-term obligations is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		<u>356,000</u>
Net changes in net position reported in the accompanying statements of activities		<u>\$ (45,094)</u>

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

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Villalba, Puerto Rico (Municipality), is a local municipal government constituted in 1917 in the Commonwealth of Puerto Rico. The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81).

The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth") provides for the separation of powers of the executive, legislative and judicial branches. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power is exercised by the Municipal Legislature, which is also elected every four years. 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 (GAAP) as applicable to governmental units. The following is a summary of the more significant of such policies.

a) *Financial Reporting Model*

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

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (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: (1) a Management's Discussion and Analysis (MD&A) and (2) a budgetary comparison schedule – general fund. RSI 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 fiscal year ended

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

June 30, 2013, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

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

b) *Financial Reporting Entity*

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor and (2) whose funds are under the legal custody and control of the Municipality's Director of Finance and Budget, as prescribed by Law No. 81.

The Municipality's management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete.

The Municipality's management has concluded that, based on the criteria set forth by GASB Statement No. 14 - *The Financial Reporting Entity* (GASB No. 14) and GASB Statement No. 39 - *Determining Whether Certain Organizations are Component Units* (GASB No. 39), there are no legally separate entities or organizations that should be reported as component units of the Municipality as of June 30, 2013 nor for the year then ended.

c) *Government-wide Financial Statements*

The accompanying GWFS are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements do not report fund information but rather report information of all of the Municipality's governmental activities. These statements are aimed at presenting a broad overview of the Municipality's finances through reporting its financial position and results of operations as a whole, using methods that are similar to those used by most private businesses.

The focus of the GWFS is not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability), but on operational accountability information about the Municipality as a single economic unit. Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net position provides short-term and long-term information about the Municipality's financial position and condition by presenting all of the Municipality's

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

assets and liabilities, with the difference between these two items reported as “net position” (equity). This statement assists management in assessing the level of services that can be provided by the Municipality in the future, and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets, including infrastructure, and discloses legal and contractual restrictions on resources.

Net position is classified in the accompanying statement of net position within the following three categories:

- **Invested in capital assets, net of related debt** – These consist of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets have been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted**– These consist of net position restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net position for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation is defined as legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

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

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

- **Unrestricted** – These consist of net position that are neither externally or legally restricted, nor invested in capital assets. However, unrestricted net position often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net asset often have constraints that are imposed by management, but can be removed or modified.

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

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

The accompanying statement of activities presents the results of the Municipality's operations by showing how the Municipality's net position changed during the year ended June 30, 2013, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license 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) general government, (2) urban and economic development, (3) public safety, (4) health and welfare, (5) culture, recreation and education, and (6) public works. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General Government:

Municipal Legislature
Mayor's Office
Department of Finance and Budget
Department of Human Resources
Department of Municipal Secretary
Department of Internal Audit

Public Works:

Department of Public Works

Public Safety:

Department of Municipal Police
Office of Emergency Management

Health and Welfare:

Department of Elderly Affairs

Culture and Recreation:

Department of Recreation and Sports

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

Program 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 the net cost of the function/program that must be financed from the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These 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 include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific capital and operating grants and contributions** – These 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. Capital grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific 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. Restricted capital and operating 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 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, sales taxes and construction excise taxes are reported as general revenues. All other nontax revenues (including unrestricted investment earnings, 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.

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

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

The effects of all interfund 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 all 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 governmental fund financial statements.

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. In addition, the Municipality has no operations or activities that are primarily financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public is financed primarily through user charges.

d) Governmental Fund Financial Statements

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current year have complied with public decisions concerning the raising and spending of public moneys in the short term (one fiscal year).

Each governmental fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity or deficit, revenue and expenditures. The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- **General fund** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities not accounted for and reported 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) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

- **HUD Fund** – This is the fund used to account for all the transactions of the HUD Awards. The primary objectives of this program is the development of viable communities by providing decent housing, rent assistance, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income. The uses and limitations of each Hud fund are specified by federal statutes.
- **State Assignment Fund** – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primary objectives of this assignments is to development of minor projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.
- **Debt Service Fund** - The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for all financial resources that are restricted, committed, or assigned to expenditure for 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/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2013, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

The outstanding balance of general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, and claims and judgments) are only accounted for in the accompanying statement of net assets. The debt service payments of such debts, as applicable, are generally accounted for in the general fund

- **Other Governmental Funds** – Other Governmental Funds are all non-major governmental funds, used by the Municipality to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes. The uses and limitations of each fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, other governmental funds to account for such kind of transactions will be used only if legally mandated.

The focus of the governmental fund financial statements is on major funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds among major and nonmajor within the governmental fund financial statements. Major individual governmental funds are reported individually as separate columns in the governmental fund financial statements, while data from all nonmajor governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other fund is considered a major fund for financial reporting purposes if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

the aforementioned major fund criteria, no eliminations of interfund balances have been made. Total revenues for these purposes means all revenues, including operating and nonoperating revenues (net of allowances), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and nonoperating expenditures, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying governmental fund financial statements are: (1) the general fund, (2) the HUD fund (3) the state assignment fund and (4) debt service fund.

General fund – The general fund is the Municipality's main operating fund used to account for all financial resources and governmental activities not accounted for and reported in another fund.

HUD Fund – This is the fund used to account for all the transactions of the HUD Awards. The primary objectives of this program is the development of viable communities by providing decent housing, rent assistance, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primary objectives of this assignments is to development of minor projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

Debt Service Fund - The debt service fund is used by the Municipality to account for all financial resources that are restricted, committed, or assigned to expenditure for 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/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years.

e) **Measurement Focus and Basis of Accounting**

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

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange 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 (examples include fees for licenses and permits, charges for services, and

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from nonexchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB No. 33), which the Municipality adopted on July 1, 2003. GASB No. 33 established accounting and reporting standards for nonexchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a nonexchange 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 nonexchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed nonexchange revenues, (c) government mandated nonexchange transactions, and (d) voluntary nonexchange transactions

In the case of derived tax revenue transactions (such as municipal license taxes), which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred (that generally is, when the taxpayers' net sales or revenues subject to tax take place).

In the case of imposed non-exchange revenue transactions (such as property taxes), 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 (net of amounts considered not collectible) 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 another government (such as the Municipality), and the provider government requires the recipient government to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these types of transactions, receivables and revenues are generally recorded as follows:

- For reimbursement-type (commonly known as "expenditure-driven awards"), receivables and revenues are recorded when all eligibility requirements imposed by the provider have been met. 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.
- For other types of grants (mainly grants and contributions with purpose restrictions but with no time requirements), receivables and revenues are recorded when all applicable eligibility requirements are met. When the provider is a government (including the government of the United States of America) the applicable recognition period for both, the provider and the recipient, is the provider's fiscal year and begins on the first day of that year.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, entered into willingly 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.

Receipts of any type of revenue sources collected in advance for use in the following period are recorded as deferred revenues.

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.

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 accompanying GFFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are generally considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Municipality considers most revenues to be available if collected within 90 days after June 30, 2013, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred revenues at June 30, 2013. The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions and interest income. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred (earned and unavailable) revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

that the use of the resources is permitted. Receivables and revenues from reimbursement-type grants, contributions, donations and entitlements are also generally recorded as qualifying reimbursable expenditures are incurred, while receivables and revenues from other types of grants are recorded when all eligibility requirements imposed by the provider have been met.

Interest income is recorded when earned only if collected within 90 days after year-end since these would be considered both measurable and available.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASB No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and an expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated with current available financial resources. GASB No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet – governmental funds generally reflects assets that will be converted into cash to satisfy current liabilities. Long-term assets (except for accounts receivables and inter-fund advances) and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

Modifications to the accrual basis of accounting in accordance with GASB No. 6 include:

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2013, which have been recorded as governmental fund liabilities at June 30, 2013, which is the date when resources are available in the debt service fund (generally, June 30).
- Notes payable, obligations under capital leases, compensated absences, and amounts subject to accrued claims and judgments under litigation are recorded only when they mature (when payment is due).
- Certain accrued liabilities not due and payable or not normally expected to be liquidated with current available and expendable financial resources are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature.
- Executory purchase orders and contracts are recorded as assignments of fund balance in the governmental funds FFS.

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.)

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

since these liabilities normally are paid in a timely manner and in full from current financial resources.

