

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2011



12-04-0231

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

**HON. JORGE L. GONZALEZ OTERO
MAYOR**

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2011

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Pedro C. Ortiz Ledee

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Jayuya, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2011, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 5 to the financial statements, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets, including the infrastructure, reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Municipality as of June 30, 2011, or the changes in financial position, thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2011, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2012, 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 our 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* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 3 through 13 and 51 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Pedro C. Ortiz Ledee, CPA
License Number 5200

Guayama, Puerto Rico
March 6, 2012



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The management of Municipality of Jayuya, Puerto Rico (Municipality) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2011. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

The reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2003-2004. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- The Municipality's assets exceeded its liabilities at June 30, 2011 by \$16,648,095, and at June 30, 2010 by \$18,561,889;
- The Municipality's total net assets decrease by \$1,913,794 during fiscal year 2010-2011;
- As of June 30, 2011, the Municipality's governmental funds reported combined ending fund balance of \$13,953,264, an increase of \$2,577,135 from the prior year;
- At June 30, 2011, the Statement of Net Asset presented an unrestricted deficit of \$4,341,236;
- The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2011 were \$18,246,563 (net of accumulated depreciation);
- The investment in capital assets for this year was \$11,589,231 (net of related debt);
- Loans principal payments were \$728,900 and \$581,882 in 2011 and 2010, respectively.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS

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

The difference between the Municipality's total assets and total liabilities reported in the statement of net assets 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 statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2011, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

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

FUND FINANCIAL STATEMENTS

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

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

GOVERNMENTAL FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

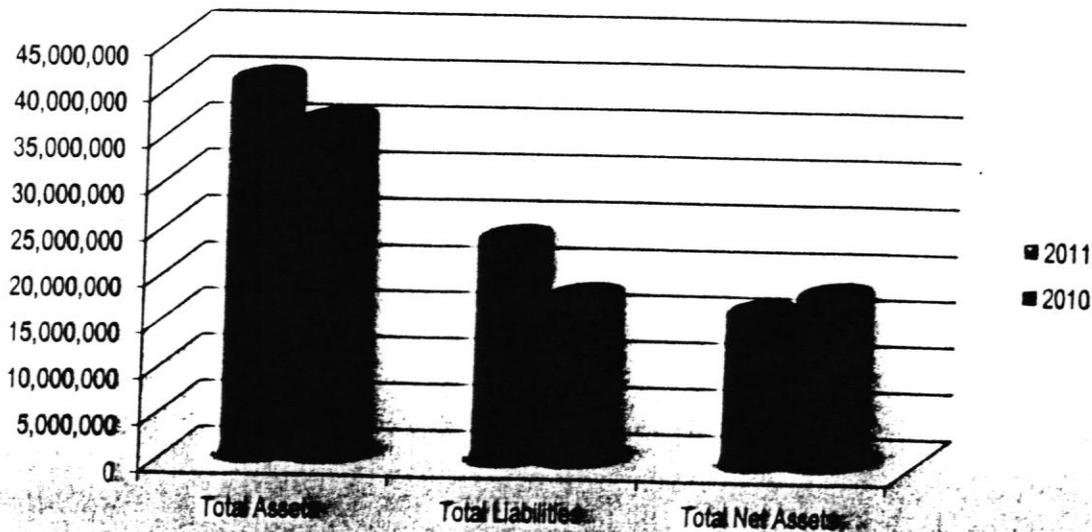
GOVERNMENTAL NET ASSETS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$16,648,095 as of June 30, 2011, versus 18,561,889 as of June 30, 2010. Our analysis below focuses on the net assets (Table 1) and changes in net assets of the Municipality's governmental activities.

Table 1

Statement of Net Assets

	<u>2011</u>	<u>2010</u>
Current and non-current assets	\$ 22,642,332	\$ 18,834,361
Capital assets	18,246,563	17,817,277
Total Assets	<u>40,888,895</u>	<u>36,651,638</u>
Current liabilities	3,672,514	2,554,804
Long-term liabilities	20,568,286	15,534,945
Total Liabilities	<u>24,240,800</u>	<u>18,089,749</u>
Net assets:		
Investment in capital assets, net of related debt	11,589,231	12,674,473
Restricted	9,400,100	13,370,346
Deficit	(4,341,236)	(7,482,930)
Total Net Assets	<u>\$ 16,648,095</u>	<u>\$ 18,561,889</u>



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

GOVERNMENTAL ACTIVITIES

Governmental activities decreased the Municipality's net assets. Key elements of this decrease are as follows: the Municipality's governmental activities had net expenses of \$11,179,009. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues did not exceed net expenses by \$1,913,794.

The cost of all governmental activities this year was \$17,694,972. **Table 2** presents the cost of each of the Municipality's largest programs.

Table 2
Statement of Activities

	<u>2011</u>	<u>2010</u>
Revenues		
Grants and contributions	\$ 4,964,704	\$ 6,364,293
General revenues:		
Property taxes	1,440,208	1,503,425
Sales taxes	986,861	745,522
Volume of business taxes	969,398	1,196,775
Construction taxes	172,056	124,164
Intergovernmental	5,207,724	5,019,172
Charges for services	1,551,259	1,343,148
Other General revenues	488,968	602,444
Total revenues	<u>15,781,178</u>	<u>16,898,943</u>
Expenses		
General administration	5,505,945	5,909,411
Public safety	549,862	595,719
Public works	1,683,409	1,459,730
Culture and recreation	1,306,950	965,262
Health and Sanitation	833,314	613,307
Human services and welfare	4,989,833	5,215,419
Urban development	2,297,844	3,651,904
Interest on long-term debts	527,815	410,744
Total expenses	<u>17,694,972</u>	<u>18,821,496</u>
Changes in net assets	(1,913,794)	(1,922,553)
Net assets – beginning	18,561,889	20,484,442
Net assets – ending	<u>\$ 16,648,095</u>	<u>\$ 18,561,889</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

2011 Revenues



- Grants and contributions
- Property taxes
- Volume of business taxes
- Construction taxes
- Sales taxes
- Intergovernmental
- Charges for services
- Other General revenues

2011 Expenditures



- General administration
- Public safety
- Public works
- Health and Sanitation
- Culture and recreation
- Human services and welfare
- Urban development
- Interest on long-term debts

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Approximately twenty two percent (22%) of the Municipality's governmental activities total revenue came from taxes, while thirty two percent (32%) resulted from grants and contributions. Federal grants represent sixty six percent (66%) of the Municipality grants and contributions revenues. The Municipality's governmental activities expenses included items such as mayor and municipal legislature, general government, public safety, public works, culture and recreation, health and sanitation, human service and welfare, urban development and interest on long term debts.

Approximately thirty one percent (31%) of total expenses resulted from general administration, three percent (3%) from public safety, ten percent (10%) from public works, seven percent (7%) from culture and recreation, five percent (5%) from health and sanitation, twenty eight percent (28%) from human service and welfare, thirteen percent (13%) from urban development and three percent (3%) from interest on long term debts.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

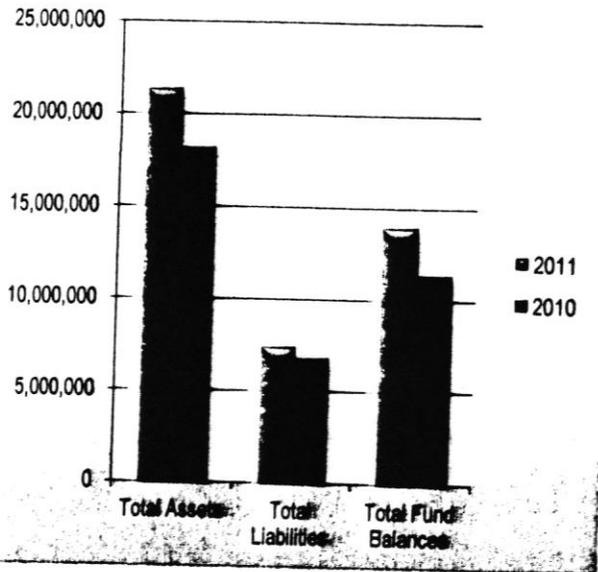
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

GOVERNMENT FUND FINANCIAL ANALYSIS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

