

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF HUMACAO
MUNICIPAL LEGISLATURE
HUMACAO, PUERTO RICO**

CERTIFICATION

I, **LESLIE A. RIVERA GONZÁLEZ**, Interim Secretary of the Municipal Legislature of Humacao, Puerto Rico for the present **CERTIFY**:

That the accompanying document is a translation into English of the original **Ordinance Number 12, Series 2011-12**, that was approved by the Municipal Legislature of Humacao, Puerto Rico, in the Extraordinary Session held on September 14, 2011.

VOTING

AFFIRMATIVE VOTES:

1. Honorable Julio C. Burgos Gutiérrez
2. Honorable Carmen N. Carrillo Arzuaga
3. Honorable Olga del Moral Sánchez
4. Honorable Roberto Díaz Díaz
5. Honorable Francisco Díaz Jaime
6. Honorable José Á. González Hernández
7. Honorable Grace Napolitano Matta
8. Honorable Ciary Y. Pérez Peña
9. Honorable Ángel G. Rodríguez Medina
10. Honorable Miguel Rodríguez Vega
11. Honorable Narciso J. Rodríguez Velázquez
12. Honorable Daniel Santiago Rojas
13. Honorable Héctor Sepúlveda Ramos
14. Honorable Víctor M. Velázquez Casillas
15. Honorable Willie A. Rosario Arroyo- Presidente

AGAINST:

None

ABSENT:

16. Honorable Luis E. "Gardy" Fontáñez

REFRAINED:

None

CERTIFY CORRECT:

Leslie A. Rivera González
LESLIE A. RIVERA GONZÁLEZ
INTERIM SECRETARY

Official Seal

COMMONWEALTH OF PUERTO RICO
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Project Number: 7
Ordinance Number: 12

Series: 2011-2012

Presented by: Administration.

TO ADOPT IN THE AUTONOMOUS MUNICIPALITY OF HUMACAO ACCOUNTING POLICIES REQUIRED BY THE STATEMENT NUMBER 54, "REPORT FUND BALANCE AND DEFINITIONS OF TYPES OF GOVERNMENT FUNDS" ISSUED IN FEBRUARY 2009 BY THE ACCOUNTING REGULATORY BOARD OF THE GOVERNMENT (GASB)."

WHEREAS: Article 8.010, *Fiscal Organization and Accounting System*, of the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Government of Puerto Rico, in its paragraph (b) establishes and we quote:

"(b) The municipal accounting will be registered by funds and will be based on the Generally Accepted Accounting Principles and the requirements established by the Governmental Accounting Standard Board (GASB). The National Committee on Governmental Accounting (NCGA) pronouncements will also be used and the book "Governmental Accounting, Auditing and Financial Reporting", commonly known as "Blue Book", should be used as a basis for designing the system of accounting and fiscal procedures for municipalities."

WHEREAS: In February 2009, the Governmental Accounting Standard Board issued **Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54)***. This new standard has substantially altered the categories and the terminology used to describe the balance of governmental funds. The requirements of this statement are effective for annual financial statements ending on June 30, 2011.

WHEREAS: The Autonomous Municipality of Humacao (Municipality) believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable base, the Municipality needs

to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income.

WHEREAS: GASB 54 also requires that the Municipality established the following policies: Policy on Funds Balance, Policy on Committing Funds, Policy on Assigning Funds, the Policy on Unassigned Funds, and Policy on the Allocation of Priorities of Use of the Funds Balance.

THEREFORE: THE FOLLOWING IS ADOPTED BY THE MUNICIPAL LEGISLATURE OF HUMACAO, PUERTO RICO:

SECTION 1: Set the following Policy on Funds Balance:

Policy on Funds Balance

The Autonomous Municipality of Humacao (Municipality) believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

In February 2009, the Governmental Accounting Standard Board issued **Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54)**. This new standard has substantially altered the categories and the terminology used to describe the balance of governmental funds.

The purpose of GASB 54 is to provide clarity to understand the extent of restrictions on the use of balances of the funds presented in the financial statements. One objective of this standard was to improve, including the understandability, the usefulness of fund balance information by providing clear fund balance classifications. GASB 54 abandons the reserved, unreserved, and designated classifications of fund balance and replaced them with five classifications: nonspendable, restricted, committed, assigned, and unassigned. The requirements of this statement are effective for the Municipality's financial statements for the fiscal year ending June 30, 2011.

GASB 54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. The fund balance classifications indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints. The following five classifications serve to inform readers of the financial statements of the extent to which the Municipality is bound to honor constraints on the specific purposes for which resources in a fund can be spent.