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

All general capital assets and the unmatured long-term liabilities (determined using the modified accrual basis of accounting) are incorporated into the accompanying statement of net position.

f) Stewardship, Compliance and Accountability

Budgetary Control

According to the Autonomous Municipalities Act of the Commonwealth of Puerto Rico, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source for both funds. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

The Mayor must submit an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of Puerto Rico (the Commissioner) and the Municipal Legislature no later than each May 10 and May 31, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before each June 15.

The Municipal Legislature has 10 business days, up to June 15, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue making payments for its operations and other purposes until the new budgets are approved.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

The annual budgets may be updated for any estimate revisions as well as year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance and Budget has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budgets are prepared under the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

Under the budgetary basis of accounting, revenue is generally recognized when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at year-end. Other appropriations, mainly capital projects 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 accompanying budgetary comparison schedule provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2013. Further details of the Municipality's budgetary control at the legal level may be obtained from the

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

Budgetary Liquidation Report for the fiscal year ended June 30, 2013. Copies of that report may be obtained by writing to the Municipality's Director of Finance and Budget.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP. Accordingly, the accompanying budgetary comparison schedule is accompanied by a reconciliation of the differences between the budgetary basis and GAAP actual amounts.

The Municipality does not legally adopt budgets for the State Assignment Fund and HUD Fund. The financial resources received by these funds are not subject to budgeting by the Municipality since the resources received each year from the respective grantors varies from year to year, and the respective amounts are granted at their discretion.

g) Unrestricted and Restricted Deposits

The Municipality's deposits are composed of cash on hand, demand deposits and cash equivalents in: (1) commercial banks, (2) the Government Development Bank for Puerto Rico (GDB), a governmental bank and a major component unit of the Commonwealth, who is statutorily designated as fiscal agent of the Municipality, and (3) the Municipal Revenue Collection Center (CRIM, by its Spanish acronyms), a governmental entity responsible for the imposition and collection of property taxes on behalf of all municipalities of Puerto Rico.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements. 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 Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Secretary of the Treasury of the Commonwealth, but not in the Municipality's name.

Restricted assets include cash and cash equivalents in commercial banks, GDB and CRIM. These cash balances are classified as restricted assets since its use is limited for the specified purposes discussed below, which are established by applicable agreements or required by law.

Restricted cash with fiscal agent in the general and debt service funds represent property tax collections which are retained and restricted for the payment of the Municipality's debt service, as established by law. Restricted cash in fiscal agent in other governmental funds consists of unspent proceeds of bonds and notes, and the balance of interest and noninterest bearing accounts which are restricted for: (1) the acquisition, construction or improvement of major capital assets and the operations of federal and state funded programs.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

h) Unrestricted and Restricted Accounts and Notes Receivable

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2013. Major receivable balances for the governmental activities include property taxes municipal license and intergovernmental receivables.

Tax receivables in the general fund represent uncollected property taxes. Restricted tax receivables in the debt service fund consist of uncollected property taxes, which are restricted for the payment of the Municipality's debt service, as established by law.

Intergovernmental receivables are composed of: (1) amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federal and state funded programs (recorded in the general fund, special revenue funds and capital project funds), and (2) contributions in lieu of taxes from the Puerto Rico Electric Power Authority, recorded in the general fund.

These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Advances between funds, as reported in the GFFS, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

i) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

The Municipality's capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset.

Major outlays for capital assets and improvements are capitalized in the statement of net position as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

<u>Capital Asset</u>	<u>Years</u>
Buildings	30
Improvement Other Than Buildings	30
Equipment	3-10
Vehicles	5
Recreation facilities	15-20
Infrastructure	10-50

Depreciation and amortization expense on capital assets are recorded as direct expenses 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.

Review of Carrying Value of Capital Assets for Impairment - The Municipality reviews the carrying value of capital assets for impairment whenever a significant and unexpected decline in service utility of capital assets occurs.

j) Advance Revenues

The Municipality reports deferred revenue on its GFFS and GWFS. In the GFFS, deferred revenue arises when:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period. As previously discussed, available is defined as due (or past due) at June 30, and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30, or;
- The Municipality receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

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

k) Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2013 and (2) is not contingent on a specific event (such as illness) that is outside the control of the Municipality and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and medicare taxes).

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

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

The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the GFFS only if they have matured, for example, as a result of employee resignations and retirements.

l) Long-term Debt

The long-term liabilities reported in the accompanying statements of net position include the Municipality's bonds, notes, obligation under capital leases, compensated absences and legal claims and judgments.

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

m) 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 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, the two retirement systems in which the employees of the Municipality participate. Accordingly, 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 part of the financial reporting entity of the Commonwealth. Accordingly, no portion of the net pension obligation (NPO) related to ERS

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth account for the total amount of the net pension obligation of ERS, including any amount that may be allocated to the Municipality.

According to GASB No. 27, 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.

n) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department (the Treasury Department) on behalf of all municipalities of Puerto Rico. The Treasury Department pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments deducted from the Municipality's gross property tax collections made by CRIM.

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

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

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a quarterly basis.

The Municipality also obtains medical insurance coverage for its employees. The current insurance policies have not been cancelled or terminated at June 30, 2013. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

o) Fund Balances

On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions No. 54* (GASB No. 54). GASB No. 54, which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. Also, this statement establishes fund balance classifications that comprise a hierarchy upon use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered restricted, committed, assigned, and unassigned, based on the relative strength of constraints that control how specific amounts can be spent. The Municipality has recorded the following types of fund balance classifications in the governmental funds:

- **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditor or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- **Committed** – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- **Assigned** – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- **Unassigned** – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts 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.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

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

p) *Interfund Activities*

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying GFFS:

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

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

q) *Use of Estimates*

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

r) *Accounting Pronouncements*

During the fiscal year 2012-13, the Municipality adopted the provision of the following GASB Statements:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* (GASB No. 61). The objective of this Statement is to improve

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement is effective for periods beginning after June 15, 2012.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.
- GASB Statement No. 65, *Previously Reported as Assets and Liabilities*. The objective of this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

s) ***Future Adoption of Accounting Pronouncements***

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

- GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62 (Issued 03/12)*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.
- GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25 (Issued 06/12)*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

- GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (Issued 06/12)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014.
- GASB Statement No. 69 *Government Combinations and Disposals of Government Operations (Issued 01/13)* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for financial statements for reporting beginning after June 15, 2013.
- GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement date—An Amendment of GASB Statement NO. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

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

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

2. DEPOSITS

The Municipality maintains its deposits of cash in various commercial banks located in Puerto Rico, GDB and CRIM. Proceeds from all bonds and the funds related to certain federal grant awards are required by law to be held with GDB.

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2013.
- **Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investments portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments to periods of three months or less and (3) keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2013, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low.
- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, amounting to \$2,965,450 at June 30, 2013, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2013, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.
- **Foreign exchange risk** – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2013.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

The Municipality's bank balance of deposits with financial institutions is categorized to provide an indication of the level of collateral risk assumed by the Municipality at June 30, 2013. Risk categories are described as follows:

	General Fund	HUD Fund	State Assignment Fund	Debt Service Fund	Other Governmental Fund	Totals
Cash in commercial banks	\$ 64,264	\$ 22,425	\$ 53	\$ -	\$ 92,917	\$ 179,659
Cash in GDB or CRIM, as fiscal agents	727,106			1478,135	760,209	2965,450
Total deposits	\$ 791,370	\$ 22,425	\$ 53	\$ 1478,135	\$ 853,126	\$ 3145,109

3. MUNICIPAL LICENSE 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 Villalba. This is a self-assessed tax generally based on the business volume measured by gross sales. The Municipality establishes the applicable tax rates. At June 30, 2013, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers.

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 period) are recorded as deferred revenues. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$1,561,447 at June 30, 2013, which represents municipal licenses collected in advance for the taxable year 2012-2013.

4. 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.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2013 was 6.78% (of which taxpayers pay 6.58% and 0.20% is reimbursed by the Department of Treasury). Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated to 1957 market prices. The total real property tax rate in force at June 30, 2013 was 8.78% (of which 8.58% is paid by taxpayers and 0.20% is also reimbursed by the Department of Treasury).

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 tax (4% and 6% for personal and real property, respectively) 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, 1.75% 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:

- i. 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.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

- ii. 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.

5. SALES TAX

On July 4, 2006, the Governor of Puerto Rico signed into law the Taxpayer Justice Act (Act No.117, H.B. 2193). The new law imposes a municipal sales tax at a rate of 1.5% (effective July 1, 2006) and the Commonwealth sales tax at the rate of 5.5%, with an effective date of November 15, 2006. Conversely, the Commonwealth of Puerto Rico eliminated the excise tax of 6.6% on some imports (taxes on cigarettes, liquor, and cars are still in effect) and implemented the sales and use tax ("sales tax") system. Accordingly with this law the municipal sales tax is administered at the local level, and the Commonwealth sales tax is administered through the Puerto Rico Treasury Department. Consequently, separate registration and filing forms are required of retailers.