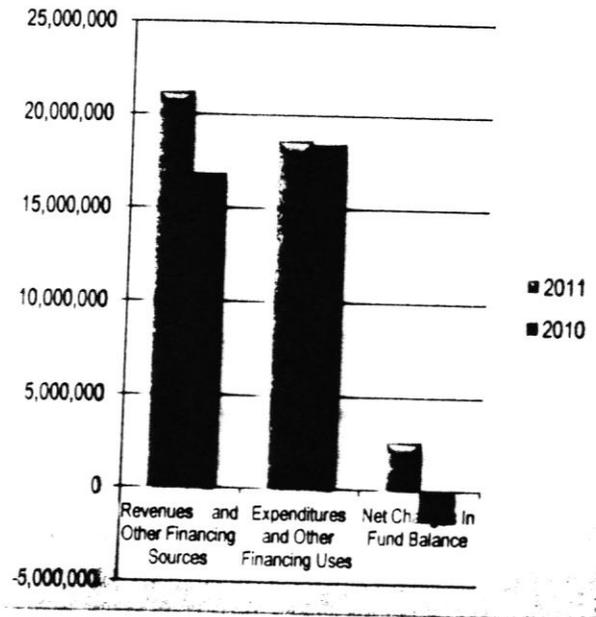
**Table 3
Balance Sheet**

	2011	2010
Assets:		
Total assets – Major Funds	\$ 12,100,235	\$ 8,003,235
Total assets – Other Funds	9,246,193	10,180,307
Combined total assets	\$ 21,346,428	\$ 18,183,542
Liabilities:		
Total liabilities – Major Funds	4,044,464	3,888,443
Total liabilities – Other Funds	3,348,700	2,918,970
Combined total liabilities	7,393,164	6,807,413
Fund Balances (as restated):		
Restricted, Committed or Assigned – Major Funds	7,863,606	3,966,734
Restricted, Committed or Assigned – Other Funds	5,897,493	7,261,337
Unassigned	192,165	148,058
Combined total fund balances	13,953,264	11,376,129
Total liabilities and fund balances	\$ 21,346,428	\$ 18,183,542



**Table 4
Changes in Fund Balances**

	2011	2010
Revenues:		
Total revenues – Major Funds	\$ 10,474,300	\$ 10,119,478
Total revenues – Other Funds	5,477,470	6,627,773
Combined total revenues	15,951,770	16,747,251
Expenditures:		
Total expenditures – Major Funds	11,761,040	11,248,620
Total expenditures – Other Funds	6,848,595	7,208,447
Combined total expenditures	18,609,635	18,457,067
Other financing sources (uses):		
Other financing sources – Major Funds	5,235,000	-
Other financing sources – Other Funds	-	80,285
Combined other financing sources (uses), net	5,235,000	80,285
Net changes in fund balance	2,577,135	(1,629,531)
Fund Balance – beginning	11,376,129	13,005,660
Fund Balance – ending	\$ 13,953,264	\$ 11,376,129



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

GOVERNMENTAL FUNDS

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2011, the Municipality's governmental funds reported combined ending fund balances of \$13,953,264, an increase of \$2,577,135 from the prior year.

The Municipality has an unassigned fund balance of \$192,165 in its General Fund. The remainder of the balance is restricted, committed and assigned; (a) to liquidate prior year obligations (\$374,592), (b) to pay debt service (\$1,310,923), (c) for capital projects (\$7,425,825) and (d) for other purposes (\$4,649,759).

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds. Table 5 summarizes the results of the General Fund's Budgetary Comparison Schedule:

Table 5	Final Budget	Actual Amounts	Variance
Total revenues	\$ 8,350,689	\$ 8,373,830	\$ 23,141
Total expenditures, encumbrances and other financing uses	<u>8,350,689</u>	<u>8,495,519</u>	<u>(144,830)</u>
Excess or deficiency	<u>\$ _____</u>	<u>\$ (121,689)</u>	<u>\$ (121,689)</u>

The original and the final budget of the General Fund for the fiscal year ended June 30, 2011 amounted to \$7,853,411 and \$8,350,689, respectively. Over the course of the fiscal year, the Municipality revised the General Fund'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, 2011 were \$8,373,830, which is \$23,141 more than the budgeted revenues. In addition, the total actual expenditures and other financing sources (budgetary basis) of the General Fund for the fiscal year ended June 30, 2011 were \$8,495,519, which is two percent (2%), or (\$144,830) more than the budgeted expenditures.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2011 amounted to \$18,246,563 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, and bridges. The total increase in the Municipality's investment in capital assets for the current fiscal year was \$429,286. Additions during the fiscal year were principally for buildings and construction in progress. Table 6 present the major classes of capital assets (net of accumulated depreciation):

Table 6	
Capital Assets	Amount
Construction in progress	\$ 2,062,282
Land	2,441,334
Buildings	11,602,672
Infrastructure	1,075,575
Machinery and equipment	864,931
Motor vehicles	<u>199,769</u>
Total Assets	<u>\$ 18,246,563</u>

LONG-TERM DEBT

At June 30, 2011, the Municipality had total of \$20,568,286 in general obligations and others outstanding debts, as shown in Table 7. Of this amount, \$13,956,600 comprises debt backed by the full faith and credit of the government and \$6,611,686 is other obligations.

Table 7	
Long Term Debts	Amount
General obligations bonds and notes	\$ 13,956,600
Others	<u>6,611,686</u>
Total Long Term Debts	<u>\$ 20,568,286</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, sales taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors were considered in preparing the Municipality's budget for the 2011 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

FINAL COMMENTS

The Municipal Legislature through Resolution 21, Series 2010-2011, authorized the Mayor to transfer the one hundred percent (100%) of the municipal development fund's sales taxes revenues to the municipal redemption fund, in order to expanding the Municipality's loan margin.

During fiscal year, the Municipal Legislature approved three resolutions, authorizing the issuance of two bonds for the amount of \$2,990,000 and \$1,085,000, and one note for the amount of \$1,160,000, all for construction purposes. These notes are payable with resources collected through the municipal redemption funds.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at (787) 828-0900.

**Commonwealth of Puerto Rico
Municipality of Jayuya
Statement of Net Assets
June 30, 2011**

	Governmental Activities
ASSETS:	
Cash and investments	\$ 6,740,662
Cash with fiscal agent	9,496,922
Receivable (net):	
Property taxes	4,035
Sales taxes	77,388
State government	632,442
Federal grants	431,731
Others	42,801
Real Estate Held for Sale	<u>5,216,351</u>
	<u>22,642,332</u>
Capital assets:	
Land, improvements, and construction in progress	4,503,616
Other capital assets, net of depreciation	<u>13,742,947</u>
Total capital assets	<u>18,246,563</u>
TOTAL ASSETS	<u>40,888,895</u>
LIABILITIES:	
Accounts payable and accrued expenses	1,508,660
Accrued interests	320,824
Deferred revenue	1,843,030
Long-term liabilities:	
Due within one year	1,053,366
Due in more than one year	<u>19,514,920</u>
TOTAL LIABILITIES	<u>24,240,800</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,589,231
Restricted for:	
Debt service	1,310,923
Other purposes	8,089,177
Unrestricted (deficit)	<u>(4,341,236)</u>
TOTAL NET ASSETS	<u>\$ 16,648,095</u>

**Commonwealth of Puerto Rico
Municipality of Jayuya
Statement of Activities
For the Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and municipal legislature	\$ 1,097,918	\$ -	\$ -	\$ -	\$ (1,097,918)
General government	4,408,027	-	64,117	-	(4,343,910)
Public safety	549,862	-	155,328	-	(394,534)
Public works	1,683,409	-	98,075	-	(1,585,334)
Culture and recreation	1,306,950	371,007	119,360	-	(816,583)
Health and sanitation	833,314	-	-	-	(833,314)
Human services and welfare	4,989,833	1,106,132	2,621,083	-	(1,262,618)
Urban development	2,297,844	74,120	41,058	1,865,683	(316,983)
Interest on long-term debt	527,815	-	-	-	(527,815)
Total governmental activities	\$ 17,694,972	\$ 1,551,259	\$ 3,099,021	\$ 1,865,683	\$ (11,179,009)

General revenues:	
Taxes:	
Property taxes, levied for general purpose	1,134,505
Property taxes, levied for debt services	305,703
Sales taxes	271,689
Sales taxes, levied for debt services	715,172
Volume of business taxes	969,398
Construction taxes	172,056
Intergovernmental	5,207,724
Licenses and permits	7,785
Rent	66,979
Interests	121,899
Miscellaneous	292,305
Total general revenues	9,265,215
Change in net assets	(1,913,794)
Net assets - beginning	18,561,889
Net assets - ending	\$ 16,648,095