- *Nonspendable Fund Balance* – Fund balance reported as “nonspendable” represents fund balance that is (a) not in a spendable form such as prepaid items or (b) legally or contractually required to be maintained intact such as an endowment.
- *Restricted Fund Balance* – Fund balance reported as “restricted” consists of amounts that can be spent only on the specific purposes stipulated by law or by the external providers of those resources.
- *Committed Fund Balance* – Fund balance reported as “committed” are self-imposed limitations set in place prior to the end of the fiscal period. These amounts can be used only for the

specific purposes determined by a formal action of the Municipal Legislature, which is the highest level of decision-making authority, and that require the same level of formal action to remove the constraint.

- *Assigned Fund Balance* – Fund balance reported as “assigned” consists of amounts that are subject to a purpose constraint that represents an intended use established by the Municipal Legislature or by a designated official. The purpose of the assignment must be narrower than the purpose of the General Fund. Formal action is *not* necessary to impose, remove, or modify a constraint in Assigned Fund Balance. Additionally, this category is used to reflect the appropriation of a portion of existing fund balance to eliminate a projected deficit in the subsequent year’s budget.
- *Unassigned Fund Balance* – Fund balance reported as “unassigned” represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications.

SECTION 2: Set the following Policy on Committing Funds:

Policy on Committing Funds

In accordance with GASB 54, it is the policy of the Municipality that funds balance amounts will be reported as “Committed Fund Balance” only after formal action and approval by the Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact

amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a resolution prior to year-end financial statements, if available, up to specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this resolution before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance contained within GASB 54. Examples of reasons to commit fund balance would be to display intentions to use portions of the fund balance for future capital projects, stabilization funds, or to earmark special General Fund streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, in accordance with GASB 54, is the policy of the Municipality that funds can only be removed from Committed Fund Balance category after resolution and approval by the Municipal Legislature.

SECTION 3: Set the following Policy on Assigning Funds:

Policy on Assigning Funds

In accordance with GASB 54, funds that are intended to be used for a specific purpose but have not received the formal approval action of the Municipal Legislature may be recorded as Assigned Fund

Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature.

Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

SECTION 4: Set the following Policy on Unassigning Funds:

Policy on Unassigning General Fund Balance

It is the goal of the Municipality to achieve and maintain an unassigning General Fund balance equal to 15% of the budgeted expenditures. The Municipality considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the unassigned General Fund balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance.

Appropriation from unassigned General Fund balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital asset purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted.

SECTION 5: Set the following Policy on the Allocation of Priorities of Use of the Funds Balance:

**Policy on the Allocation of Priorities of Use of the Funds
Balance**

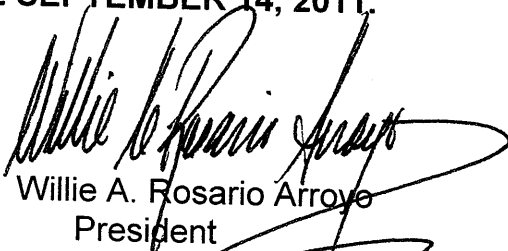
In circumstances where the payment is for a purpose that quantities are available in multiple fund balance classifications, the order in which the resources will be used shall be as follows: Restricted Fund Balance, followed by the Committed Fund Balance, Assigning Fund Balance and last but not least, Unassigning Fund Balance.

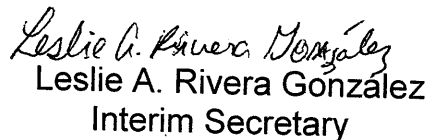
SECTION 6: Faculty is delegated to the Director of the Finance Office to execute the policies herein established, to be disclosed as part of the financial statements of the Municipality for the Fiscal Year Ended June 30, 2011.

SECTION 7: This Ordinance will be effective and enforced immediately upon signing by the Mayor.

SECTION 8: Copy of this Ordinance shall be notified to the Office of the Director of Finance, Municipal Secretary, the Mayor's Office and the Office of the Commissioner of Municipal Affairs.

APPROVED BY THE MUNICIPAL LEGISLATURE OF HUMACAO, PUERTO RICO, ON THE SEPTEMBER 14, 2011.


Willie A. Rosario Arroyo
President


Leslie A. Rivera González
Interim Secretary

**PRESENTED THIS ORDINANCE TO MY CONSIDERATION ON 16 OF
SEPTEMBER 2011 AND SIGNED BY ME ON SEPTEMBER 16 2011.**


Marcelo Trujillo Panisse
Mayor