In fiscal year 2007-2008, the Municipal Legislature of the Municipality of Villalba approved an Ordinance establishing a citizenship contribution of 1.0% over all business or personal transactions related to sale of goods and/or services made on the Municipalities boundaries. The resources collected due to this tax assessment will be used in local activities like improvements in health services, improvements in the control and management of solid waste disposal and recycling programs, public improvements, improvements of public safety, and maintenance of all public facilities of the Municipality.

Any person/corporation is required to register with each municipality in which it conducts commercial transactions and in the Puerto Rican Treasury to obtain a Retailer's Registration Certificate, exemption certificates, and tax returns forms. The retailers are required to file and send monthly sales tax returns by the 20th day following the month in which the tax was collected.

Also, on July 29, 2007, the Governor of Puerto Rico signed into Law an amendment of Act No. 117, H.B. 2193 known as Act No. 80. The most significant amendments were: first, to uniform the tax rate at 7% of which the municipalities will collect 1% and the Puerto Rico Treasury Department the other 6%, .05% of the 6% belongs to the municipality and it is distributed through three separate funds: Municipal Development Fund, Municipal Redemption Fund and Municipal Improvements Fund; secondly the establishment of a Local Commercial Rule and the elimination of source and nexus rules to impose the sale and use tax.

These funds are administered by the Government Development Bank for Puerto Rico. Finally, the Law restricts the use of the funds by the municipalities to certain specific activities.

6. INTERGOVERNMENTAL RECEIVABLE AND PAYABLE

Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows:

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

	General fund	Hud funds	State Assignment funds	Other Governmental funds	Total Governmental funds
<i>Intergovernmental receivables:</i>					
Puerto Rico Office of the Commissioner of Municipal Affairs- Community Development Block Grants Program	\$ -	\$ 56,797	\$ -	\$ -	\$ 56,797
Puerto Rico Department of Labor – Act. No. 52	-	-	-	215,752	\$ 215,752
Special Communities Trust	-	-	-	861,132	\$ 861,132
Department of Transportation	-	-	-	128,158	\$ 128,158
Others	-	-	70,098	198,604	\$ 268,702
Total intergovernmental receivables	<u>\$ -</u>	<u>\$ 56,797</u>	<u>\$ 70,098</u>	<u>\$ 1403,646</u>	<u>\$ 1530,541</u>
<i>Intergovernmental payables:</i>					
General Services Administration	\$ 207,708	\$ -	\$ -	\$ -	\$ 207,708
Puerto Rico Water and Sewage Authority	460,692				460,692
Puerto Rico Department of Labor	295,522	-	-	-	295,522
Administration of the Retirement System	526,031	-	-	-	526,031
Total intergovernmental payables	<u>\$ 1489,953</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1489,953</u>

Intergovernmental receivables and payables represent the pending settlements of the aforementioned intergovernmental transactions.

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

7. INTERFUND BALANCES

On July 1, 2003 the Municipality adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures, issued by the Governmental Accounting Standards Board*. This statement requires the disclosure of the flow of resources between funds and to assess the collectibility of interfund balances. Interfund balances at June 30, 2013 consisted of the following:

<u>Transfer out:</u>	<u>Transfer in:</u>
Major Funds:	Major Funds:
General Fund	Debt Service
\$ 133,375	\$ 133,375

Due/advances from:
Nonmajor governmental funds

<u>Due/advances to:</u>	<u>General Fund</u>	<u>State Assignment Fund</u>	<u>Other Fund</u>	<u>Total</u>
Major funds:				
General fund		\$ 1303,799	\$ 2330,934	\$ 3634,733
Hud Fund	\$16,028			16,028
State Assignment Fund	142,383			142,383
Other Fund	3588,397	-		3588,397
Total	\$ 3746,808	\$ 1303,799	\$ 2330,934	\$ 7381,541

At June 30, 2013 all amounts due to among funds are considered collectible by the Municipality's management.

The principal purposes of inter-fund receivables and payables are to recognize in the outstanding balance of the loans granted, the effect of the practice of pooling cash in the current account, and to temporarily cover the payroll and other operating costs of several federally, and local and state funded programs.

The principal purposes of inter-fund transfers are to make a routinary transfer of resources from the general fund to the debt service fund to cover the principal and interest payment on certain bond. These debt service payments were made on January and July 2013.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers at June 30, 2013.

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

Depreciation and amortization of capital assets was charged to functions/activities in the accompanying government-wide statement of activities as follows:

	Balance at June 30, 2012	Additions/ increases	Transfer in (out)	Balance at June 30, 2013
COST BASIS:				
Cost basis of capital assets, not subject to depreciation and amortization:				
Land	\$ 2054,197	393,166	(210,500)	\$ 2236,863
Construction in progress	1051,907	787,352	(332,379)	1506,880
Total cost basis of capital assets, not subject to depreciation and amortization	<u>3106,104</u>	<u>1180,518</u>	<u>(332,379)</u>	<u>3743,743</u>
Cost basis of capital assets, subject to depreciation and amortization:				
Buildings, structures and building improvements	11214,284	-	-	11214,284
Infrastructure	6877,321	332,379	-	7209,700
Recreation Facilities	10037,525	128,690	-	10166,215
Licensed vehicles	3937,207	470,281	-	4407,488
Machinery and equipment	1904,800	47,305	-	1952,105
Total cost basis of capital assets subject to depreciation and amortization	<u>33971,137</u>	<u>978,655</u>	<u>-</u>	<u>34949,792</u>
Total cost basis of capital assets	<u>\$ 37077,241</u>	<u>2159,173</u>	<u>-332,379</u>	<u>\$ 38693,535</u>
	Balance at June 30,2012	Depreciation and Amortization Expense	Reclassifications	Balance at June 30,2013
ACCUMULATED DEPRECIATION AND AMORTIZATION:				
Buildings, structures and building improvements	(2799,810)	(369,036)	-	(3168,846)
Infrastructure	(1200,134)	(256,417)	-	(1456,551)
Recreation Facilities	(3670,925)	(365,934)	-	(4036,859)
Licensed vehicles	(2946,238)	(328,502)	-	(3274,740)
Machinery and equipment	(1048,936)	(184,267)	-	(1233,203)
Total accumulated depreciation and amortization	<u>(11666,043)</u>	<u>(1504,156)</u>	<u>-</u>	<u>(13170,199)</u>
CAPITAL ASSETS, NET	<u>\$ 25411,198</u>			<u>\$ 25523,336</u>
The depreciation expense is detailed as follow:				
General government				\$ 266,986
Public safety				80,678
Public works				272,513
Health and wefare				148,033
Culture recreation and education				479,529
Urban Development				256,417
Total depreciation and amortization expense				<u>\$ 1504,156</u>

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

9. EMPLOYEES RETIREMENT SYSTEM

a) Plan Description

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed.

ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

- *Retirement Annuity*

ERS members are eligible for a retirement annuity upon reaching the following age:

Policemen and firemen:	Other employees:
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

ERS members are eligible for monthly benefit payments determined by the application of the stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a member is eligible, is limited to a minimum of \$300 per month and a maximum of 75 percent of the average compensation.

- *Merit Annuity*

ERS members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65 percent and a maximum of 75 percent of the average compensation.

- *Deferred Retirement Annuity*

A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.

- *Coordinated Plan*

On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- (a) \$165 per month, if retired with 55 years of age and 30 years of credited service.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

- (b) \$110 per month, if retired with less than 55 years of age and 30 years of credited service.
- (c) All other between \$82 and \$100 per month.
- (d) Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

- ***Non-Coordinated Plan***

On the non-coordinated plan the participating employee and does not have any change on the pension benefits upon receiving social security benefits.

- ***Reversionary Annuity***

An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than \$240 per year or greater than the annuity payments being received by the retiree.

- ***Occupational Disability Annuity***

A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50 percent of the compensation received at the time of the disability.

- ***Nonoccupational Disability Annuity***

A participating employee, totally and permanently disabled for causes not related to his/her occupation and with no less than 10 years of credited service, is eligible for an annuity of 1.50 percent of the average compensation of the first 20 years of credited services, increased by 2 percent for every additional year of credited service in excess of 20 years.