**Commonwealth of Puerto Rico
Municipality of Jayuya
Balance Sheet
Governmental Funds
June 30, 2011**

	General Fund	Municipal Hospital Fund	Loans Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 959,183	\$ 472,349	\$ -	\$ 5,309,130	\$ 6,740,662
Cash with fiscal agent	-	-	7,672,343	1,824,579	9,496,922
Receivables:					
Sales taxes	21,911	-	-	55,477	77,388
Property taxes	-	-	-	4,035	4,035
State government	-	582,237	-	50,205	632,442
Federal grants	-	-	-	431,731	431,731
Others	42,801	-	-	-	42,801
Due from other funds	2,349,411	-	-	1,571,036	3,920,447
Total assets	\$ 3,373,306	\$ 1,054,586	\$ 7,672,343	\$ 9,246,193	\$ 21,346,428
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 216,454	\$ 146,650	\$ -	\$ 490,164	\$ 853,268
Bonds and notes payable	-	-	-	425,000	425,000
Accrued interests	-	-	-	121,027	121,027
Due to governmental units	165,618	-	-	64,774	230,392
Due to other funds	1,421,219	907,936	246,518	1,344,774	3,920,447
Deferred revenues:					
Volume of business tax	940,069	-	-	-	940,069
Federal grants revenues	-	-	-	902,961	902,961
Total liabilities	2,743,360	1,054,586	246,518	3,348,700	7,393,164
Fund balances:					
Restricted	-	-	-	4,624,664	4,624,664
Committed	63,189	-	7,425,825	1,248,010	8,737,024
Assigned	374,592	-	-	24,819	399,411
Unassigned	192,165	-	-	-	192,165
Total fund balances (deficit)	629,946	-	7,425,825	5,897,493	13,953,264
Total liabilities and fund balances	\$ 3,373,306	\$ 1,054,586	\$ 7,672,343	\$ 9,246,193	\$ 21,346,428

Commonwealth of Puerto Rico
Municipality of Jayuya
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Municipal Hospital Fund	Loans Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 1,305,097	\$ -	\$ -	\$ 305,704	\$ 1,610,801
Volume of business taxes	969,398	-	-	-	969,398
Sales taxes	271,689	-	-	715,171	986,860
Charges for services	-	1,106,132	-	445,127	1,551,259
Federal assistances	-	-	-	3,276,674	3,276,674
Intergovernmental	5,207,724	1,006,918	-	681,111	6,895,753
Licenses and permits	179,841	-	-	-	179,841
Rent	66,979	-	-	-	66,979
Interests	121,899	-	-	-	121,899
Miscellaneous	238,623	-	-	53,683	292,306
Total revenues	8,361,250	2,113,050	-	5,477,470	15,951,770
Expenditures					
Current:					
Mayor and municipal legislature	1,000,232	-	-	-	1,000,232
General government	3,593,426	-	-	70,984	3,664,410
Public safety	368,503	-	-	145,150	513,653
Public works	1,069,074	-	-	602,962	1,672,036
Culture and recreation	652,966	-	-	592,785	1,245,751
Health and sanitation	690,559	-	-	-	690,559
Human services and welfare	716,572	2,238,050	-	2,021,236	4,975,858
Urban development	109,268	-	-	2,285,158	2,394,426
Capital outlay	-	-	1,322,390	-	1,322,390
Debt service:					
Principal	-	-	-	728,900	728,900
Interest and other charges	-	-	-	401,420	401,420
Total expenditures	8,200,600	2,238,050	1,322,390	6,848,595	18,609,635
Excess (deficiency) of revenues over (under) expenditures	160,650	(125,000)	(1,322,390)	(1,371,125)	(2,657,865)
Other financing sources (uses)					
Bonds and notes	-	-	5,235,000	-	5,235,000
Transfers in	-	125,000	-	132,281	257,281
Transfers out	(132,281)	-	-	(125,000)	(257,281)
Total other financing sources (uses)	(132,281)	125,000	5,235,000	7,281	5,235,000
Net change in fund balances	28,369	-	3,912,610	(1,363,844)	2,577,135
Fund balance (deficit), beginning-as restated	601,577	-	3,513,215	7,261,337	11,376,129
Fund balance (deficit), ending	<u>\$ 629,946</u>	<u>\$ -</u>	<u>\$ 7,425,825</u>	<u>\$ 5,997,493</u>	<u>\$ 13,953,264</u>

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS (PAGE 16)	\$ 13,953,264
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:	
Non Depreciable Capital Assets.....	\$ 4,503,616
Infrastructure Assets	1,296,131
Other Depreciable Capital Assets	20,043,887
Accumulated Depreciation	<u>(7,597,071)</u>
Total Capital Assets	18,246,563
Real Estate Held for Sale is not a current financial resources and therefore, is not reported in the funds.....	5,216,351
Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds.....	(199,797)
Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:	
General Bonds and Notes Payable.....	(13,956,600)
Compensated Absences	(1,463,927)
Property Tax Debt – Law 42.....	(538,694)
Property Tax Debt – Law 146.....	(81,011)
LIMS Repayment Plan	(6,769)
Claims and Judgments.....	(225,000)
Estimated Landfill Closure and Post-Closures Costs.....	(1,559,039)
Line of Credit.....	(2,298,104)
State Department of Labor – Debt Agreement.....	(413,404)
Property Tax Debt – Advances	<u>(25,738)</u>
Total Long-Term Liabilities.....	<u>(20,568,286)</u>
TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 14)	<u>\$ 16,648,095</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (PAGE 17)...		\$ 2,577,135
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Outlays	1,183,297	
Depreciation Expense	<u>(754,011)</u>	
Excess of Capital Outlay over Depreciation Expense		429,286
Governmental funds report capital outlay of real property held for sale as expenditure. However, in the Statement of Activities, the cost of those assets is capitalized.....		
		249,051
Revenues in the governmental funds that correspond to prior year resources are not recorded as revenue in the Statement of Activities.....		
		(170,592)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long- term liabilities in the Statement of Net Assets. In the current period, these amounts are:		
Bonds and Notes Payable	(5,235,000)	
Claims and Judgments	(50,000)	
Compensated Absences.....	(183,316)	
Estimated Landfill Closure and Post-Closures Costs.....	(75,517)	
State Department of Labor – Debt Agreement	(156,476)	
Property Tax Debt – Advances	<u>(25,738)</u>	
General obligation bond.....		(5,726,047)
Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year, the repayments were:		
Bonds and Notes Payable	728,900	
Property Tax Debt – Law 42	12,269	
Property Tax Debt – Law 146	3,858	
LIMS Repayment Plan	12,954	
Social Security Debt	487	
State Department of Labor – Debt Agreement	<u>95,300</u>	
Total Additional Expenditures		853,768
Interest cost reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. The following amount represented the change from prior year.....		
		<u>(126,395)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 15)		<u>\$ 1,913,794</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Jayuya, Puerto Rico (Municipality) is a local governmental with full legislative, fiscal and administrative power to operate as a governmental under Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipality Act of the Commonwealth of Puerto Rico (Law 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 development, and many other general and administrative duties.

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

The accompanying basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units.

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement established new financial reporting requirements for state and local governments. On July 1, 2003, the Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2011, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

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

The required supplementary information, which consists of a management discussion and analysis (MD&A), is information presented along with, but separate from, the Municipality's basic financial statements. The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2011, 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As previously mentioned, on July 1, 2003, other statements and interpretations were also adopted in conjunction and simultaneously with GASB No. 34. Those statements and interpretations are: (1) GASB Statement No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*, (2) GASB Statement No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, (3) GASB Statement No. 38 – *Certain Financial Statement Note Disclosures* and (4) GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB No. 34 also required that the accounting for all governmental activities reported in the GWFS be based on applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB), issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. Accordingly, in conjunction and simultaneously with the adoption of GASB No. 34, the Municipality also adopted the following pronouncements: (1) APB Opinion No. 20 – *Accounting Changes*, (2) APB Opinion No. 21 – *Interest on Receivables and Payables*, (3) FASB Statement No. 5 - *Accounting for Contingencies* and (4) FASB Statement No. 16 – *Prior Period Adjustments*. The Municipality has elected to not apply all statements and interpretations issued by FASB after November 30, 1989.

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

A. FINANCIAL REPORTING ENTITY

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the Municipality's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Municipality.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the Municipality as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2011, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

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

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

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

- ❖ Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2011, has been reported only in the government-wide financial statements.

C. FINANCIAL STATEMENT PRESENTATION

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the Municipality as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The Statement of Net Assets presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- ❖ **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ❖ **Restricted Net Assets** – These results when constraints are placed on net assets use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ❖ **Unrestricted Net Assets** – These consists of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The Statement of Activities is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The fund financial statements (the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

Since the governmental fund statements are presented in a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and a separate explanation for each differences.

The Municipality reports its financial position (Balance Sheet) and results of operations (Statement of Revenues, Expenditures and Changes in Fund Balance) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

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

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

Municipal Hospital Fund – This is the fund used to account for all the transactions of the Municipality's Hospital. The primary objective of theses fund is to provide to the community medical services such as emergency doctors, pediatricians, gynecologist and other.

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

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the Government-Wide Statement of Net Assets.

D. FINANCIAL REPORTING PRESENTATION

The accounts of the Municipality are organized on the basis of funds, each if which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL REPORTING PRESENTATION (CONTINUED)

The Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Fund types are as follows:

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

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

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

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

E. FUND BALANCES

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. FUND BALANCES (CONTINUED)

- ❖ **Restricted** – Amounts are restricted by external parties (creditors, grantors, contributors or law/ regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- ❖ **Committed** – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.
- ❖ **Assigned** – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.
- ❖ **Unassigned** – Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

At June 30, 2011, the accompanying fund financial statements reported fund balances as restricted, committed, assigned and unassigned.

F. BUDGETARY DATA

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. BUDGETARY DATA (CONTINUED)

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

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message;
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature;
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law;
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. BUDGETARY DATA (CONTINUED)

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

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

G. CASH, CASH EQUIVALENT AND INVESTMENT

The Finance Director of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

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

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

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

H. RECEIVABLES

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

I. INVENTORIES

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. CAPITAL ASSETS

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$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. Other costs incurred for repairs and maintenance is expensed as incurred.

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

Capital Assets	Years
Buildings and site improvements	40
Infrastructure	40
Works of Art	10
Vehicles	5
Furniture and fixtures	5
Machinery and equipment	3 to 5

K. LONG-TERM OBLIGATIONS

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

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

L. COMPENSATED ABSENCES

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. COMPENSATED ABSENCES (CONTINUED)

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

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2011.

<u>BALANCE</u> <u>JULY 1, 2010</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2011</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$ 1,280,611	\$ 183,316	\$ -	\$ 1,463,927	\$ 116,570	\$ 1,347,357

M. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

N. INTERFUND TRANSACTIONS

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

- ❖ **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- ❖ **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ❖ **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. CLAIMS AND JUDGMENTS

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

P. USE OF ESTIMATES

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

Q. ACCOUNTING FOR PENSION COSTS

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

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

R. RISK FINANCING

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2011 amounted to \$156,363. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$128,064 for workers compensation insurance covering all municipal employees.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following accounting standards that have effective dates after June 30, 2011:

- ❖ GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement is effective for periods beginning after June 30, 2012;
- ❖ GASB Statement No. 59, *Financial Instruments Omnibus*. This statement is effective for periods beginning after June 30, 2011;
- ❖ GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement is effective for periods beginning after December 31, 2012;
- ❖ GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34*. This statement is effective for periods beginning after June 30, 2013;
- ❖ GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 31, 2012;
- ❖ GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement is effective for periods beginning after December 31, 2012;
- ❖ GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*. This statement is effective for periods beginning after June 30, 2013;

The Authority's management has concluded that the future adoption of these GASB Statements will not have a significant impact on the Authority's basic financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

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

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 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 and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2011.

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 investment portfolio at June 30, 2011, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2011, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2011, the interest rate risk associated with the Municipality's cash and cash equivalents 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 securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in 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, 2011.

The Municipality's bank balances in commercial banks of \$959,183 in the General Fund and \$472,349 in Municipal Hospital Fund were fully collateralized at June 30, 2011. In the Other Governmental Funds, there were deposits with commercial banks of \$5,309,130 that were fully collateralized.

The deposits at GDB of \$7,672,343 in the Loans Fund and the \$1,824,579 in Other Governmental Funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3 – RECEIVABLES

A. SALES TAXES RECEIVABLES

As described below in Note 15, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. Therefore, sales tax receivable of \$21,911 in the General fund represents the amount due by the taxpayers at June 30, 2011.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 – RECEIVABLES (CONTINUED)

A. SALES TAXES RECEIVABLES

Also, sales taxes receivable of \$55,477 in the Other Governmental Funds represents the amount due at June 30, 2011 for the Municipal Redemption Fund.

B. PROPERTY TAXES RECEIVABLES

Property taxes receivable of \$4,035 in the Other Governmental Funds represents debt service fund's advances from fiscal year 2010-2011, not collected by the Municipality at June 30, 2011.

C. STATE GOVERNMENT RECEIVABLES

At June 30, 2011, the Municipal Hospital maintained an account receivable from the state government of \$582,237. Also, receivable in the Other Governmental Funds represents expenditures incurred, not yet reimbursed by the federal and state agencies. Following is a detail of the state government receivable:

Description	Amount
Commonwealth of Puerto Rico-Department of Labor and Human Resources	\$ 18,479
Commonwealth of Puerto Rico-Department of Health	<u>31,726</u>
Total	<u>\$ 50,205</u>

D. FEDERAL GRANTS RECEIVABLE

Federal grants receivable in the other governmental funds represent expenditures incurred, not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the federal grants receivable:

Description	Amount
Homelessness Prevention and Rapid Re-housing Program	\$ 19,825
Public Assistance Grants	58,027
Special Program for Aging, Title III	112,073
Child Care Food Program	13,880
Home Investment Partnership Program	148,554
Child Care Development Block Grant	70,074
Community Service Block Grant	<u>9,298</u>
Total	<u>\$ 431,731</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 – RECEIVABLES (CONTINUED)

E. OTHER RECEIVABLE

Other receivables in the General Fund, in the amount of \$42,801, represent an invoice paid twice to a Municipality's supplier during the fiscal year 2010-2011. This payment will be reimbursed by the supplier.

NOTE 4 – DUE FROM / TO OTHER FUNDS

Interfund receivables and payables at June 30, 2011 are summarized as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Municipal Hospital Fund	Payroll and related accruals paid and not reimbursed	\$ 907,936
General Fund	Loans Fund	Reimbursable expenditures	246,518
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed, and other reimbursable expenditures	1,194,957
Other Governmental Funds	Other Governmental Funds	Reimbursable expenditures	149,817
Other Governmental Funds	General Fund	Cash pool in the same bank account and other reimbursable expenditures	1,421,219
Total			<u>\$ 3,920,447</u>

NOTE 5 – CAPITAL ASSETS

Capital assets, those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$500 or more, are primarily funded through the issuance of long-term bonds and loans.

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities. In addition, the infrastructure assets recorded in the accompanying statement of net assets do not include a substantial portion of the Municipality's infrastructure assets constructed or acquired by the Municipality from 1980 through June 30, 2011. GASB Statement No. 34 requires to retroactively applying the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with this requirement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 5 – CAPITAL ASSETS (CONTINUED)

A summary of capital assets and changes occurring in 2011, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

Governmental Activities	Balance June 30, 2010	Additions	Retirements / Reclassifications	Balance June 30, 2011
Capital asset, not being depreciated:				
Land	\$ 2,378,701	\$ 62,633	\$ -	\$ 2,441,334
Construction in progress	4,173,704	331,377	(2,442,799)	2,062,282
Total capital assets not being depreciated	<u>6,552,405</u>	<u>394,010</u>	<u>(2,442,799)</u>	<u>4,503,616</u>
Capital assets, being depreciated:				
Buildings	10,744,499	3,142,799	-	13,887,298
Infrastructure	1,296,131	-	-	1,296,131
Machinery and equipment	3,521,702	44,847	-	3,566,549
Motor vehicles	2,545,601	44,440	-	2,590,041
Total capital assets being depreciated	<u>18,107,933</u>	<u>3,232,086</u>	<u>-</u>	<u>21,340,019</u>
Less accumulated depreciation for:				
Buildings	(2,035,284)	(249,342)	-	(2,284,626)
Infrastructure	(201,109)	(19,447)	-	(220,556)
Machinery and equipment	(2,391,756)	(309,862)	-	(2,701,618)
Motor vehicles	(2,214,912)	(175,360)	-	(2,390,272)
Total accumulated depreciation	<u>(6,843,061)</u>	<u>(754,011)</u>	<u>-</u>	<u>(7,597,072)</u>
Total capital assets being depreciated, net	<u>11,264,872</u>	<u>2,478,075</u>	<u>-</u>	<u>13,742,947</u>
Governmental activities capital assets, net	<u>\$ 17,817,277</u>	<u>\$ 2,872,085</u>	<u>\$ (2,442,799)</u>	<u>\$ 18,246,563</u>

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

Governmental activities	Amount
Mayor and Municipal	\$ 97,686
General Government	377,438
Public Safety	36,209
Public Works	11,373
Culture and Recreation	61,199
Sanitation	142,755
Welfare	13,975
Urban development	13,376
Total depreciation expenses	<u>\$ 754,011</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2010-2011, and not paid by the Municipality at June 30, 2011. Following is a detail of these accounts payable and accrued liabilities by major fund:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 109,765	\$ 106,689	\$ 216,454
Municipal Hospital Fund	146,650	-	146,650
Other Governmental Funds	<u>490,164</u>	-	<u>490,164</u>
Total	<u>\$ 746,579</u>	<u>\$ 106,689</u>	<u>\$ 853,268</u>