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

- *Death Benefits*

Occupational:

- (a) Surviving spouse – annuity equal to 50 percent of the participating employee’s salary at the date of the death.
- (b) Children - \$10 per month for each child, minor or student, up to a maximum benefit per family of \$100.

Nonoccupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Post-retirement:

Beneficiary with surviving spouse age 60 or over and a child, 18 or under, up to 30 percent (60 percent, if not covered under Title II of the Social Security Act) (increased to 50 percent effective January 1, 2005) of retiree’s pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of \$750.

- *Refunds*

A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.

- *Cost of Living Adjustment for Pension Benefits*

Public Act No. 10 of May 21, 1992 (Act No. 10) provided for increases of 3 percent every three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years subject to the presentation of actuarial studies regarding its costs and the source of financing. To protect the financial health of ERS, the increase granted during 2001 and the one granted on January 1, 2005 are being financed by the Municipality and the other participating employers.

To avoid any economic impact on ERS, the employers are responsible for contributing to ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the participants covered until the participants reach the normal retirement age.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

- ***Amendment to Act No. 447 effective January 1, 2000 to create a Defined Contribution Plan***

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as System 2000, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

Historically, the state government of the Commonwealth of Puerto Rico has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

- ***Recent Amendments to Act No. 447***

The Senate and the House of Representatives of the Commonwealth of Puerto Rico have the authority for establishing or amending the contribution requirements of System 2000 by approving the necessary amendments or laws, subject to the final approval of the Governor of the Commonwealth of Puerto Rico.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following certain benefits to retirees:

- (a) Increase in minimum monthly pension payments to \$300, effective January 1, 2005.
- (b) Triennial 3 percent increase in all pensions, effective January 1, 2005.
- (c) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2005.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective November 17, 2003, an increase in the amount granted on personal loans to participating employees from \$3,000 to \$5,000.

b) Funding Policy

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	9.28 percent of applicable payroll
Employees:	
Coordination plan:	5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600.
Supplementation plan:	8.28 percent of gross salary. This is the only choice available to policemen, firemen and mayors

The contribution requirement to System 2000 is also established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	9.28 percent of applicable payroll
Employees:	5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600.

c) Annual Contribution

The actual combined employer and employee contributions to ERS and System 2000 for the current and past two years, which are equal to the statutory required contributions, are as follows:

Type of Contribution	Contributions to Retirement Plan					
	June 30, 2012		June 30, 2012		June 30, 2011	
	Law 447	Reforma 2000	Law 447	Reforma 2000	Law 447	Reforma 2000
Required	\$ 73,581	\$ 154,917	\$ 105,682	\$ 197,718	\$ 82,812	\$ 156,157
Actual	\$ 73,581	\$ 154,917	\$ 105,682	\$ 197,718	\$ 82,812	\$ 156,157

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42004, San Juan, PR 00940.

10. LONG-TERM DEBT

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service.

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2013, the Municipality is in compliance with the debt limitation requirements. The general long-term debt activity for the year ended June 30, 2013 was as follows:

	Balance at June 30, 2012	Borrowings or Additions	Payments or Deductions	Balance at June 30, 2013	Due Within One Year
Bonds and bond anticipation notes payables	\$8,477,000	\$640,000	\$ (366,000)	\$ 8,751,000	\$ 417,000
Notes payable to:					
CRIM:					
Advances over collections through fiscal year 2000	1,663,908		(43,874)	1,620,034	46,631
Act No. 146 -Financing of delinquent property tax accounts sold	56,578		(2,829)	53,749	2,829
LIMS Reimbursement	-		-	-	-
Convertible Line Of Credit	1,783,218	177,865	-	1,961,083	-
Compensated absences	1,549,966	993,704	(1,153,465)	1,390,205	1,018,819
Retirement System Administration	-		-	-	-
Puerto Rico Water and Sewage Authority	56,056	-	(56,056)	-	-
Puerto Rico Department of Labor	903,323	-	(199,361)	703,962	209,560
Total	\$ 14,490,049	\$ 1,811,569	\$ (1,821,585)	\$ 14,480,033	\$ 1,694,840

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

a) Bonds Payable

The Municipality issues general and special (public improvements) obligations bonds and notes to provide for the acquisition and construction of major capital facilities and equipment, as well as, to cover certain operating needs. Bonds and notes payable at June 30, 2013 is composed of the following debts:

<u>General and Special Obligations:</u>	<u>Outstanding Amount</u>
\$435,000 Series 1991, for construction purposes, payable in annual installments ranging from \$10,000 to \$31,000 excluding interest at 5.0%, through January 1, 2016	\$ 87,000
\$295,000 Series 2001, for construction purposes, payable in annual installments ranging from \$5,000 to \$30,000, excluding interests from 2.89% to 5.6%, through July 1,	220,000
\$1,320,000, Series 2001, for construction purposes, payable in annual installments ranging from \$34,000 to \$94,000, excluding interests at 4.75%, through January 1, 2026	936,000
\$100,000, Series 2006, for construction purposes, payable in annual installments \$5,000, excluding interests at 6.50%, through July 1, 2025	65,000
\$85,000, Series 2006, for construction purposes, payable in annual installments ranging from \$5,000 to \$10,000, excluding interests at 6.75%, through January 1, 2020	50,000
\$245,000, Series 2006, for construction purposes, payable in annual installments ranging from \$5,000 to \$20,000, excluding interests at 7.5%, through January 1, 2031	215,000
\$165,000, Series 2008, for construction purposes, payable in annual installments ranging from \$5,000 to \$15,000, excluding interests at 7.5%, through January 1, 2031	135,000
\$2,110,000, Series 2007, for claim and judgment debt purposes, payable in annual installments ranging from \$30,000 to \$175,000, excluding interests at 7.5%, through January 1,	1,885,000
\$505,000, Series 2006, for construction purposes, payable in annual installments ranging from \$10,000 to \$40,000, excluding interests at 5.0%, through July 1, 2029	405,000
\$165,000, Series 2007, for construction purposes, payable in annual	140,000

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

	<u>Outstanding Amount</u>
<u>General and Special Obligations:</u>	
installments ranging from \$5,000 to \$15,000, excluding interests at 7.50 %, through July 1, 2032	
\$440,000, Series 2006 Rent, for construction purposes, payable in semiannual installments ranging from \$7,000 to \$37,000, excluding interests at 7.5%, through July 1, 2033	408,000
\$35,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$5,000 to \$15,000, excluding interests at 7.5%, through July 1,	15,000
\$67,000, Series 2009, for construction purposes, payable in semiannual installments ranging from \$2,000 to \$7,000, excluding interests at 7.5%, through July 1, 2023	56,000
\$160,000, Series 2009, for construction purposes, payable in semiannual installments ranging from \$5,000 to \$15,000, excluding interests at 7.5%, through July 1, 2034	145,000
\$640,000, Series 2013, for general purposes, payable in annual installments ranging from \$45,000 to \$85,000, excluding interests from 6.00% to 7.5%, through July 1, 2022	640,000
\$175,000 Series 2006, for construction purposes, payable in annual installments ranging from \$20,000 to \$30,000, excluding interests from 6.62% to 7.5%, through July 1, 2013	30,000
\$105,000 Series 2006, for construction purposes, payable in annual installments ranging from \$5,000 to \$10,000, excluding interests from 6.60% to 7%, through July 1, 2021	75,000
\$1,486,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$22,000 to \$131,000, excluding interests at 7.5%, through July 1, 2033	1,389,000
\$645,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$10,000 to \$55,000, excluding interests at 7.5%, through July 1, 2033	600,000
\$605,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$5,000 to \$50,000, excluding interests at 7.5%, through July 1, 2033	570,000
\$440,000, Series 2008, for construction purposes, payable in semiannual	410,000

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

	<u>Outstanding Amount</u>
<u>General and Special Obligations:</u> installments ranging from \$5,000 to \$40,000, excluding interests at 7.5%, through July 1, 2033	
\$330,000, Series 2012, for construction purposes, payable in semiannual installments ranging from \$55,000 to \$80,000, excluding interests at 7%, through July 1, 2016	<u>275,000</u>
Total bonds	<u><u>\$ 8,751,000</u></u>

These bonds are payable from the special ad valorem property tax of 1.50% and from the 0.4% of sales and use taxes collected by the Treasury Department on behalf of the Municipality, which are restricted for debt service and transferred to the Government Development Bank for Puerto Rico for such purposes.

The laws and regulations of the Commonwealth provide that public debt of the Municipality will constitute a first claim on the available revenue of the Municipality. Public debt includes bonds and notes payable. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of the bonds and notes payable.