NOTE 7 – BONDS AND NOTES PAYABLE

As described below in Note 10, the Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. At June 30, 2011, the government-wide and fund financial statements presented the following accounts payable, regarding to the outstanding balance of these bonds and notes:

Description	Amount
Principal	\$ 425,000
Accrued interests	<u>121,027</u>
Total	<u>\$ 546,027</u>

NOTE 8 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2011, balance due to other governmental units consists of the following:

Governmental Agency	Amount
Puerto Rico Aqueduct and Sewer Authority	\$ 67,497
General Service Administration	4,911
State Department of Treasury	632
State Department of Labor	<u>92,578</u>
Total	<u>\$ 165,168</u>

At June 30, 2011, the Other Governmental Funds maintained a due to governmental units, amounting to \$64,774, related to the economies generated by the Public and Indian Housing Program during fiscal year 2010-2011.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 – DEFERRED REVENUES

The deferred revenues of \$940,069 in the General Fund relates to volume of business tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-12.

Federal Grants – The deferred revenues presented in the other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

Program Description	Amount
Water and Waste Disposal System for Rural Communities	\$ 45,806
Community Development Block Grant	169,004
Public Assistance Grants	679,023
Child & Adult Care Food Program	6,312
Others	<u>2,816</u>
Total	<u>\$ 902,961</u>

NOTE 10 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2011, was as follows:

Description	Ending Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$ 9,450,500	\$ 5,235,000	\$ (728,900)	\$ 13,956,600	\$ 758,100
Compensated absences	1,280,611	183,316	-	1,463,927	116,570
Property Tax Debt – Law 42	550,963	-	(12,269)	538,694	13,041
Property Tax Debt – Law 146	84,869	-	(3,858)	81,011	3,858
LIMS Repayment Plan	19,723	-	(12,954)	6,769	6,769
Social Security Debt	487	-	(487)	-	-
Line of Credit	2,298,104	-	-	2,298,104	-
Claims and Judgments	175,000	50,000	-	225,000	-
Estimated landfill closure and post-closure care cost	1,483,522	75,517	-	1,559,039	-
State Department of Labor- Debt Agreement	352,228	156,476	(95,300)	413,404	155,028
Property Tax Debt – Advances	-	25,738	-	25,738	-
Total	<u>\$15,696,007</u>	<u>\$ 5,726,047</u>	<u>\$ (853,768)</u>	<u>\$20,568,286</u>	<u>\$ 1,053,366</u>

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE

The Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. Bonds and notes payables as of June 30, 2011, are comprised of the following individual issues:

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

1. BONDS PAYABLE

DESCRIPTION	AMOUNT
\$325,000, Series 1991, for operational purposes, payable in annual installments ranging from \$6,000 to \$25,000, excluding interest at 6.00%, through January 1, 2015	\$ 92,000
\$400,000, Series 1997, for operational purposes, payable in semiannual installments ranging from \$10,000 to \$40,000, excluding variable interest from 2.43% to 8.00%, through July 1, 2016	155,000
\$505,000, Series 1998, for construction purposes, payable in semiannual installments ranging from \$5,000 to \$45,000, excluding variable interest from 4.87% to 6.71%, through July 1, 2022	330,000
\$117,200, Series 1998, for operational purposes, payable in annual installments ranging from \$3,000 to \$7,900, excluding interest at 4.50%, through January 1, 2022	70,600
\$420,000, Series 2003, for operational purposes, payable in semiannual installments ranging from \$5,000 to \$40,000, excluding variable interest from 2.18% to 7.00%, through July 1, 2027	340,000
\$410,000, Series 2004, for construction purposes, payable in semiannual installments ranging from \$10,000 to \$30,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2028	330,000
\$210,000, Series 2008, for real property acquisition, payable in semiannual installments ranging from \$5,000 to \$15,000, excluding variable interest from 2.43% to 7.25%, through July 1, 2032	190,000
\$498,000, Series 2008, for real property acquisition, payable in semiannual installments ranging from \$5,000 to \$36,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2032	464,000
\$731,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$8,000 to \$60,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2032	683,000
\$2,990,000, Series 2011, for construction purposes, payable in semiannual installments ranging from \$45,000 to \$250,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2035	2,945,000
\$1,160,000, Series 2011, for construction purposes, payable in semiannual installments ranging from \$130,000 to \$205,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2017	1,030,000
\$1,085,000, Series 2011, for construction purposes, payable in semiannual installments ranging from \$10,000 to \$90,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2035	<u>1,075,000</u>
Total General Obligations – Bonds	<u>\$ 7,704,600</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 - GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

2. NOTES PAYABLE

DESCRIPTION	AMOUNT
\$1,000,000, Section 108 Loan, Series 2001, for construction purposes, payable in annual installments ranging from \$50,000 to \$100,000, excluding interest at 4.08%, through August 1, 2003	\$ 560,000
\$3,000,000, Section 108 Loan, Series 2002, for construction purposes, payable in annual installments ranging from \$165,000 to \$195,000, excluding interest at 5.00%, through August 1, 2022	2,010,000
\$180,000, Series 2007, for purchase of equipment, payable in semiannual installments ranging from \$20,000 to \$35,000, excluding variable interest from 2.43% to 7.25%, through July 1, 2014	90,000
\$115,000, Series 2008, for purchase of equipment, payable in semiannual installments ranging from \$15,000 to \$20,000, excluding variable interest from 2.43% to 7.25%, through July 1, 2014	55,000
\$500,000, Series 2007, for purchase of equipment, payable in semiannual installments ranging from \$60,000 to \$90,000, excluding variable interest from 2.43% to 7.00%, through July 1, 2013	170,000
\$175,000, Series 2007, for purchase of equipment, payable in semiannual installments ranging from \$25,000 to \$35,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2012	35,000
\$3,497,000, Series 2009, for real property acquisition and construction purposes, payable in semiannual installments ranging from \$50,000 to \$290,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2033	<u>3,332,000</u>
Total General Obligations - Notes	<u>\$ 6,252,000</u>

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

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

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 - GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

The annual requirements to amortize the general obligations bonds outstanding as of June 30, 2011 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2012	\$ 318,100	\$ 458,028	\$ 776,128
2013	365,300	487,333	852,633
2014	391,600	464,091	855,691
2015	407,800	483,013	890,813
2016	420,100	454,418	874,518
2017-2021	1,381,800	1,908,250	3,290,050
2022-2026	1,412,900	1,432,818	2,845,718
2027-2031	1,671,000	875,361	2,546,361
2032-2036	<u>1,336,000</u>	<u>246,036</u>	<u>1,582,036</u>
Total	<u>\$ 7,704,600</u>	<u>\$ 6,809,348</u>	<u>\$ 14,513,948</u>

The annual requirements to amortize the general obligations notes outstanding as of June 30, 2011 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2012	\$ 440,000	\$ 294,137	\$ 734,137
2013	430,000	305,400	735,400
2014	350,000	280,793	630,793
2015	300,000	308,294	608,294
2016	305,000	291,005	596,005
2017-2021	1,645,000	1,282,217	2,927,217
2022-2026	1,120,000	827,659	1,947,659
2027-2031	1,105,000	477,375	1,582,375
2032-2036	<u>557,000</u>	<u>64,049</u>	<u>621,049</u>
Total	<u>\$ 6,252,000</u>	<u>\$ 4,130,929</u>	<u>\$ 10,382,929</u>

B. COMPENSATED ABSENCES

The government-wide statement of net assets includes \$1,463,927 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

C. PROPERTY TAX DEBT – LAW 42

On January 26, 2000, Act No. 42 was enacted to authorize the 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 the 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 February 12, 2003, the Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2011 amounted to \$538,694.

D. PROPERTY TAX DEBT – LAW 146

On September 24, 2002, the CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the CRIM at June 30, 2011 amounted to \$81,011.

E. LIMS REPAYMENT PLAN

The Municipality entered into a financing agreement with the CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by the CRIM on behalf of all municipalities, for the management of a digital database of taxpayer's properties located in Puerto Rico. The outstanding balance of the note payable to the CRIM at June 30, 2011 amounted to \$6,769.