The Municipality levies an annual additional special tax of 1.50% of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds must be set aside to redeem the bonds in minimum annual or biannual principal and interest payments. The proceeds of this special tax are recorded in the debt service fund.

Interest rates on serial bonds subject to variable rates are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program, not to exceed 8%. Under this program, GDB issues commercial paper in the U.S. taxable and tax-exempt markets, in the Eurodollar market and to corporations that have tax exemption under the Commonwealth's Industrial Incentives Act and qualify for benefits provided by the U.S. Internal Revenue Code Section 936.

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 417,000	\$ 288,267	\$ 705,267
2015	395,000	414,725	809,725
2016	419,000	497,825	916,825
2017	424,000	474,264	898,264
2018	361,000	454,818	815,818
2019-2023	2174,000	1961,632	4135,632
2024-2028	2097,000	1298,117	3395,117
2029-2033	2163,000	523,683	2686,683
2034-2035	301,000	17,884	318,884
Totals	<u>\$ 8751,000</u>	<u>\$ 5931,215</u>	<u>\$ 14682,215</u>

b) Convertible Line of Credit

Non revolving line of credit of \$1,550,000, for the construction of bowling alley, to be converted in a revenue bond at due date. Interest of 7% will be payable on January 1 and July 1 yearly after finishing construction of the bowling facility. Accrued interest of line of credit as of conversion date will be included as part of the revenue bond. As of June 30, 2013, the accrued interest amounted \$411,083.

c) Notes Payable to CRIM

Act No. 42 – Act No. 42 of January 26, 2000 was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement allows for the financing of a debt that the municipalities of Puerto Rico have with CRIM, arising from the final settlements of property tax advances versus actual collections through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238 of August 15, 1999.

In addition, on July 1, 2002, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining \$1,982,632 of excess of property tax advances through fiscal year 2000 and 2001. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB. The outstanding principal balances of the note payable to CRIM amounted \$1,620,034, at June 30, 2013. The principal and interest maturities are as follows:

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	46,631	99,535	\$ 146,166
2015	49,561	96,605	146,166
2016	52,675	93,491	146,166
2017	55,985	90,181	146,166
2018	59,504	86,662	146,166
2019-2023	400,753	403,160	803,913
2024-2028	560,318	243,595	803,913
2029-2032	394,607	43,891	438,498
	-	-	-
Total	<u>\$ 1,620,034</u>	<u>1,157,120</u>	<u>\$ 2,777,154</u>

Financing of delinquent property tax accounts sold – On July 1, 2007, the Municipality entered into a financing agreement with CRIM in the amount of \$70,722 for the payment of delinquent property tax account sold to private investors. The financing agreement in the form of a line of credit bearing interests at 6.50% during the first 5 years, and variable interests 125 points over LIBOR rate during the next 25 years. At June 30, 2013, the outstanding principal balances amounted to \$53,749. The principal and interest maturities are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,829	\$ 3,342	\$ 6,171
2015	2,829	3,166	5,995
2016	2,829	2,990	5,819
2017	2,829	2,814	5,643
2018	2,829	2,638	5,467
2019-2023	14,145	11,341	25,486
2024-2028	14,145	6,061	20,206
2029-2032	11,314	1,050	12,364
Total	<u>\$ 53,749</u>	<u>33,402</u>	<u>\$ 87,151</u>

d) Compensated Absences

At June 30, 2013, the liability for compensated absences is composed as follows:

	<u>Due within One year</u>	<u>Due after one year</u>	<u>Total</u>
Vacations and sick leave	<u>\$ 1,018,819</u>	<u>\$ 371,386</u>	<u>\$1,390,205</u>
Total	<u>\$ 1,018,819</u>	<u>\$ 371,386</u>	<u>\$1,390,205</u>

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

Puerto Rico Department of Labor

On April 26, 2011, the Municipality entered into a funding agreement with the Department of Labor in the amount of \$ 1,375,598 for the payment of unemployment debt. The amount will be retained through CRIM beginning June 5, 2011. The face amount of loan was \$1,375,578 and no interest. This note has an imputed interest rate of 5%. The first payment will be \$137,559 with 48 payments of \$20,000 and a final payment of \$275,261. At June 30, 2013, the balance of this account amounted to \$703,962. The maturities of principal and interest are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 209,561	\$ 30,439	\$ 240,000
2015	220,282	19,718	240,000
2016	274,119	1,142	275,261
Total	<u>\$ 703,962</u>	<u>51,299</u>	<u>\$ 755,261</u>

11. FUND BALANCE (DEFICIT)

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

<u>Fund balances (deficit)</u>	<u>General Fund</u>	<u>HUD Fund</u>	<u>State Assignment Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor funds</u>	<u>Total</u>
Restricted for:						
General government	\$ 661,975	-	-	-	\$ 15,982	\$ 677,957
Public safety	21,187	-	-	-	31,029	52,216
Public works	156,100	-	1170,032	-	326,682	1652,814
Health and welfare	17,656	16,519	-	-	-	34,175
Culture and recreation	76,239	-	-	-	42,784	119,023
Economic development	-	-	-	-	-	-
Debt service	-	-	-	1177,333	-	1177,333
Committed to:						
General government	63,955	-	-	-	-	63,955
Public safety	625	-	-	-	-	625
Public works	20,247	-	-	-	-	20,247
Health and welfare	75	-	-	-	-	75
Culture and recreation	15,591	-	-	-	-	15,591
Unassigned	(5997,996)	-	-	-	-	(5997,996)
Total fund balances (deficit)	<u>\$ (4964,346)</u>	<u>\$ 16,519</u>	<u>\$ 1170,032</u>	<u>\$ 1177,333</u>	<u>\$ 416,477</u>	<u>\$ (2183,985)</u>

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

12. COMMITMENTS AND CONTINGENCIES

Litigations

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

With respect to pending and threatened litigation, the Municipality has not reported liabilities in the general fund for awarded unfavorable judgment because there is not liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

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

Federal Programs

The municipality participates in a number of federal financial assistance programs. These programs are subject to audit on behalf the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant programs requirements, the Municipality may be required to reimburse, these costs, to the grantor agency. It is the Municipality's Management opinion, that any amount disallowed by federal agencies, will be immaterial to the financial statements.

Commitments

The Municipality has reported, outstanding encumbrances amounting to \$100,493 in the general fund at June 30, 2013. The municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse of period that extends into the subsequent fiscal year.

Construction Commitments

The Municipality has commitments at June 30, 2013 of approximately \$759,390 for construction, improvements or renovation of certain capital assets.

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

13. RESTATEMENTS

The beginning governmental Activities Net position and fund balance has been restated. The following table summarizes the changes to the Net position (Deficit) and Fund Balance (Deficit) at the beginning of the year as previously reported in the Statement Basic financial Statement:

	<u>Fund Balance (Deficit)</u>	<u>Net Position (Deficit)</u>
Beginning of year June 30, 2012	\$ (3637,812)	\$ 10860,742
Capital Assets erroneously reported in the Net Position		\$ (210,500)
The correction of the accounts payable in the General Fund.	<u>\$ (1183,869)</u>	<u>\$ (1183,869)</u>
Beginning of year June 30, 2012 (restated)	<u>\$ (4821,681)</u>	<u>\$ 9466,373</u>

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget – over (under)
	Original	Final		
Revenues:				
Property taxes	\$ 977,308	\$ 977,308	\$ 977,308	\$ (0)
Municipal license taxes	1619,000	1619,000	1753,315	134,315
Sales taxes	353,250	353,250	338,237	(15,013)
Construction excise taxes	1773,400	1773,400	226,602	(1546,798)
Intergovernmental grants and contributions	7129,459	7129,459	7271,802	142,343
Charge for Service	681,035	681,035	259,738	(421,296)
Rent	66,000	66,000	78,876	12,876
Miscellaneous	148,500	148,500	636,782	488,282
Total revenues	<u>12747,952</u>	<u>12747,952</u>	<u>11542,661</u>	<u>(1205,291)</u>
Expenditures:				
General government	7640,898	8200,697	7733,460	467,236
Health and welfare	892,206	754,469	712,098	42,371
Public works	1626,269	1520,702	1195,076	325,626
Public safety	1024,856	913,563	900,577	12,985
Culture, recreation and education	1375,973	1170,771	900,775	269,997
Urban and economic development				-
Total expenditures	<u>12560,202</u>	<u>12560,202</u>	<u>11441,986</u>	<u>1118,215</u>
Excess (deficiency) of revenues over expenditures	<u>187,750</u>	<u>187,750</u>	<u>100,674</u>	<u>(87,076)</u>
Other financing Sources (uses):				
Transfer out to other governmental funds	<u>187,750</u>	<u>187,750</u>	<u>133,375</u>	<u>(54,375)</u>
Total Other Financing Sources (uses)	<u>187,750</u>	<u>187,750</u>	<u>133,375</u>	<u>(54,375)</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,701)</u>	<u>\$ (32,701)</u>
Reconciliation of differences:				
Sources/inflows of financial resources:				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule				\$ 11542,661
GAAP adjustment to revenues				<u>391,234</u>
Total revenues and as reported on the statement of revenues, expenditures and changes in fund balances				<u>\$ 11933,895</u>
Uses/outflows of financial resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule (including transfer out to other funds)				\$ 11575,361
Timing differences:				
Current year encumbrances recorded as expenditures for budgetary purposes				(826,037)
Prior year encumbrances recorded as expenditures for GAAP purposes				1092,001
Entity differences:				
Non-budgeted expenditures				<u>875,235</u>
Total expenditures and transfer out to other funds as reported on the statement of revenues, expenditures and changes in fund balances				<u>\$ 12716,560</u>

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2013

Balance Sheet June 30, 2013	14.871 Housing Choice
111 Cash - Unrestricted	\$ 13,161
113 Cash - Other Restricted	9,103
100 Total Cash	22,264
121 Accounts Receivable - PHA Projects	2,038
126.2 Allowance for Doubtful Accounts - Other	-
120 Total Receivables, Net of Allowances for Doubtful Accounts	2,038
150 Total Current Assets	24,302
164 Furniture, Equipment & Machinery - Administration	51,631
166 Accumulated Depreciation	(51,588)
160 Total Capital Assets, Net of Accumulated Depreciation	43
180 Total Non-Current Assets	43
190 Total Assets	\$ 24,345
322 Accrued Compensated Absences - Current Portion	2,854
333 Accounts Payable - Other Government	7,783
310 Total Current Liabilities	10,637
354 Accrued Compensated Absences - Non Current	2,406
350 Total Non-Current Liabilities	2,406
300 Total Liabilities	13,043
508.1 Invested In Capital Assets, Net of Related Debt	43
511.1 Restricted Net Assets	9,103
512.1 Unrestricted Net Assets	2,156
513 Total Equity/Net Assets	11,302
600 Total Liabilities and Equity/Net Assets	\$ 24,345

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2013

Revenue and Expense Summary	14.871 Housing Choice
June 30, 2013	
70600 HUD PHA Operating Grants	513,082
70700 Total Fee Revenue	<u>513,082</u>
71400 Fraud Recovery	8,183
71500 Other Revenue	48,794
70000 Total Revenue	<u>\$ 570,059</u>
91100 Administrative Salaries	67,657
91600 Office Expenses	4,944
91000 Total Operating - Administrative	<u>72601</u>
96900 Total Operating Expenses	<u>\$ 72,601</u>
97000 Excess of Operating Revenue over Operating Expenses	\$ 497,458
97100 Extraordinary Maintenance	
97200 Casualty Losses - Non-capitalized	
97300 Housing Assistance Payments	\$ 483,658
97350 HAP Portability-In	44,149
97400 Depreciation Expense	339
90000 Total Expenses	<u>600,747</u>
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	<u><u>(30,688)</u></u>
11030 Beginning Equity	41,990
11170 Administrative Fee Equity	2,199
11180 Housing Assistance Payments Equity	9,103
11190 Unit Months Available	1008
11210 Number of Unit Months Leased	996

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2013

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.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

Federal Grant/ Pass-through	Federal CFDA	Pass-through Entity Identifying	2012-2013 Federal Expenditures
Grantor/ Program or Cluster Title	Number	Number	Expenditures
U.S. Department of Housing and Urban Development:			
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant / State's Program Cluster:			
Community Development Block Grant Program	14.228	FC-66/AB-66/FC-DR-66/AB-DR-66	\$ 951,948
ARRA- Community Development Block Grant	14.255	08-AB-AR-66-001	32,671
Total Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			984,619
Direct Program:			
Section 8 Housing Choice Voucher Program	14.871	N/A	570,060
Total U.S. Department of Housing and Urban Development:			1554,679
U.S. Department of Justice:			
Direct Program:			
Public Safety Partnership and Community Policing Grants	16.710	2010UMWX0275	37,326
Pass-through the Commonwealth of Puerto Rico - Department of Justice:			
ARRA- Recovery Act- Victim Assistance Formula Grants	16.801	2009-SG-MV-0112	10,306
Total U.S. Department of Justice:			47,632
U.S. Department of Health and Human Service:			
Pass-through the Commonwealth of Puerto Rico - Office of Governor, Elderly Office:			
Special Program for Aging, Title, Part B	93.044	N/A V	22,069
Total U.S. Department of Health and Human Services:			22,069
U.S. Department of Homeland Security:			
Pass-through the Commonwealth of Puerto Rico -Governor Authorized Representative (GAR):			
Disaster Grants – Public Assistance	97.036	149-99149-00 (1798-DR/ 1946-DR)	489,207
Total U.S. Department of Homeland Security:			489,207
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2113,587

See accompanying Notes to Schedule of Expenditures of Federal Awards.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality of Villalba, Commonwealth of Puerto Rico (the Municipality) for the year ended June 30, 2012. The Municipality's reporting entity is disclosed in Note 1 to the Municipality's basic financial statements as of and for the fiscal year ended June 30, 2012.

The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting.

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 basic financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The financial transactions are recorded by the Municipality in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.

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.

END OF NOTES



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 Villalba, 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 Municipality of Villalba, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated November 4, 2014. The report on the governmental fund financial statements was unqualified. In addition, the report on the governmental activities statement has a disclaimer opinion because of the inadequacies of the capital assets subsidiary ledger.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality'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 design 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 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We

INDEPENDENT AUDITOR'S REPORT
MUNICIPALITY OF VILLALBA

consider the deficiencies described in findings 13-01 and 13-02 included in the accompanying *Schedule of Findings and Questioned Costs* to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 13-01 and 13-02.

Municipality's Response to Findings

Municipality's response to the 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 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 my 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.



MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
November 4, 2014

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affixed to the original of this report.





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

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

Report on Compliance for Each Major Federal Program

We have audited Municipality of Villalba, Puerto Rico (Municipality) 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 Municipality's major federal programs for the fiscal year ended June 30, 2013. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Programs

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 fiscal year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as item 13-03 through 13-08. Our opinion on each major federal program is not modified with respect to these matters.

Municipality's response to the noncompliance finding identified in our audit is 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.

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 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 13-03 through 13-08 through that we consider to be significant deficiency.

Municipality's response 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.

INDEPENDENT AUDITOR'S REPORT
MUNICIPALITY OF VILLALBA

Purpose of this report

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.



MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
November 4, 2014

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

SECTION I-SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued:

- Unqualified Opinion, except for disclaimer opinion for government-wide financial statement
- Qualified Opinion
- Adverse Opinion
- Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness (es)? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness (es)? Yes None Reported

Type of auditors' report issued on compliance for Major Programs:

- Unqualified Opinion
- Qualified Opinion
- Adverse Opinion
- Disclaimer

Any audit findings disclosed that are required to be reported in accordance with 510(a) OMB Circular A-133?

- Yes No

The Municipality's major programs were:

CFDA Number	Name of Federal Program
14.228	Community Development Block Grant
14.871	Section 8 Housing Choice Vouchers
97.036	Disaster Grants – Public Assistance

Dollar threshold used to distinguish between Type A and Type B Programs:
Auditee qualified as low-risk auditee?

- \$300,000
- Yes No

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENTS FINDINGS AND QUESTIONED COSTS

FINDING	13-01
CATEGORY	INTERNAL CONTROL
NONCOMPLIANCE	CAPITAL ASSETS
TOPIC SENTENCE	Fixed \ Capital Assets and Expenditures – Subsidiary Ledger
CONDITION	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
CRITERIA	Chapter IX, Article 9.002 of 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 a capital asset 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.
CAUSE	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
EFFECT	The Municipality’s Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
RECOMMENDATION	We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, to comply with the requirements of the GASB Statement No. 34, GASB Statement No. 42 and GASB Statement No.51.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENTS FINDINGS AND QUESTIONED COSTS

FINDING

13-01 (CONTINUED)

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 understand that the circumstances didn't let us assign more personnel to complete this task in the current fiscal year; nonetheless we are providing as much support as we could possibly can to comply with the requirements. We can conservatory asses that this situation can be solve by the next fiscal year.