G. LINE OF CREDIT

On April 20, 2006, the Municipality entered into a \$2,400,000 line of credit agreement with the Government Development Bank (GDB) for the construction of sixty (60) units in a project named "Altos del Rio" for low and very low income families. Borrowings under this line of credit agreement bear interest quarterly, at one percent (1%) over the London Interbank Offered Rate (LIBOR) or five point five percent (5.5%), the one that result higher. This interest are payable upon the maturity of the line of credit. As of June 30, 2011, this line of credit has an outstanding balance of \$2,298,104, and accrued interest of \$199,797. The line of credit will be repaid with the proceeds of the sale of the sixty(60) units.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

H. CLAIMS AND JUDGMENTS

Liabilities of \$225,000 reported in the statement of net assets represent the balance owed for claims and judgments at June 30, 2011, as described in Note 19.

I. STATE DEPARTMENT OF LABOR

In fiscal year 2010-2011 the Municipality entered into a new financing agreement with the State Department of Labor, for the payment of the Municipality's debt for unemployment benefits of the employees. The balance at June 30, 2011 of this agreement was \$413,404.

J. FISCAL YEAR 2010-2011 SETTLEMENT STATEMENT

On December 2011, CRIM, as required by law, prepared the final settlement for the fiscal year 2010-2011, whereby a comparison was made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. According to the final settlement, advances to the Municipality exceeded the amount actually collected by the CRIM, and therefore, according to law, a payable to the CRIM amounting \$25,738 should be recorded in the GWFS at June 30, 2011.

NOTE 11 – LANDFILL CLOSURE AND POSTCLOSURE CARE COST OBLIGATION

The Municipality owns a municipal solid waste landfill and adopted the required provisions of Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net assets date. The \$1,559,039 reported as landfill closure and post closure care liability at June 30, 2011, represents an estimate of the cumulative amount reported to date based on the percentage used of the estimated capacity of the landfill.

The Municipality will recognize the remaining estimated cost of closure and post closure care as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2011. The estimated life of the landfill according to the engineers of the Municipality is approximately twenty five (25) years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12 – DEBT RETIREMENT

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

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

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 13 – PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.28% for real property and 6.28% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund.

The remaining portion belonging to the Municipality of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the Debt Service Fund (See Note 8). The Municipality has not reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 assessed valuation on residential units occupied by their owners. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with an annual net sales volume of less than \$150,000. The Municipal Revenue Collection Center advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center.

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipal Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

NOTE 14 – VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 14 – VOLUME OF BUSINESS TAX (CONTINUED)

- ❖ 1.50% for financial institutions and savings and loan associations.
- ❖ 0.30% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

NOTE 15 – SALES AND USE TAXES

On July 4, 2006, the Legislature of the Commonwealth of Puerto Rico approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipality government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

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

The Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. Resources are recorded in the General Fund.

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.

NOTE 16 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 17 - INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended at June 30, 2011, are summarized as follows:

Transfer Out	Transfer In	Purpose	Amount
General Fund	Other Governmental Fund	Debt retirement	\$ 132,281
Other Governmental Fund	Municipal Hospital Fund	To cover special fund expenditures	<u>125,000</u>
Total			<u>\$ 257,281</u>

NOTE 18 - EMPLOYEE'S RETIREMENT PLAN

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

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

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

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

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan).

Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

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

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

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

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

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

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

Contributions in 2006 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The total pension expenditures recorded in the category of administration for the fiscal year ended June 30, 2011 was approximately \$168,400. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2011. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. With respect to pending litigation, the Municipality has reported liabilities of \$225,000 in the government wide statement of net assets.

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.

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

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

C. OTHER COMMITMENTS

At June 30, 2011 the general fund had commitments of approximately \$374,592 for executory purchase orders or contracts that will be honored during the subsequent year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 20 – FUND BALANCE

As of June 30, 2011, the fund balance (deficit) classifications are as follows:

Fund Balance	General Fund	Municipal Hospital Fund	Loans Fund	Other Governmental Fund	Total
Restricted for:					
General government	\$ -	\$ -	\$ -	\$ 20,988	\$ 20,988
Public safety	-	-	-	19,095	19,095
Public works	-	-	-	314,744	314,744
Culture and recreation	-	-	-	74,655	74,655
Human services and welfare	-	-	-	506,608	506,608
Urban development	-	-	-	2,377,651	2,377,651
Debt service	-	-	-	1,310,923	1,310,923
Committed for:					
General government	-	-	-	88,847	88,847
Public works	-	-	-	219,920	219,920
Culture and recreation	-	-	-	104,327	104,327
Human services and welfare	-	-	-	827,828	827,828
Urban development	63,189	-	-	7,088	70,277
Capital outlay	-	-	7,425,825	-	7,425,825
Assigned for:					
Mayor and municipal legislature	24,881	-	-	-	24,881
General government	233,663	-	-	24,819	258,482
Public safety	1,115	-	-	-	1,115
Public works	49,061	-	-	-	49,061
Culture and recreation	9,861	-	-	-	9,861
Health and sanitation	10,684	-	-	-	10,684
Human services and welfare	37,394	-	-	-	37,394
Urban development	7,933	-	-	-	7,933
Unassigned	<u>192,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>192,165</u>
Total Fund Balance	<u>\$ 629,946</u>	<u>\$ -</u>	<u>\$ 7,425,825</u>	<u>\$ 5,897,493</u>	<u>\$ 13,953,264</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 21 – ACCOUNTING CHANGES AND RESTATEMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

Description	General Fund	Municipal Hospital Fund	Loans Fund	Other Governmental Fund
Fund balance, beginning	\$ 440,515	\$ -	\$ 3,513,215	\$ 7,261,337
To reclassified unemployment debt	<u>161,062</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning as restated	<u>\$ 601,577</u>	<u>\$ -</u>	<u>\$ 3,513,215</u>	<u>\$ 7,261,337</u>

NOTE 22 – SUBSEQUENT EVENTS

On June 16, 2011 the Legislature of the Commonwealth of Puerto Rico approved Act No. 94, to establish an incentive plan for the payment of real and personal property tax dues. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interests of the unpaid principal of pass-due property tax liability. The period that tax payers have to enjoy for such benefit is for exactly ninety (90) days, beginning during fiscal year 2011-2012.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note A)	Final Budget Positive (Negative)
REVENUES:				
Property taxes	\$ 1,204,968	\$ 1,372,839	\$ 1,317,677	\$ (55,162)
Volume of Business Taxes	936,705	969,122	969,398	276
Sales Taxes	227,100	253,378	271,689	18,311
Intergovernmental	4,985,638	5,065,309	5,207,724	142,415
Licenses and permits	102,000	179,432	179,841	409
Rent	60,000	115,000	66,979	(48,021)
Interests	50,000	121,899	121,899	-
Miscellaneous	287,000	273,710	238,623	(35,087)
Total revenues	<u>7,853,411</u>	<u>8,350,689</u>	<u>8,373,830</u>	<u>23,141</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
Mayor and Municipal Legislature	825,557	998,918	998,735	183
General government	2,865,190	3,523,253	3,743,616	(220,363)
Public safety	521,947	364,461	364,461	-
Public works	1,102,999	1,110,165	1,109,605	560
Culture and Recreation	642,140	654,926	644,923	10,003
Health and Sanitation	755,995	642,707	649,758	(7,051)
Urban Development	119,220	115,642	117,071	(1,429)
Human Service and Welfare	845,838	745,146	735,069	10,077
Transfers out	174,525	195,471	132,281	63,190
Total expenditures, encumbrances and other financing uses	<u>7,853,411</u>	<u>8,350,689</u>	<u>8,495,519</u>	<u>(144,830)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (121,689)</u>	<u>\$ (121,689)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTE TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE A – EXPLANATION OF DIFFERENCE BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENSES

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 8,373,830
Differences-budget to GAAP:	
GAAP adjustments to revenues	(12,580)
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 8,361,250</u>

Uses/outflows of resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 8,495,519
Differences-budget to GAAP:	
Prior year expenditure are not outflows of budgetary resources, but are expenditure for financial purposes	109,480
Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes	(272,118)
Transfer to other funds are outflows of budgetary resources but are not expenditure for financial reporting purposes	(132,281)
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 8,200,600</u>

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

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

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2011 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2011.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program:			
Water and Waste Disposal System for Rural Communities	10.760		\$ 34,170
Pass-Through State – State Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	51,792
Total U.S. Department of Agriculture			85,962
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers Program	14.871		17,851
Pass-Through State - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State's Program	14.228	10-AB-FC 09-AB 08-FC-AB 07-FC-AB 06-FC-AB 05-FC 04-FC	1,492,206
Community Development Block Grants – State's Program (Recovery Act)	14.255	08-AR	53,736
Total Community Development Block Grants Cluster			1,545,942
Community Development Block Grant - Section 108 Loan Guarantees	14.248	B-01-DC-72-0001-A	345,947
Pass-Through State – State Department of Family:			
Emergency Shelter Grants	14.231	N/AV	74,011
Homelessness Prevention and Rapid Re- housing Program (Recovery Act)	14.257	N/AV	105,127
Pass-Through State – Department of Housing:			
Home Investment Partnerships Program	14.239	N/AV	249,051