Implementation Date: December 31, 2012

Responsible Person: Mrs. Lilliam Villanueva
Finance Department Director

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENTS FINDINGS AND QUESTIONED COSTS

FINDING	13-02
CATEGORY	INTERNAL CONTROLS
TOPIC SENTENCE	Accounting System
CONDITIONS	<p>The accounting system and manuals registers used by the Municipality to account and register the financial transactions during the fiscal year does not provide for the summarization of transactions that permit the preparation of Municipality's financial statements in conformity with the General Accepted Accounting Principles of the United States of America (GAAP).</p> <p>There are no internal controls or records to account for the inter fund receivable and payables balances between Municipality's funds. Monthly program's expenditures financed by the Municipality's general fund are not being register, monitored nor accounted for by the Programs' accountants. In addition, inter fund transactions regarding the reimbursement of money between funds were not supported by an analysis.</p> <p>The Municipality does not have with an accounts receivable subsidiary ledger.</p>
CRITERIA	<p>According to Article 8.010 (a) and (b) of Law Num. 81 for the Municipalities of Puerto Rico, the computerized system and the procedures of accounting and property will be design so that it allows the Municipality to carry out its functions, at the same time as they serve to maintain an uniform and coordinated accounting, that provide a complete picture of the financial operations of the Municipality and the necessary financial information that assist the Municipality Legislature, the Governor, and the Secretary of the Puerto Rico Treasury Department in the performance of its respective responsibilities. Municipalities accounting will be based on funds, Generally Accepted Accounting Principles and the requirements established by the Governmental Accounting Standard Board. Also the pronouncements of the National Committee on Governmental Accounting and the "Blue Book" will be used to design municipalities' accounting systems and fiscal procedures.</p>
CAUSES	<p>Municipality's accounting system and financial reports are subject to State's agencies requirements which does not allow nor provide the Municipality with the necessary tools capable of recapturing the financial information and provide financial statements.</p>

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENTS FINDINGS AND QUESTIONED COSTS

FINDING	13-02 (CONTINUED)
EFFECT	<p>The lack of an adequate accounting system which can capture all the financial information and generate Municipality's financial statements for each fiscal year affect the Municipality's ability to measure the financial and nonfinancial performance of programs and activities; adequately safeguard significant assets and properly record various transactions; and hinder the Municipality from having reliable financial information to operate in an economical, efficient, and effective manner.</p> <p>Sound decisions on the current results and future direction of vital programs and policies are made more difficult without timely, reliable and useful financial performance information.</p>
RECOMMENDATION	<p>The Municipality should establish and implement the necessary measures that allow the summarization of the financial transactions in order to prepare the financial statements in conformity with GAAP.</p>
QUESTIONED COSTS	<p>None</p>
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>The Municipality of Villalba has acquired a new accounting system for the Finance Department that complies with GAAP. Therefore, we can assure that the procedures related to the financial information in the Municipality in order to prepare the information according to GAAP will be in effect for next fiscal year. This situation has been solved.</p> <p>Implementation Date: January 31, 2013 Responsible Person: Mrs. Lillian Villanueva Finance Department Director</p>

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-03
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM (CDBG) (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	INTERNAL CONTROL / COMPLIANCE
NONCOMPLIANCE	PROCUREMENT STANDARDS
TOPIC SENTENCE	LACK OF REQUIRED CONTRACT CLAUSES
CONDITION	<p>In testing compliance with the procurement requirement, we examined four contracts for construction projects formalized between July 2012 and June 2013. In relation to such examination we determined none of them include the following required contract clauses.</p> <ul style="list-style-type: none">• Contractual legal remedies when contractor violates term.• Granting access to GAO and other federal agencies to books and documents.• Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.• Suspension and Debarment Certification.
CRITERIA	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (i) (1-13) states that subgrantee's contract must contain provisions in paragraph (i) of these Sections. 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 Procurement Policy.
CAUSE	The Municipality did not maintain appropriate procurement standard procedures in order to assure that contractor complies with program requirements.
EFFECT	Municipality is not in compliance with the mentioned federal regulations.
RECOMMENDATION	We recommend management to update contract model according with the federal requirement.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCALYEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

QUESTIONED COSTS None

MANAGEMENT RESPONSE
AND CORRECTIVE ACTION PLAN

The City Clerk's Office or Municipality's Secretary Office is evaluating all construction contracts clauses on a consistent basis and a draft with all correspondent clauses is been currently use in the Municipality. Nonetheless, there are some contracts that have been signed before this evaluation that hasn't been amended in order to incorporate these clauses on them. Proper measures will be taken in order to fully comply with the regulations.

Implementation Date: January 31, 2013
Responsible Person: Mss. Marena Navarro, Esq.
 Municipality's Secretary Office Director

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MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCALYEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-04
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	INTERNAL CONTROL / COMPLIANCE
NONCOMPLIANCE	SUSPENSION AND DEBARMENT
TOPIC SENTENCE	ABSENCE OF CONTROLS TO ASSURE COMPLIANCE WITH SUSPENSION AND DEBARMENT
CONDITIONS	As determined by interviews to Program personnel and by examination of projects files, the Municipality did not maintain adequate controls and procedures to assure that the individuals and entities which are granted with contracts are not suspended or debarred from participation in federal programs.
CRITERIA	As stated in 24 CFR 85.35 grantee and subgrantee must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension".
CAUSE	The Municipality has no policies and procedures for the use of the List of Parties Excluded from federal procurement or non-procurement programs to assure that they do not award assistance to listed parties.
EFFECT	As a result of this deficiency, the Municipality could have procured goods or services from organizations and individuals that are suspended or debarred which could result in cost disallowances by the federal awarding agency.
RECOMMENDATION	The Municipality should amend their procurement procedures and include a step to verify whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. The Municipality should also require the entities or individuals to submit a certification stating that they are not suspended or debarred or add a clause or condition to the covered transaction with that entity.
QUESTIONED COSTS	None

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MANAGEMENT RESPONSE
AND CORRECTIVE ACTION PLAN

Although the Municipality may not do the process described in the finding, proper measures are being taken by the Federal Programs personnel in order to comply with the regulations. The Bid Board of the Municipality request reliable documentation of the entities participating in bids before they award any bid. Also, the Finance Department solicits, before making any payments, entities documents to assure the entity is in good standing and complies with state or federal regulations. These measures, among others serve as a precautionary control in order to protect the best interests of the Municipality of Villalba in administering its public funds.

Implementation Date: January 31, 2013
Responsible Person: Mss. Marena Navarro, Esq.
Municipality's Bid Board President
Municipality's Secretary Office Director

Mrs. Sara Robles
Federal Program Office Director

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-05
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA NO. 14.871) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CATEGORY	INTERNAL CONTROL / COMPLIANCE
NONCOMPLIANCE	REPORTING
TOPIC SENTENCE	FAILURE TO SUBMIT IN A TIMELY MANNER THE FINANCIAL INFORMATION
CONDITIONS	The Municipality failed to submit, in a timely manner, the audited and unaudited financial information for the fiscal year 2011-2012 and 2012-2013 to HUD, through the FASS-PH system.
CRITERIA	CFR 24, Section 5.801 (b) states that financial information (2) submitted electronically to HUD through the internet, or in such other electronic format designated by HUD, or in such non-electronic format as HUD may allow if the burden or cost of electronic reporting is determined by HUD to be excessive.
CAUSE	The Municipality is not complying with the due dates established by HUD to submit the audited reports and unaudited reports.
EFFECT	The Municipality did not submit to HUD, the required reports, in a timely manner in order to comply with the Federal regulation.
RECOMMENDATION	The Municipality should implement adequate controls to prepare accurate financial reports as required by HUD.
QUESTIONED COSTS	None.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The Municipality of Villalba experienced personnel difficulties in the Finance Department for completing the information needed for the financial statements in the fiscal year mentioned in the finding. We have supported the finance department personnel with professionals that are helping to prevent that this situation may occur again. Implementation Date: January 31, 2013 Responsible Person: Mrs. Lillian Villanueva Finance Department Director