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Pass-Through State – Department of Health: Housing Opportunities for Persons with AIDS	14.241	N/AV	7,345
Pass-Through State – Puerto Rico Housing Administration: Public and Indian Housing	14.850	RQ-3040 RQ-5233 RQ-5247 RQ-5270	<u>443,585</u>
Total U.S. Department of Housing and Urban Development			<u>2,788,859</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-Through State – Department of Justice: Recovery Act- Edward Byrne Memorial Justice Grant (JAG) Program	16.804	2009-SU-B9-0053	<u>100,000</u>
Total U.S. Department of Justice			<u>100,000</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through State – Safety Transit Commission: Impaired Driving Countermeasures Incentive Grants I	20.601	N/AV	<u>14,204</u>
Total U.S. Department of Transportation			<u>14,204</u>
U.S. DEPARTMENT OF ENERGY:			
Pass-through State – Office of the Energy Affairs Administration: Energy Efficiency and Conservation Block Grant Program	81.128	N/AV	<u>7,017</u>
Total U.S. Department of Energy			<u>7,017</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-Through Office of the Governor: Disaster Grants - Public Assistant	97.036	N/AV	<u>67,692</u>
Total U.S. Department of Homeland Security:			<u>67,692</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE			
Pass-Through Office of Governor, Regional Elderly Office:			
Special Program for the Aging, Title III	93.045	N/AV	191,921
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant	93.575	241-2011-000185	284,096
ARRA - Child Care and Development Block Grant	93.713	241-2010-000258	<u>20,677</u>
Child Care and Development Block Grant Cluster			304,773
Total U.S. Department of Health and Human Service:			<u>496,694</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,560,428</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – GENERAL

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – FEDERAL CFDA NUMBER

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

NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 – LOAN OUTSTANDING

The Municipality had an outstanding loan balance under program Section 108 Loan Guarantee Assistance (CFDA No. 14.248), for which the grantor does not impose continuing compliance requirements. The outstanding balance of the Loan Guarantee Assistance at June 30, 2011 was \$2,570,000.

NOTE 6 – MAJOR PROGRAMS

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

Pedro C. Ortíz Ledée

Certified Public Accountant

INDEPENDENT AUDITORS' 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 Jayuya, Puerto Rico**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Jayuya, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2011, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 6, 2012. The report on the governmental fund financial statements was unqualified. In addition, the report on the governmental wide financial statement has an adverse opinion because of the inadequacies of the capital assets subsidiary ledger. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not design to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Finding 11-II-02.

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 consider the deficiencies described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 11-II-01.

INDEPENDENT AUDITORS' 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

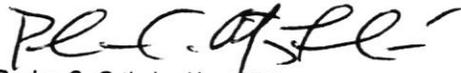
Compliance and Other Matters

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 items 11-II-01 and 11-II-02.

We noted certain other matters that we reported to management of the Municipality in a separate letter dated March 6, 2012.

The Municipality's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Municipality's response and, accordingly, we express no opinion on it.

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



Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 6, 2012



Pedro C. Ortíz Ledée

Certified Public Accountant

INDEPENDENT AUDITORS' 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 OMB CIRCULAR A-133

**To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Jayuya, Puerto Rico**

Compliance

We have audited Municipality of Jayuya, 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, 2011. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on Municipality's compliance based on our audit.

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. Our audit does not provide a legal determination of Municipality's compliance with those requirements.

As described in items 11-III-03 and 11-III-04 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Activities and Cash Management that are applicable to its Community Development Block Grant Cluster. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraphs, the Municipality complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 11-III-05 through 11-III-08.

INDEPENDENT AUDITORS' 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 OMB CIRCULAR A-133

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 11-III-03 and 11-III-04 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We considered the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as items 11-III-05 through 11-III-08 to be significant deficiencies.

The Municipality's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Municipality's responses and, accordingly, we express no opinion on the responses.

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


Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 6, 2012



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

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

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified for fund financial statement and adverse for governmental-wide financial statements	
Internal control over financial reporting:		
Material weakness identified?	Yes X	No
Significant deficiencies identified?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes X	No

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Significant deficiencies identified?	Yes X	None reported
Type of auditor’s report issued on compliance for major programs:	Qualified for CDBG Cluster, Unqualified for the other Major Programs	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
14.228/ 14.255	Community Development Block Grants/ State’s – Cluster
14.248	Community Development Block Grants – Section 108 Loan Guarantees
14.850	Public and Indian Housing
93.575/ 93.713	Child Care Development Block Grant Cluster

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? Yes No X

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	11-II-01
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CONDITION	The Municipality did not maintain an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles (GAAP).
CONTEXT	<p>During our examination of the accounting cycle, we noted that the Municipality has not established nor acquired an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with (GAAP). The accounting records are maintained in the cash and budgetary basis and at the end of year, personnel of the finance department and external consultants summarized in electronic worksheets the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long term-debts. These worksheets are used for the preparation of the financial statements.</p> <p>Also, we noted the following conditions during our evaluation of the accounting cycle:</p> <ul style="list-style-type: none">a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems does not provide for a self balancing set of accounts for each fund operated by the Municipality;b. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds.
CRITERIA	Article 8.010 (b) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) states that uniform accounting system used by the Municipality must produce reliable reports and financial statements provide complete information about the results of operations of the Municipality and include the necessary internal controls to account for all funds, capital assets and other assets.
CAUSE	The Municipality has not established effective internal control procedures over the preparation of the financial statements and the transactions recorded on its accounting records.
EFFECT	The Municipality is not in compliance with Article 8.010 (b) (c) of the State Law Number 81 of August 30, 1991.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	11-II-01 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
RECOMMENDATION	We recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system that provides for the preparation of financial statements in accordance with (GAAP).
MANAGEMENT RESPONSE	The transactions in the Municipality are recorded in a manual system and in a computerized system. The manual system is the primary financial records for financial statements preparation purposes. We will analyze if it is cost effective to adjust the computerized system with the manual accounting records.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	11-II-02
REQUIREMENT	ACCOUNTING RECORDS- CAPITAL ASSETS
CONDITION	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
CONTEXT	During our examination of the property records, we noted that the Municipality does not have adequate systems to account for capital assets, including the infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded certain infrastructure assets, accordingly, has not recorded depreciation expenses for those assets. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34).
CRITERIA	Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociados de Puerto Rico de 1991</i> of August 30, 1991, states that Municipalities should maintain updated property accounting records.
CAUSE	The Municipality did not maintain an adequate control of the accountability of the capital assets, including the infrastructure.
EFFECT	The Municipality is not in compliance with Article 8.010 (c) (3) of the State Law Number 81 of August 30, 1991.
RECOMMENDATION	We recommend management and the Property Division of the Municipality to make an inventory of the capital assets in order to reconcile with the capital assets subsidiary ledger. In addition, the Municipality should implement adequate internal control procedures to improve the accountability of infrastructure assets.
MANAGEMENT RESPONSE	The Finance Director will give instructions to the property staff, to update the capital assets, including the infrastructure, with the subsidiary ledger in order to comply with the requirements established in the GASB No. 34. Also, we will make an inventory of the capital assets.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	11-III-06
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	The Program did not minimize the time between the receiving of the advance of funds from the pass-through entity and the disbursement of funds.
CONTEXT	During our Cash Management test, we noted that during the fiscal year 2010-2011, the Program maintained an average balance of approximately \$128,179 in the Program's books.
CRITERIA	Code of Federal Regulations 24, Section 85.21 (b) states that methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations.
CAUSE	The Program did not maintain appropriate cash management procedures in order to disburse the funds immediately after the advances were received.
EFFECT	The Municipality is not in compliance with Code of Federal Regulations 24, Section 85.21 (b).
RECOMMENDATION	We recommend management to strengthen its disbursements procedures to minimize the time between the transfer of funds by the pass-through entity and disbursements made by the Program.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Actually we are not the PHA that is administering the public housing complexes that we have in our Municipality. During the fiscal year 2010-2011 we received the funds and we paid to the supplier as soon as we can.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	11-III-07
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ELEGIBILITY
CONDITION	The Program failed to use accurately third party income verification to corroborate the tenant's employment and income verification.
CONTEXT	During our Eligibility Test, we selected a sample of twenty five (25) participant's files; and noted that during the reexamination process, eleven (11) participant's files did not have evidence that the Program use the Enterprise Income Verification (EIV) System.
CRITERIA	24 CFR, Subtitle A, Section 5.233 (a) (2) states that processing entities must use HUD's EIV system in its entirety as a third party source to verify tenant employment and income information during mandatory reexaminations of families composition and income, in accordance with 5.236 and administrative guidance issued by HUD and to reduce administrative and subsidy payment errors in accordance with HUD administrative guidance.
CAUSE	The Program have not established adequate internal controls over the use of the EIV System during the mandatory annual and interim reexamination as a third party income verification of the family income.
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Subtitle A, Section 5.233 (a) (2).
RECOMMENDATION	We recommend management to strengthen the internal controls and procedures designed to verify the family income and composition. In addition, the Program should use the EIV system in each mandatory reexamination of the participants.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Actually we are not the PHA that is administering the public housing complexes that we have in our Municipality. During the fiscal year 2010-2011, the Program was instructed to use the EIV system as a new tool to verify the participant's income.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	11-III-08
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST- DEPOSITORY AGREEMENTS
CONDITION	The Municipality failed to enter in a depository agreement with its financial institution.
CONTEXT	During our evaluation, we did not identify evidence of a depository agreement in the form required by HUD with the depository institution of the Municipality.
CRITERIA	Code of Federal Regulation 24, Subpart D, Section 982.156 (a) states that unless otherwise required or permitted by HUD, all program receipts must be promptly deposited with a financial institution selected as depository by the PHA in accordance with HUD requirements. In addition, Code of Federal Regulations 24, 982.156 (c) states that the PHA must enter into an agreement with depository in the form required by HUD.
CAUSE	The Municipality's management failed to enter into agreements in the form required by HUD with its financial institution.
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Subpart D, Section 982.156 (a) and (c).
RECOMMENDATION	We recommend management to contact its financial institution and formalize, as soon as possible, the depository agreement in the form established by HUD.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Actually we are not the PHA that is administering the public housing complexes that we have in our Municipality. We were not instructed about this new requirement.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
10-III-03	Allowable Activities – Housekeeping Service	14.228	None	No corrective action has been taken. Finding Reference 11-III-03.
10-III-04	Cash Management	14.228	None	No corrective action has been taken. Finding Reference 11-III-04.
10-III-05	Cash Management	14.850	None	No corrective action has been taken. Finding Reference 11-III-06.
10-III-06	Period of Availability	14.850	None	Full corrective action was taken. We reimbursed to the Puerto Rico Housing Authority the economies generated during the fiscal year 2010-2011.
10-III-07	Procurement, Suspension and Debarment	14.228 14.248	None	Full corrective action was taken. We are preparing written contracts with the contractors and before signing the contracts we are verifying them against the EPLS.
10-III-08	Program Income	14.228	None	No corrective action has been taken. Finding Reference 11-III-05.
09-III-03	Allowable Activities – Housekeeping Service	14.228	None	No corrective action has been taken. Finding Reference 11-III-03.
09-III-04	Cash Management	14.228	None	No corrective action has been taken. Finding Reference 11-III-04.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
09-III-05	Cash Management	14.850	None	No corrective action has been taken. Finding Reference 11-III-06.
09-III-06	Period of Availability	14.850	None	Full corrective action was taken. We reimbursed to the Puerto Rico Housing Authority the economies generated during the fiscal year 2010-2011.
09-III-07	Procurement, Suspension and Debarment- Contract clauses	14.228	None	Full corrective action was taken. We are preparing written contracts with the contractors that include all the required clauses.
09-III-08	Procurement, Suspension and Debarment- EPLS	14.228	None	Full corrective action was taken. Before signing the contracts we are verifying the contractors against the EPLS.
09-III-09	Program Income	14.228	None	No corrective action has been taken. Finding Reference 11-III-05.
08-III-05	Allowable Activities - Housing Rehabilitation	14.228	None	No corrective action has been taken. The auditors did not identified transactions related to these activities during fiscal year 2010-2011.
08-III-06	Allowable Activities - Housekeeping Service	14.228	None	No corrective action has been taken. Finding Reference 11-III-03.
08-III-07	Cash Management	14.228 14.239	None	No corrective action has been taken. Finding Reference 11-III-04.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
08-III-09	Procurement Standards- Contract Clauses	14.228 14.248	None	Full corrective action was taken. We are preparing written contracts with the contractors that include all the required clauses.
08-III-10	Procurement and Suspension and Debarment- Acquisition Process	14.228 14.248	None	No corrective action has been taken. The auditors did not identified transactions related to these activities during fiscal year 2010-2011.
08-III-12	Cash Management	14.850	None	Partially corrective action has been taken. Finding Reference 11-III-06.
08-III-14	Period of Availability	14.850	None	Full corrective action was taken. We reimbursed to the Puerto Rico Housing Authority the economies generated during the fiscal year 2010-2011.
08-III-16	Procurement Standards	83.544 97.036	None	No corrective action has been taken. The auditors did not identified transactions related to this federal program during fiscal year 2010-2011.

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BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2011

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	11-III-03
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE ACTIVITIES- HOUSEKEEPING SERVICES
CONDITION	The Program failed to maintained appropriate supporting documentation regarding the Housekeeping Services participant's files.
CONTEXT	As part of our grant disbursement test, we examined ten (10) Housekeeping Services participant's files and noted that these files are not in accordance with the operational guide, provided by the pass-through agency.
CRITERIA	The Program has an operational guide " <i>Manual Operacional- Programa Auxiliares del Hogar</i> ", that includes all procedures and program's requirements for the housekeeping services.
CAUSE	The Program's internal controls procedures failed to assure that all required information regarding participants were obtained and the required interviews, visits and inspections to monitor the services were realized in accordance with the pass-through operational guides.
EFFECT	The Program is not in compliance with the operational guide of housekeeper's services provided by the pass-through entity.
RECOMMENDATION	We recommend management to implement adequate internal controls and procedures in order to assure that the program staff completes all the required forms and also, inspect and monitor the services in accordance with the regulations and the operational guides.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Municipality assigned an employee to work with the housekeeping services in order to complete all the required forms and inspect and monitor the services in accordance with the operational guides.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	11-III-04
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM COMMUNITY DEVELOPMENT BLOCK GRANTS (RECOVERY ACT FUNDED) / STATE'S PROGRAM; (CFDA NO. 14.225) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.
CONTEXT	During our Cash Management test, we noted that during the fiscal year 2010-2011, the Program maintained an average monthly balance of approximately \$87,933. In addition, we examined eleven (11) requests of funds made by the Program to the pass-through agency and found that seven (7) requests took between seven (7) and two hundred sixty six (266) days from the moment the funds were deposited and the issuance of the checks. Also, in July 23, 2010, the Program received \$183,965 from ARRA CDBG and we found that the checks related to this request amounting to \$158,249 were disbursed in August 25, 2010.
CRITERIA	Code of Federal Regulations 24, Subpart I, Section 570.489 (c) (1) states that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement made by the grantee.
CAUSE	The Program and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
EFFECT	The Program is not in compliance with Code of Federal Regulations 24, Subpart I, CFR 570.489 (c) (1).

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	11-III-04
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM COMMUNITY DEVELOPMENT BLOCK GRANTS (RECOVERY ACT FUNDED) / STATE'S PROGRAM; (CFDA NO. 14.225) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
RECOMMENDATION	We recommend management to strengthen its disbursements procedures to minimize the time between the transfer of funds by the pass-through entity and the disbursements made by the Municipality.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Municipality's Mayor gave instructions to the Finance Director and the Federal Programs Director to continue strengthening the internal control disbursement procedures to minimize the time between the transfer of funds by OCAM and the disbursement made by the Municipality.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	11-III-05
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS- OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROGRAM INCOME
CONDITION	The Program did not comply with the Program Income requirement.
CONTEXT	During our Program Income test, we noted that the transactions of CDBG's program income were not properly recorded in the accounting records maintained by the Finance Department of the Municipality.
CRITERIA	Code of Federal Regulations 24, Subpart J, Section 570.504 (a), states that the receipts and expenditures of program income shall be recorded as part of the financial transactions of the grant program.
CAUSE	The Program does not maintained appropriate accounting records over the program income transactions.
EFFECT	The Program is not in compliance with Code of Federal Regulations 24, Subpart J, Section 570.504 (a).
RECOMMENDATION	We recommend management to implement adequate procedures to ensure that the financial transactions related to the program income are properly recorded in the accounting records of the Program.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We will give instructions to the Federal Programs Director to from the Department of Finance, the accounting information of the program income and we will start recording those financial transactions in the accounting records of the Program.