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-06
FEDERAL PROGRAM	DISASTER GRANTS – PUBLIC ASSISTANCE (CFDA NO. 97.036) DEPARTMENT OF HOMELAND SECURITY PASS THROUGH COMMONWEALTH OF PUERTO RICO -GOVERNOR AUTHORIZED REPRESENTATIVE (GAR):
CATEGORY	COMPLIANCE / INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COSTS / REPORTING (FISCAL REQUIREMENTS)
TOPIC SENTENCE	LACK OF ACCOUNTING RECORDS AND INADEQUATE CONTROLS
CONDITIONS	During our internal control auditing procedures we observe the following: <ol style="list-style-type: none">1. The Disaster Grants – Public Assistance Program (the Program) did not maintain an adequate fiscal control and accounting records over the management, use and registering of funds granted by the Lead Agency (GAR) during the fiscal year 2012-13. Among the deficiencies founds were the following:<ul style="list-style-type: none">- The Program did not have a general ledger or any other related subsidiary ledger. For such reason, during the fiscal year 2012-13 financial transactions were not registered neither reconciled, at least, on a monthly basis.- There were no internal controls neither records to account for the inter fund receivable and payables balances. Program's expenditures financed by the Municipality's general fund were not registered, neither monitored nor accounted for by the Program's accountant.- No Official Collector Receipts were prepared for the program cash receipts.2. During our internal control tests to seven disbursement transactions, we observe the following:<ul style="list-style-type: none">- In 1 case the invoice was not marked as paid.- One receiving report was not available to evaluate.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-06 (CONTINUED)
CRITERIA	<p>As stated in 44 CFR 13.20, (a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to— (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. (b) The financial management systems of other grantees and subgrantees must meet the following standards: (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records. 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) Internal control. 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>
CAUSE	<p>The Municipality's and Program's management have not established the procedures and adequate internal controls to ensure the adequate recording of all related financial information.</p>
EFFECT	<p>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.</p> <p>Also, the awarding agency inhibits from monitoring the programs financial performance.</p>
RECOMMENDATION	<p>The Municipality should establish a plan and implement the corresponding internal controls to ensure that all Program's transactions and activities are properly recorded and fairly presented in accordance with program requirements and that all financial transactions' supporting documents are properly safeguarded. In addition, should establish and maintain a subsidiary ledger to accurately account for inter fund transactions.</p>
QUESTIONED COSTS	None

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING

13-06 (CONTINUED)

MANAGEMENT RESPONSE
AND CORRECTIVE ACTION PLAN

The Municipality of Villalba had acquired a new accounting system for the Finance Department that solved this situation. Therefore, we can assure that the procedures related to recording the accounting information of the Municipality's programs will comply with GAAP and will be subject to the correspondent examination.

Implementation Date: January 31, 2013
Responsible Person: Mrs. Lillian Villanueva
Finance Department Director

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-07
FEDERAL PROGRAM	DISASTER GRANTS – PUBLIC ASSISTANCE (CFDA NO. 97.036) DEPARTMENT OF HOMELAND SECURITY PASS THROUGH COMMONWEALTH OF PUERTO RICO -GOVERNOR AUTHORIZED REPRESENTATIVE (GAR):
CATEGORY	INTERNAL CONTROL / COMPLIANCE
NONCOMPLIANCE	PROCUREMENT STANDARDS
TOPIC SENTENCE	LACK OF REQUIRED CONTRACT CLAUSES
CONDITION	<p>In testing compliance with the procurement requirement, we examined two contracts for design of construction projects formalized in November 2012. In relation to such examination we observe the following:</p> <p>The two reviewed contracts did not include the following required clauses:</p> <ul style="list-style-type: none">• Contractual legal remedies when contractor violates term.• Granting access to GAO and other federal agencies to books and documents.• Suspension and Debarment Certification.• 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 (41 CFR chapter 60).
CRITERIA	Code of Federal Regulations, 44 CFR Section 13.36 (i) (1-13) states that subgrantee’s contract must contain provisions in paragraph (i) of these Sections. 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 Procurement Policy.
CAUSE	The Municipality did not maintain appropriate procurement standard procedures in order to assure that contractor complies with program requirements.
EFFECT	Municipality is not in compliance with the mentioned federal regulations.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-07 (CONTINUED)
RECOMMENDATION	We recommend management to update contract model according with the federal requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>The City Clerk's Office or Municipality's Secretary Office is evaluating all construction contracts clauses on a consistent basis and a draft with all correspondent clauses is been currently use in the Municipality. Nonetheless, there are some contracts that have been signed before this evaluation that hasn't been amended in order to incorporate these clauses on them. Proper measures will be taken in order to fully comply with the regulations.</p> <p>Implementation Date: January 31, 2013 Responsible Person: Mss. Marena Navarro, Esq. Municipality's Secretary Office Director</p>

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-08
FEDERAL PROGRAM	DISASTER GRANTS – PUBLIC ASSISTANCE (CFDA NO. 97.036) DEPARTMENT OF HOMELAND SECURITY PASS THROUGH COMMONWEALTH OF PUERTO RICO -GOVERNOR AUTHORIZED REPRESENTATIVE (GAR):
CATEGORY	INTERNAL CONTROL / COMPLIANCE
NONCOMPLIANCE	SUSPENSION AND DEBARMENT
TOPIC SENTENCE	ABSENCE OF CONTROLS TO ASSURE COMPLIANCE WITH SUSPENSION AND DEBARMENT
CONDITIONS	As determined by interviews to Program personnel and by examination of projects files, the Municipality did not maintain adequate controls and procedures to assure that the individuals and entities which are granted with contracts are not suspended or debarred from participation in federal programs.
CRITERIA	As stated in 44 CFR 13.35 grantee and subgrantee must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension".
CAUSE	The Municipality has no policies and procedures for the use of the List of Parties Excluded from federal procurement or non-procurement programs to assure that they do not award assistance to listed parties.
EFFECT	As a result of this deficiency, the Municipality could have procured goods or services from organizations and individuals that are suspended or debarred which could result in cost disallowances by the federal awarding agency.
RECOMMENDATION	The Municipality should amend their procurement procedures and include a step to verify whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. The Municipality should also require the entities or individuals to submit a certification stating that they are not suspended or debarred or add a clause or condition to the covered transaction with that entity.

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 13-08 (CONTINUED)

QUESTIONED COSTS None

**MANAGEMENT RESPONSE
AND CORRECTIVE ACTION PLAN**

Although the Municipality may not do the process described in the finding, proper measures are been taken by the Federal Programs personnel in order to comply with the regulations. The Bid Board of the Municipality request reliable documentation of the entities participating in bids before they award any bid. Also, the Finance Department solicits, before making any payments, entities documents to assure the entity is in good standing and complies with state or federal regulations. These measures, among others serve as a precautionary control in order to protect the best innterests of the Municipality of Villalba in administering its public funds.

Implementation Date: January 31, 2013
Responsible Person: Mss. Marena Navarro, Esq.
Municipality's Bid Board President
Municipality's Secretary Office Director

Mrs. Sara Robles
Federal Program Office Director

END OF SCHEDULE

MUNICIPALITY OF VILLALBA
COMMONWEALTH OF PUERTO RICO

SUMMARY SCHEDULE OF PRIOR YEARS FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

(1) Audit Findings that have been Fully Corrected:

12-05 Reporting 14.871

NONE

(2) Audit Findings not corrected or Partially Corrected:

Finding Number	CFDA	Questioned Cost	Comments
12-03 Procurement	14.228	None	Situation still prevail
12-04 Suspension and Debarment	14.228	None	Situation still prevail
12-06 Davis Bacon	20.507	None	Situation still prevail
12-07 Procurement	20.507	None	Situation still prevail
12-08 Suspension and Debarment	20.507	None	Situation still prevail
12-09 Allowable costs/Reporting	97.036	None	Situation still prevail
12-10 Procurement	97.036	None	Situation still prevail
12-11 Suspension and Debarment	97.036	None	Situation still prevail
11-03 Procurement	14.228	None	Situation still prevail
11-04 Suspension and Debarment	14.228	None	Situation still prevail
11-05 Special Tes and Provisions	14.228	None	Situation still prevail
11-06 Reporting (Fiscal Controls)	97.036	None	Situation still prevail
11-07 Procurement	97.036	None	Situation still prevail
11-08 Suspension and Debarment	97.036	None	Situation still prevail
10-04 Procurement	14.228	None	Situation still prevail
10-05 Procurement	14.228	None	Situation still prevail
10-06 Suspension and Debarment	14.228	None	Situation still prevail
10-07 Special Tes and Provisions	14.228	None	Partially Corrected
09-04 Procurement	14.228	None	Situation still prevail
09-05 Special Test and Provisions	14.228	None	Situation still prevail
09-06 Suspension and Debarment	14.228	None	Situation still prevail

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

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE