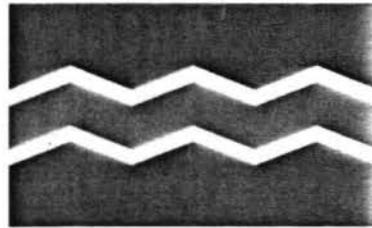


**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**



**BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS AND
INFORMATION REQUIRED BY THE SINGLE AUDIT ACT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS
AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT

FISCAL YEAR ENDED JUNE 30, 2012

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS
AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT

FISCAL YEAR ENDED JUNE 30, 2012

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PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITORS' 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, 2012, 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 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 recorded certain capital assets including the infrastructure in the governmental activities and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United State of America require that those capital assets including infrastructure be capitalized and depreciated, which would increase the assets, net assets and expenses of the government activities. 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, 2012, 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, 2012, 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 28, 2013, 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 AUDITORS' 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 53 through 54 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 to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Pedro C. Ortiz Ledée

Pedro C. Ortiz Ledée, CPA
License Number 5200
Expires on December 1, 2014

Guayama, Puerto Rico
March 28, 2013



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012. 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, 2012 by \$17,941,804, and at June 30, 2011 by \$18,630,479, as restated;
- The Municipality's total net assets decrease by \$(688,675) during fiscal year 2011-2012;
- As of June 30, 2012, the Municipality's governmental funds reported combined ending fund balance of \$12,712,102, a decrease of \$1,458,746 from the prior year;
- At June 30, 2012, the Statement of Net Asset presented an unrestricted deficit of \$5,586,315;
- The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2012 were \$18,001,628 (net of accumulated depreciation);
- The investment in capital assets for this year was \$12,167,242 (net of related debt);
- Loans principal payments were \$763,100 and \$728,900 in 2012 and 2011, 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, 2012

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, 2012, 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, 2012

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, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

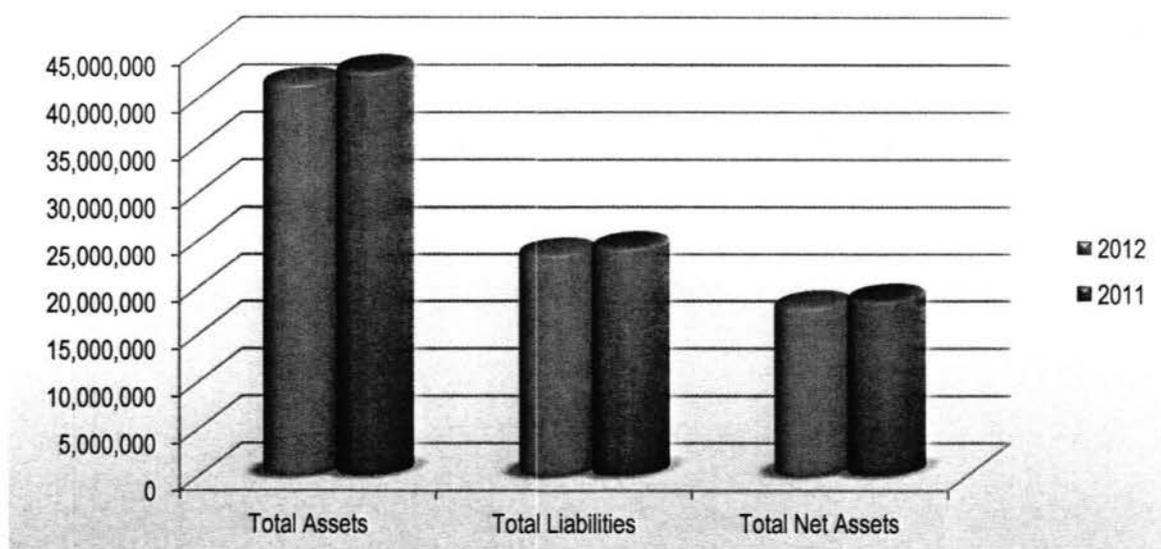
GOVERNMENTAL NET ASSETS

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 \$17,941,804 as of June 30, 2012, versus \$18,630,479 as of June 30, 2011, as restated. 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>2012</u>	<u>2011</u>
Current and non-current assets	\$ 23,531,443	\$ 24,624,716
Capital assets	18,001,628	18,246,563
Total Assets	41,533,071	42,871,279
Current liabilities	4,125,208	3,579,936
Long-term liabilities	19,466,059	20,660,864
Total Liabilities	23,591,267	24,240,800
Net assets:		
Investment in capital assets, net of related debt	12,167,242	11,589,231
Restricted	11,360,877	9,400,100
Deficit	(5,586,315)	(2,358,852)
Total Net Assets	\$ 17,941,804	\$ 18,630,479



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 \$11,381,915. 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 \$(688,675).

The cost of all governmental activities this year was \$21,844,442. **Table 2** presents the cost of each of the Municipality's largest programs.

Table 2

<u>Statement of Activities</u>	<u>2012</u>	<u>2011</u>
Revenues		
Grants and contributions	\$ 8,593,971	\$ 4,964,704
General revenues:		
Property taxes	1,507,306	1,440,208
Sales taxes	1,082,800	986,861
Volume of business taxes	1,120,373	969,398
Intergovernmental	5,478,607	5,207,724
Charges for services	1,868,556	1,551,259
Other General revenues	1,504,154	661,024
Total revenues	<u>21,155,767</u>	<u>15,781,178</u>
Expenses		
General administration	5,102,683	5,505,945
Public safety	408,929	549,862
Public works	2,725,921	1,683,409
Culture and recreation	1,030,937	1,306,950
Health and sanitation	942,209	833,314
Human services and welfare	5,455,594	4,989,833
Urban development	5,563,014	2,297,844
Interest on long-term debts	615,155	527,815
Total expenses	<u>21,844,442</u>	<u>17,694,972</u>
Changes in net assets	(688,675)	(1,913,794)
Net assets – beginning	<u>18,630,479</u>	<u>20,544,273</u>
Net assets – ending	<u>\$ 17,941,804</u>	<u>\$ 18,630,479</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

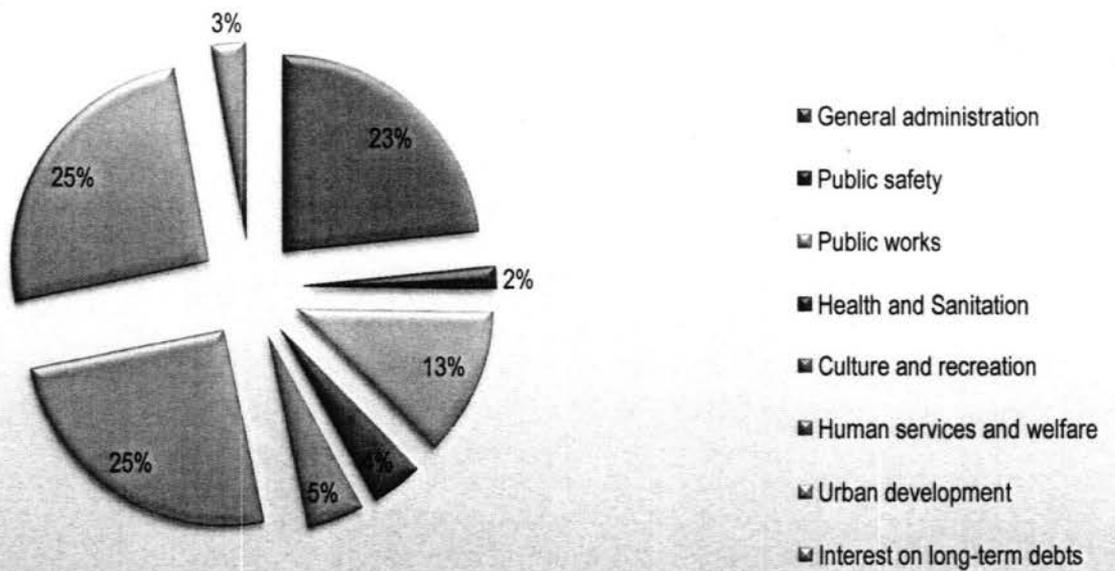
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

2012 Revenues



2012 Expenditures



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Approximately forty one percent (41%) of the Municipality's governmental activities total revenue came from grants and contributions, and twenty six percent (26%) came from state contributions not restricted for specific purposes. Federal grants represent sixty three percent (63%) of the Municipality's grants and contributions revenues. Also, approximately seventeen percent (17) of total revenues come from property, volume of business and sales taxes.

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 twenty five percent (25%) of total expenses resulted from human services and welfare, twenty three percent (23%) from general administration, twenty five percent (25%) from urban development and thirteen percent (13%) from public works.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

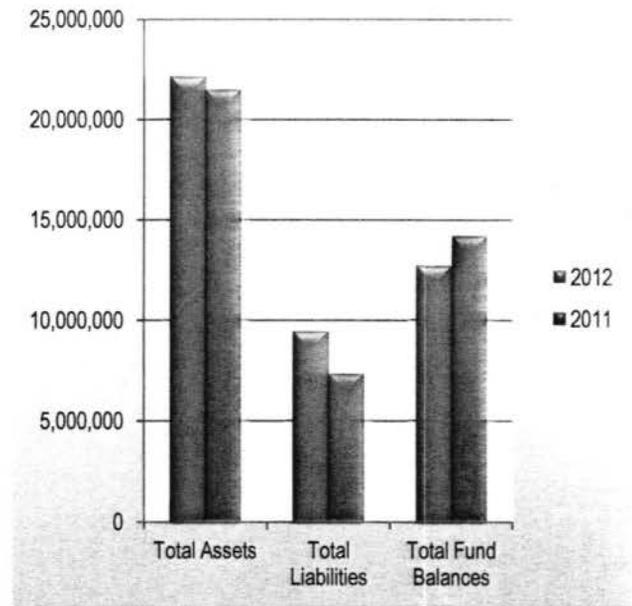
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

GOVERNMENT FUND FINANCIAL ANALYSIS

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

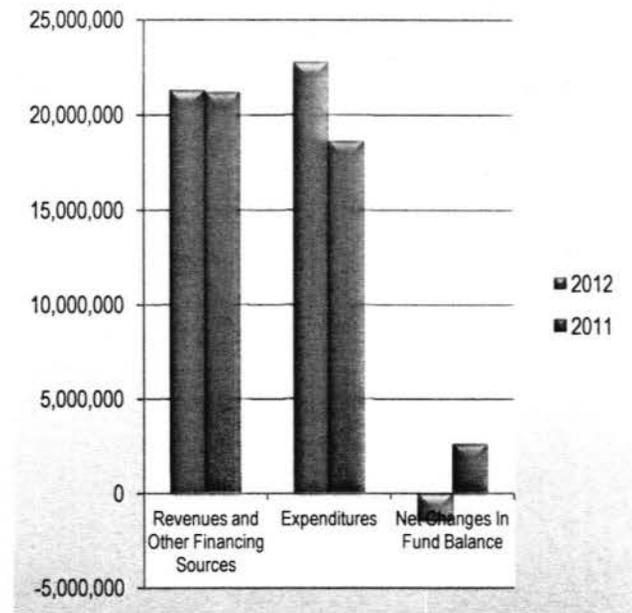
**Table 3
Balance Sheet**

	<u>2012</u>	<u>2011</u>
Assets:		
Total assets – Major Funds	\$ 11,275,711	\$ 12,225,235
Total assets – Other Funds	10,869,673	9,246,193
Combined total assets	\$ 22,145,384	\$ 21,471,428
Liabilities:		
Total liabilities – Major Funds	5,304,219	3,951,880
Total liabilities – Other Funds	4,129,063	3,348,700
Combined total liabilities	9,433,282	7,300,580
Fund Balances (as restated):		
Restricted, Committed or Assigned – Major Funds	5,849,665	8,081,190
Restricted, Committed or Assigned – Other Funds	6,740,610	5,897,493
Unassigned	121,827	192,165
Combined total fund balances	12,712,102	14,170,848
Total liabilities and fund balances	\$ 22,145,384	\$ 21,471,428



**Table 4
Changes in Fund Balances**

	<u>2012</u>	<u>2011</u>
Revenues:		
Total revenues – Major Funds	\$ 11,633,539	\$ 10,474,300
Total revenues – Other Funds	9,429,217	5,477,470
Combined total revenues	21,062,756	15,951,770
Expenditures:		
Total expenditures – Major Funds	13,372,436	11,761,040
Total expenditures – Other Funds	9,402,066	6,848,595
Combined total expenditures	22,774,502	18,609,635
Other financing sources:		
Other financing sources – Major Funds	-	5,235,000
Other financing sources – Other Funds	253,000	-
Combined other financing sources, net	253,000	5,235,000
Net changes in fund balance	(1,458,746)	2,577,135
Fund Balance – beginning	14,170,848	11,593,713
Fund Balance – ending	\$ 12,712,102	\$ 14,170,848



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012, the Municipality's governmental funds reported combined ending fund balances of \$12,712,102, a decrease of \$(1,458,746) from the prior year.

The Municipality has an unassigned fund balance of \$121,827 in its General Fund. The remainder of the balance is restricted, committed and assigned; (a) to liquidate prior year obligations (\$265,350); (b) to pay debt service (\$1,244,133) and; (c) for capital projects and other special purposes (\$11,080,792).

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	\$ 9,175,708	\$ 9,256,633	\$ 80,925
Total expenditures, encumbrances and other financing uses	<u>9,175,708</u>	<u>9,221,117</u>	<u>(45,409)</u>
Excess or deficiency	\$ _____ -	\$ 35,516	\$ 35,516

The original and the final budget of the General Fund for the fiscal year ended June 30, 2012 amounted to \$8,455,880 and \$9,175,708, 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, 2012 were \$9,256,633, which is \$80,925 more than the budgeted revenues. In addition, the total actual expenditures, encumbrances and other financing uses (budgetary basis) of the General Fund for the fiscal year ended June 30, 2012 were \$9,221,117, which is \$45,409 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, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

INVESTMENT IN CAPITAL ASSETS

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2012 amounted to \$18,001,628 (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 \$448,255. Additions during the fiscal year were for buildings, motor vehicles, and machinery and equipment. **Table 6** present the major classes of capital assets (net of accumulated depreciation):

Capital Assets	Amount
Construction in progress	\$ 2,062,282
Land	2,441,334
Buildings	11,577,091
Infrastructure	1,056,135
Machinery and equipment	672,086
Motor vehicles	<u>192,700</u>
Total Assets	<u>\$ 18,001,628</u>

LONG-TERM DEBT

At June 30, 2012, the Municipality had total of \$19,466,059 in general obligations and others outstanding debts, as shown in **Table 7**. Of this amount, \$13,446,500 comprises debt backed by the full faith and credit of the government and \$6,019,559 is other obligations.

Long Term Debts	Amount
General obligations bonds and notes	\$ 13,446,500
Others	<u>6,019,559</u>
Total Long Term Debts	<u>\$ 19,466,059</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, 2012

REAL ESTATE HELD FOR SALE

During past years, the Municipality participated in a construction of sixty (60) units in a project named "Altos del Rio", for low and very low income families, financed with combined funds, including a line of credit agreement with the Government Development Bank (GDB), Home Investment Partnership Program funds and Special Communities Funds. Also, on February 18, 2011, the Municipality's executive branch approved Ordinance Number 54, Serial 2010-2011, that authorized the issuance of a special obligation bond in the amount of \$1,085,000, for the construction of twenty (20) housing units. At June 30, 2012, real estate held for sale presented in the governmental wide statement of net assets, related to these constructions, amounted \$6,926,170.

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 2012 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

FINAL COMMENTS

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.

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, 2012**

	Governmental Activities
ASSETS:	
Cash and investments	\$ 8,211,968
Cash with fiscal agent	6,693,971
Receivable (net):	
Property taxes	96,675
Sales taxes	105,240
State government	261,176
Federal grants	1,236,243
Real Estate Held for Sale	6,926,170
	<u>23,531,443</u>
Capital assets:	
Land, improvements, and construction in progress	4,503,616
Other capital assets, net of depreciation	13,498,012
Total capital assets	<u>18,001,628</u>
TOTAL ASSETS	<u>41,533,071</u>
LIABILITIES:	
Accounts payable and accrued expenses	2,615,038
Accrued interests	524,649
Deferred revenue	985,521
Long-term liabilities:	
Due within one year	1,105,266
Due in more than one year	18,360,793
	<u>23,591,267</u>
TOTAL LIABILITIES	<u>23,591,267</u>
NET ASSETS	
Invested in capital assets, net of related debt	12,167,242
Restricted for:	
Debt service	1,244,133
Other purposes	10,116,744
Unrestricted (deficit)	<u>(5,586,315)</u>
TOTAL NET ASSETS	<u>\$ 17,941,804</u>

**Commonwealth of Puerto Rico
Municipality of Jayuya
Statement of Activities
For the Year Ended June 30, 2012**

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	\$ 1,123,560	\$ -	\$ -	\$ -	\$ (1,123,560)
General government	3,979,123	11,692	-	-	(3,967,431)
Public safety	408,929	-	126,953	-	(281,976)
Public works	2,725,921	-	67,365	865,651	(1,792,905)
Culture and recreation	1,030,937	331,249	40,693	-	(658,995)
Health and sanitation	942,209	-	-	-	(942,209)
Human services and welfare	5,455,594	1,398,468	3,139,576	55,430	(862,120)
Urban development	5,563,014	127,147	106,947	4,191,356	(1,137,564)
Interest on long-term debt	615,155	-	-	-	(615,155)
Total governmental activities	\$ 21,844,442	\$ 1,868,556	\$ 3,481,534	\$ 5,112,437	\$ (11,381,915)

General revenues:

Property taxes, levied for general purpose	1,271,358
Property taxes, levied for debt services	235,948
Volume of business taxes	1,120,373
Sales taxes	248,215
Sales taxes, levied for debt services	834,585
Intergovernmental	5,478,607
Licenses and permits	508,014
Rent	108,680
Interests	348,658
Miscellaneous	538,802
Total general revenues	10,693,240
Change in net assets	(688,675)
Net assets - beginning	18,630,479
Net assets - ending	\$ 17,941,804

**Commonwealth of Puerto Rico
Municipality of Jayuya
Balance Sheet
Governmental Funds
June 30, 2012**

	General Fund	Municipal Hospital Fund	Loans Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 349,106	\$ 594,286	\$ -	\$ 7,268,576	\$ 8,211,968
Cash with fiscal agent	-	-	6,693,253	718	6,693,971
Receivables:					
Sales taxes	21,196	-	-	84,044	105,240
Property taxes	93,011	-	-	3,664	96,675
State government	-	178,450	-	82,726	261,176
Federal grants	-	-	-	1,236,243	1,236,243
Due from other funds	3,346,409	-	-	2,193,702	5,540,111
Total assets	\$ 3,809,722	\$ 772,736	\$ 6,693,253	\$ 10,869,673	\$ 22,145,384
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 411,604	\$ 98,754	\$ 387,600	\$ 1,104,261	\$ 2,002,219
Bonds and notes payable	-	-	-	449,000	449,000
Accrued interests	-	-	-	199,601	199,601
Due to governmental units	130,995	-	-	32,824	163,819
Due to other funds	1,918,885	429,297	966,023	2,225,906	5,540,111
Deferred revenues:					
Volume of business tax	868,050	-	-	-	868,050
Property taxes	93,011	-	-	-	93,011
Federal grants revenues	-	-	-	117,471	117,471
Total liabilities	3,422,545	528,051	1,353,623	4,129,063	9,433,282
Fund balances:					
Restricted	-	244,685	-	5,637,976	5,882,661
Committed	-	-	5,339,630	866,338	6,205,968
Assigned	265,350	-	-	236,296	501,646
Unassigned	121,827	-	-	-	121,827
Total fund balances (deficit)	387,177	244,685	5,339,630	6,740,610	12,712,102
Total liabilities and fund balances	\$ 3,809,722	\$ 772,736	\$ 6,693,253	\$ 10,869,673	\$ 22,145,384

Commonwealth of Puerto Rico
Municipality of Jayuya
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Municipal Hospital Fund	Loans Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 1,178,347	\$ -	\$ -	\$ 235,948	\$ 1,414,295
Volume of business taxes	1,120,373	-	-	-	1,120,373
Sales taxes	248,215	-	-	834,585	1,082,800
Charges for services	-	1,391,136	-	477,420	1,868,556
Federal assistances	-	-	-	5,375,070	5,375,070
Intergovernmental	5,478,607	985,770	-	2,233,131	8,697,508
Licenses and permits	508,014	-	-	-	508,014
Rent	108,680	-	-	-	108,680
Interests	348,658	-	-	-	348,658
Miscellaneous	265,739	-	-	273,063	538,802
Total revenues	9,256,633	2,376,906	-	9,429,217	21,062,756
Expenditures					
Current:					
Mayor and municipal legislature	1,030,287	-	-	-	1,030,287
General government	4,137,745	-	-	120	4,137,865
Public safety	363,707	-	-	17,792	381,499
Public works	1,637,204	-	-	1,175,592	2,812,796
Culture and recreation	454,423	-	-	611,969	1,066,392
Health and sanitation	799,568	-	-	-	799,568
Human services and welfare	667,596	2,132,221	-	2,654,422	5,454,239
Urban development	126,670	-	2,023,015	3,563,916	5,713,601
Debt service:					
Principal	-	-	-	763,100	763,100
Interest and other charges	-	-	-	615,155	615,155
Total expenditures	9,217,200	2,132,221	2,023,015	9,402,066	22,774,502
Excess (deficiency) of revenues over (under) expenditures	39,433	244,685	(2,023,015)	27,151	(1,711,746)
Other financing sources (uses)					
Long term debt issuance	-	-	-	253,000	253,000
Transfers in	22,354	-	-	179,557	201,911
Transfers out	(179,557)	-	-	(22,354)	(201,911)
Total other financing sources (uses)	(157,203)	-	-	410,203	253,000
Net change in fund balances	(117,770)	244,685	(2,023,015)	437,354	(1,458,746)
Fund balance (deficit), beginning-as restated	504,947	-	7,362,645	6,303,256	14,170,848
Fund balance (deficit), ending	<u>\$ 387,177</u>	<u>\$ 244,685</u>	<u>\$ 5,339,630</u>	<u>\$ 6,740,610</u>	<u>\$ 12,712,102</u>

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, 2012

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS (PAGE 16)..... \$ 12,712,102

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	
Depreciable Capital Assets.....	21,788,274	
Accumulated Depreciation.....	<u>(8,290,262)</u>	
Total Capital Assets.....		18,001,628

Some of the Municipality's receivables will be collected after year end, but are not available soon enough to pay for the current period's expenditure and therefore, are deferred in the funds.....	93,011
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Real Estate Held for Sale is not a current financial resources and therefore, is not reported in the funds.....	6,926,170
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Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds.....	(325,048)
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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.....	(13,446,500)	
Compensated Absences.....	(1,470,867)	
Property Tax Debt – Law 42.....	(525,653)	
Property Tax Debt – Law 146.....	(77,154)	
Claims and Judgments.....	(225,000)	
Estimated Landfill Closure and Post-Closures Costs.....	(1,483,015)	
Line of Credit.....	(1,848,104)	
State Department of Labor – Debt Agreement.....	(364,028)	
Property Tax Debt – Advances.....	<u>(25,738)</u>	
Total Long-Term Liabilities.....		<u>(19,466,059)</u>

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 14)..... \$ 17,941,804

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, 2012

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (PAGE 17)...		\$ (1,458,746)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital assets additions 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 Assets Additions	448,255	
Depreciation Expense	<u>(693,190)</u>	
Excess of Depreciation Expense over Capital Assets Additions		(244,935)
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.....		
		327,105
Some of the Municipality's revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditure and therefore, are deferred in the funds.		
		93,011
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	(253,000)	
Compensated Absences.....	(29,289)	
State Department of Labor – Debt Agreement	<u>(80,482)</u>	
General obligation bond.....		(362,771)
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	763,100	
Property Tax Debt – Law 42	13,041	
Property Tax Debt – Law 146	3,857	
LIMS Repayment Plan	6,769	
Estimated landfill closure and post-closure care cost	76,024	
Compensated Absences.....	22,349	
State Department of Labor – Debt Agreement	<u>222,436</u>	
Total Additional Expenditures		1,107,576
Loss on real estate sales 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. In the current year, loss on these sales were.		
		<u>(149,915)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 15)		\$ (688,675)

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, 2012

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, 2012, 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 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, 2012, 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, 2012

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.

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, 2012, 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, 2012

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, 2012, 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, 2012

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 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 accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net assets or liabilities changed during the fiscal year ended June 30, 2012, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, volume of business taxes, sales taxes, construction excise taxes, etc.).

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Mayor and municipal legislature:

Municipal legislature
Mayor's office
Department of internal audit

General government:

Department of finance
Department of human resources
Department of municipal secretary

Public safety:

Department of emergency management – civil defense
Department of municipal police

Public works:

Department of public works

Culture and recreation:

Department of sports and recreation
Department of art, culture and tourism

Health and sanitation:

Department of recycling services

Human service and welfare:

Department of health
Department of citizen affairs
Section 8 program office

Urban development:

Department of planning and development
Federal programs office

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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 financial reporting model before the implementation of the GASB No. 34. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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.

GASB 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 of 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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. FUND BALANCES

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

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

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

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

However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2012.

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

At June 30, 2012, the accompanying fund financial statements reported fund balances as restricted, committed, assigned and unassigned.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. BUDGETARY DATA

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. BUDGETARY DATA (CONTINUED)

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

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

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

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

G. CASH, CASH EQUIVALENT AND INVESTMENT

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. RECEIVABLES

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

I. INVENTORIES

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

J. REAL ESTATE HELD FOR SALE

Real estate's held for sale in the accompanying statement of net assets are carried at the lower of the estimated fair value or historical cost. Subsequent declines in the value of real estate available for sale are charged to expense.

K. CAPITAL ASSETS

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

<u>Capital Assets</u>	<u>Years</u>
Buildings and site improvements	40
Infrastructure	40
Vehicles	5
Furniture and fixtures	5
Machinery and equipment	3 to 5

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

L. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. COMPENSATED ABSENCES

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

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

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

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2012.

<u>BALANCE</u> <u>JULY 1, 2011</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2012</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$ 1,463,927	\$ 29,289	\$ (22,349)	\$ 1,470,867	\$ 125,000	\$ 1,345,867

N. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. 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.

P. 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.

Q. 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.

R. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. ACCOUNTING FOR PENSION COSTS (CONTINUED)

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.

S. 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, 2012 amounted to \$189,912. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$253,852 for workers compensation insurance covering all municipal employees.

T. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following accounting standards that have effective dates after June 30, 2012:

- ❖ 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, 2011;
- ❖ 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;
- ❖ GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement is effective for periods beginning after December 15, 2012.
- ❖ GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This statement is effective for periods beginning after December 15, 2012.
- ❖ GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*.
- ❖ GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement is effective for periods beginning after June 15, 2014.
- ❖ GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

Except for GASB Statement No. 63, the Municipality's management has concluded that the future adoption of these GASB Statements will not have a significant impact on 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, 2012

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.

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, 2012.

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, 2012, (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, 2012, 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, 2012, 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, 2012. Therefore, the Municipality's management has concluded that at June 30, 2012 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, 2012.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

The Municipality's bank balances in commercial banks of \$349,106 in the General Fund and \$594,286 in Municipal Hospital Fund were fully collateralized at June 30, 2012. In the Other Governmental Funds, there were deposits with commercial banks of \$7,268,576 that were fully collateralized.

The deposits at GDB of \$6,693,253 in the Loans Fund and the \$718 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 \$21,196 in the General fund represents the amount due by the taxpayers at June 30, 2012.

Also, sales taxes receivable of \$84,044 in the Other Governmental Funds represents the amount due at June 30, 2012 for the Municipal Redemption Fund.

B. PROPERTY TAXES RECEIVABLES

Property taxes receivable of \$93,011 in the general fund represents excess of revenues over advances received from the CRIM during fiscal year 2011-2012, according final settlement statement.

C. STATE GOVERNMENT RECEIVABLES

At June 30, 2012, the Municipal Hospital maintained an account receivable from the state government of \$178,450. Also, receivable in the Other Governmental Funds represents expenditures incurred, not yet reimbursed by the state agencies. Following is a detail of the state government receivable:

<u>Description</u>	<u>Amount</u>
Commonwealth of Puerto Rico-Department of Labor and Human Resources	\$ 27,296
Commonwealth of Puerto Rico-Special Communities Trust	<u>55,430</u>
Total	<u>\$ 82,726</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 – RECEIVABLES (CONTINUED)

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	\$ 31,272
Twenty-first Century Community Learning Centers	889,027
Special Program for Aging, Title III	49,295
Home Investment Partnership Program	132,262
Child Care Development Block Grant	61,908
Community Service Block Grant	53,168
Others	<u>19,311</u>
Total	<u>\$ 1,236,243</u>

NOTE 4 – DUE FROM / TO OTHER FUNDS

Interfund receivables and payables at June 30, 2012 are summarized as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Municipal Hospital Fund	Payroll and related accruals paid and not reimbursed	\$ 304,297
General Fund	Loans Fund	Payroll and related accruals paid and not reimbursed, and others reimbursable expenditures	966,023
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed, and others reimbursable expenditures	2,076,089
Other Governmental Funds	General Fund	Cash pool in the same bank account	1,918,885
Other Governmental Funds	Municipal Hospital Fund	Reimbursable expenditures	125,000
Other Governmental Funds	Other Governmental Funds	Reimbursable expenditures	<u>149,817</u>
Total			<u>\$ 5,540,111</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 – CAPITAL ASSETS AND REAL ESTATE HELD FOR SALE

REAL ESTATE HELD FOR SALE

The Municipality participated in a construction of sixty (60) units in a project named "Altos del Rio", for low and very low income families, financed with combined funds, including a line of credit agreement with the Government Development Bank (GDB), Home Investment Partnership Program funds and Special Communities Funds. Also, on February 18, 2011, the Municipality's executive branch approved Ordinance Number 54, Serial 2010-2011, that authorized the issuance of a special obligation bond in the amount of \$1,085,000, for the construction of twenty (20) housing units. At June 30, 2012, real estate held for sale presented in the governmental wide statement of net assets, related to these constructions, amounted \$6,926,170.

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, 2012. 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.

A summary of capital assets and changes occurring during fiscal year 2011-2012, 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, 2011	Additions	Retirements / Reclassifications	Balance June 30, 2012
Capital asset, not being depreciated:				
Land	\$ 2,441,334	\$ -	\$ -	\$ 2,441,334
Construction in progress	<u>2,062,282</u>	<u>-</u>	<u>-</u>	<u>2,062,282</u>
Total capital assets not being depreciated	<u>4,503,616</u>	<u>-</u>	<u>-</u>	<u>4,503,616</u>
Capital assets, being depreciated:				
Buildings	13,887,298	230,000	-	14,117,298
Infrastructure	1,296,131	-	-	1,296,131
Machinery and equipment	3,566,549	136,369	-	3,702,918
Motor vehicles	<u>2,590,041</u>	<u>81,886</u>	<u>-</u>	<u>2,671,927</u>
Total capital assets being depreciated	<u>21,340,019</u>	<u>448,255</u>	<u>-</u>	<u>21,788,274</u>
Less accumulated depreciation for:				
Buildings	(2,284,626)	(255,581)	-	(2,540,207)
Infrastructure	(220,556)	(19,440)	-	(239,996)
Machinery and equipment	(2,701,618)	(329,214)	-	(3,030,832)
Motor vehicles	<u>(2,390,272)</u>	<u>(88,955)</u>	<u>-</u>	<u>(2,479,227)</u>
Total accumulated depreciation	<u>(7,597,072)</u>	<u>(693,190)</u>	<u>-</u>	<u>(8,290,262)</u>
Total capital assets being depreciated, net	<u>13,742,947</u>	<u>(244,935)</u>	<u>-</u>	<u>13,498,012</u>
Governmental activities capital assets, net	<u>\$ 18,246,563</u>	<u>\$ (244,935)</u>	<u>\$ -</u>	<u>\$ 18,001,628</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 – CAPITAL ASSETS AND REAL ESTATE HELD FOR SALE

CAPITAL ASSETS (CONTINUED)

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

Governmental activities	Amount
Mayor and Municipal	\$ 94,098
General Government	320,012
Public Safety	28,030
Public Works	4,362
Culture and Recreation	61,232
Sanitation	142,641
Welfare	16,213
Urban development	<u>26,602</u>
Total depreciation expenses	<u>\$ 693,190</u>

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2011-2012, and not paid by the Municipality at June 30, 2012. Following is a detail of these accounts payable and accrued liabilities by major fund:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 214,648	\$ 196,956	\$ 411,604
Municipal Hospital Fund	98,754	-	98,754
Loans Fund	387,600	-	387,600
Other Governmental Funds	<u>1,104,261</u>	-	<u>1,104,261</u>
Total	<u>\$ 1,805,263</u>	<u>\$ 196,956</u>	<u>\$ 2,002,219</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, 2012, the government-wide and fund financial statements presented the following accounts payable, regarding to the outstanding balance of these bonds and notes, including its accrued interests:

Description	Amount
Principal	\$ 449,000
Interests	<u>199,601</u>
Total	<u>\$ 648,601</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2012, balance due to other governmental units consists of the following:

<u>Governmental Agency</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	\$ 106,747
General Service Administration	5,036
State Department of Treasury	23
State Department of Labor	<u>19,189</u>
Total	<u>\$ 130,995</u>

At June 30, 2012, the Other Governmental Funds maintained a due to governmental units, amounting to \$32,824, related to the economies generated by the Public and Indian Housing Program during fiscal year 2011-2012.

NOTE 9 – DEFERRED REVENUES

The deferred revenues in the General Fund are related to volume of business taxes collected in fiscal year 2011-12, that will be earned in fiscal year 2012-13 (\$868,050), and excess of property taxes revenues over advances received from the CRIM during fiscal year 2011-2012, according final settlement statement, not available to pay liabilities of the current period (\$93,011).

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:

<u>Program Description</u>	<u>Amount</u>
Water and Waste Disposal System for Rural Communities	\$ 97,694
Others	<u>19,777</u>
Total	<u>\$ 117,471</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2012, was as follows:

Description	Beginning Balance (as restated)	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$ 13,956,600	\$ 253,000	\$ (763,100)	\$ 13,446,500	\$ 800,300
Compensated absences	1,463,927	29,289	(22,349)	1,470,867	125,000
Property Tax Debt – Law 42	538,694	-	(13,041)	525,653	13,860
Property Tax Debt – Law 146	81,011	-	(3,857)	77,154	3,857
LIMS Repayment Plan	6,769	-	(6,769)	-	-
Line of Credit	2,298,104	-	(450,000)	1,848,104	-
Claims and Judgments	225,000	-	-	225,000	-
Estimated landfill closure and post-closure care cost	1,559,039	-	(76,024)	1,483,015	-
State Department of Labor- Debt Agreement	505,982	80,482	(222,436)	364,028	136,511
Property Tax Debt – Advances	25,738	-	-	25,738	25,738
Total	\$ 20,660,864	\$ 362,771	\$ (1,557,576)	\$ 19,466,059	\$ 1,105,266

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, 2012, are comprised of the following individual issues:

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	\$ 71,000
\$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	130,000
\$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	310,000
\$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	65,500
\$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	330,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

1. BONDS PAYABLE (CONTINUED)

DESCRIPTION	AMOUNT
\$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	320,000
\$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	185,000
\$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	453,000
\$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	667,000
\$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	2,900,000
\$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	890,000
\$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	1,065,000
\$253,000, Series 2006, for construction purposes, payable in semiannual installments ranging from \$6,000 to \$17,000, excluding interest at 4.25%, through January 1, 2034	<u>247,000</u>
Total General Obligations – Bonds	<u>\$ 7,633,500</u>

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	\$ 505,000
\$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	1,845,000
\$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	65,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

2. NOTES PAYABLE (CONTINUED)

DESCRIPTION	AMOUNT
\$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	40,000
\$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	90,000
\$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>3,268,000</u>
Total General Obligations – Notes	<u>\$ 5,813,000</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.

The annual requirements to amortize the general obligations bonds outstanding as of June 30, 2012 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2013	\$ 371,300	\$ 460,297	\$ 831,597
2014	398,600	474,333	872,933
2015	415,800	492,958	908,758
2016	428,100	464,022	892,122
2017	415,400	434,035	849,435
2018-2022	1,311,300	1,850,456	3,161,756
2023-2027	1,516,000	1,360,445	2,876,445
2028-2032	1,794,000	767,789	2,561,789
2033-2037	<u>983,000</u>	<u>147,999</u>	<u>1,130,999</u>
Total	<u>\$ 7,633,500</u>	<u>\$ 6,452,334</u>	<u>\$ 14,085,834</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

The annual requirements to amortize the general obligations notes outstanding as of June 30, 2012 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2013	\$ 429,000	\$ 274,867	\$ 703,867
2014	349,000	280,792	629,792
2015	299,000	308,066	607,066
2016	304,000	290,679	594,679
2017	310,000	272,964	582,964
2018-2022	1,630,000	1,208,057	2,838,057
2023-2027	1,015,000	753,717	1,768,717
2028-2032	1,185,000	388,500	1,573,500
2033-2037	<u>292,000</u>	<u>21,900</u>	<u>313,900</u>
Total	<u>\$ 5,813,000</u>	<u>\$ 3,799,542</u>	<u>\$ 9,612,542</u>

B. COMPENSATED ABSENCES

The government-wide statement of net assets includes \$1,470,867 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

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, 2012 amounted to \$525,653.

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, 2012 amounted to \$77,154.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

E. 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, 2012, this line of credit has an outstanding balance of \$1,848,104, and accrued interest of \$325,048. The line of credit will be repaid with the proceeds of the sale of the sixty(60) units.

F. 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, 2012, as described in Note 19.

G. STATE DEPARTMENT OF LABOR

In fiscal year 2011-2012 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, 2012 of this agreement was \$364,028.

H. 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, 2012.

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 \$1,483,015 reported as landfill closure and post closure care liability at June 30, 2012, 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 2012. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 – DEBT RETIREMENT

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

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

NOTE 13 – PROPERTY TAXES

The 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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:

- ❖ 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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.

NOTE 17 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended at June 30, 2012, are summarized as follows:

Transfer Out	Transfer In	Purpose	Amount
General Fund	Other Governmental Fund	To cover special funds and debt retirement	\$ 179,557
Other Governmental Fund	General Fund	Operating payroll expenditures reclassification	<u>22,354</u>
Total			<u>\$ 201,911</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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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 define contribution programs to the new savings program (a defined contribution plan).

Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will 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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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.

The total pension expenditures recorded in the category of administration for the fiscal year ended on June 30, 2010, 2011 and 2012 were, approximately, \$181,200, \$168,400 and \$179,700, respectively. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2012. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 19 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

C. CONSTRUCTION

The Municipality had commitments at June 30, 2012 of approximately \$2,650,000 for the construction, improvements, or renovation of several capital facilities and the capital assets.

D. OTHER COMMITMENTS

At June 30, 2012 the general fund had commitments of approximately \$265,350 for executory purchase orders or contracts that will be honored during the subsequent year.

NOTE 20 – FUND BALANCE

As of June 30, 2012, the fund balance (deficit) classifications are as follows:

Fund Balance	General Fund	Municipal Hospital Fund	Loans Fund	Other Governmental Fund	Total
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ 32,588	\$ 32,588
Public works	-	-	-	244,664	244,664
Culture and recreation	-	-	-	60,879	60,879
Human services and welfare	-	244,685	-	428,592	673,277
Urban development	-	-	-	3,410,656	3,410,656
Debt service	-	-	-	1,460,597	1,460,597
Committed for:					
General government	-	-	-	151,791	151,791
Public safety	-	-	-	1,469	1,469
Public works	-	-	-	527,425	527,425
Culture and recreation	-	-	-	47,067	47,067
Human services and welfare	-	-	-	112,485	112,485
Urban development	-	-	5,339,630	26,101	5,365,731
Assigned for:					
Mayor and municipal legislature	49,491	-	-	-	49,491
General government	71,984	-	-	32,118	104,102
Public safety	1,855	-	-	11,813	13,668
Public works	75,870	-	-	3,456	79,326
Culture and recreation	14,939	-	-	186,570	201,509
Human services and welfare	40,776	-	-	2,339	43,115
Urban development	10,435	-	-	-	10,435
Unassigned	<u>121,827</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>121,827</u>
Total Fund Balance	<u>\$ 387,177</u>	<u>\$ 244,685</u>	<u>\$ 5,339,630</u>	<u>\$ 6,740,610</u>	<u>\$ 12,712,102</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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	\$ 629,946	\$ -	\$ 7,425,825	\$ 5,897,493
To reclassified special funds outstanding cash balance	(170,337)			170,337
To eliminate general fund due from special funds	(47,246)			47,246
To reclassified loans fund due to other funds			(63,180)	63,180
To restated municipal hospital fund due from state government		125,000		
To restated municipal hospital fund due to other funds		(125,000)		125,000
To reclassified unemployment debt to governmental wide – statement of net assets	92,584	-	-	-
Fund balance, beginning as restated	<u>\$ 504,947</u>	<u>\$ -</u>	<u>\$ 7,362,645</u>	<u>\$ 6,303,256</u>

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

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

Description	Total
Net assets, beginning	\$ 16,648,095
To restated municipal hospital fund due from state government	125,000
To restated Real Estate Held for Sale cost	1,857,384
Net assets, beginning as restated	<u>\$ 18,630,479</u>

NOTE 22 – SUBSEQUENT EVENTS

On August 27, 2012 the Municipality's executive branch approved Resolution Number 14, authorizing the issuance of a Special Note in the amount of \$430,000, for the purchase of equipment. This bond is payable with resources collected through the Municipal Redemption Fund.

Management has evaluated subsequent events through March 28, 2013, the date the financial statements were available to be issued.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 1,141,476	\$ 1,111,887	\$ 1,178,347	\$ 66,460
Volume of Business Taxes	975,000	1,107,403	1,120,373	12,970
Sales Taxes	275,000	248,596	248,215	(381)
Intergovernmental	5,396,191	5,487,002	5,478,607	(8,395)
Licenses and permits	302,000	507,934	508,014	80
Rent	60,000	102,108	108,680	6,572
Interests	50,000	348,658	348,658	-
Miscellaneous	<u>256,213</u>	<u>262,120</u>	<u>265,739</u>	<u>3,619</u>
Total revenues	<u>8,455,880</u>	<u>9,175,708</u>	<u>9,256,633</u>	<u>80,925</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
Mayor and Municipal Legislature	876,124	1,054,903	1,055,076	(173)
General government	3,254,968	3,884,182	3,938,998	(54,816)
Public safety	526,947	365,403	365,403	-
Public works	1,138,573	1,661,506	1,654,007	7,499
Culture and Recreation	711,640	460,486	460,486	-
Health and Sanitation	780,257	813,286	811,205	2,081
Urban Development	134,214	137,104	137,104	-
Human Service and Welfare	859,232	666,869	666,869	-
Transfers out	<u>173,925</u>	<u>131,969</u>	<u>131,969</u>	<u>-</u>
Total expenditures, encumbrances and other financing uses	<u>8,455,880</u>	<u>9,175,708</u>	<u>9,221,117</u>	<u>(45,409)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,516</u>	<u>\$ 35,516</u>

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

Sources/inflows of resources:		
Actual amounts (budgetary basis)*available for appropriation" from the budgetary comparison schedule		\$ 9,256,633
Differences-budget to GAAP		-
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances		<u>\$ 9,256,633</u>
Uses/outflows of resources:		
Actual amounts (budgetary basis)*total charges to appropriations" from the budgetary comparison schedule		\$ 9,221,117
Differences-budget to GAAP:		
Prior year expenditure are not outflows of budgetary resources, but are expenditure for financial purposes		332,274
Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes		(204,222)
Transfer to other funds are outflows of budgetary resources but are not expenditure for financial reporting purposes		(131,969)
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances		<u>\$ 9,217,200</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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:			
Rural Housing Preservation Grants	10.433		\$ 20,414
Water and Waste Disposal System for Rural Communities	10.760		20,875
Pass-Through State – State Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	54,010
Total U.S. Department of Agriculture			95,299
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		16,438
Pass-Through State - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State's Program	14.228	11-AB-FC 10-AB-FC 09-AB 08-FC-AB 07-FC-AB 06-FC-AB 05-FC 04-FC	1,137,371
Community Development Block Grant - Section 108 Loan Guarantees	14.248	B-01-DC-72-0001-A	177,941
Pass-Through State – State Department of Family:			
Emergency Solutions Grant Program	14.231	N/AV	20,288
ARRA – Homelessness Prevention and Rapid Re- housing Program (Recovery Act)	14.257	N/AV	108,668
Pass-Through State – Department of Housing:			
Home Investment Partnerships Program	14.239	N/AV	884

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

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	12,004
Pass-Through State – Puerto Rico Housing Administration: Public and Indian Housing	14.850	RQ-3040 RQ-5233 RQ-5247 RQ-5270	87,890
Total U.S. Department of Housing and Urban Development			1,561,484
U.S. DEPARTMENT OF ENERGY:			
Pass-through State – Authority for the Infrastructure Financing (AFI): ARRA – State Energy Program (Recovery Act)	81.041	S-2010-0073	86,700
Pass-through State – Office of the Energy Affairs Administration: ARRA – Energy Efficiency and Conservation Block Grant Program (Recovery Act)	81.128	2011-132008	25,861
Total U.S. Department of Energy			112,561
U.S. DEPARTMENT OF EDUCATION:			
Pass-Through the Commonwealth of Puerto Rico – Department of Education: Twenty-First Century Community Learning Centers	84.287	2012-AF0210	889,027
Total U.S. Department of Education:			889,027
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	192,536

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Pass-Through Administration of Children and Families:			
Promoting Safe and Stable Families	93.556	N/AV	21,969
Child Care and Development Block Grant	93.575	N/AV	<u>268,922</u>
Total U.S. Department of Health and Human Service:			<u>483,427</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-Through the Commonwealth of Puerto Rico Governor Office – Public Security Affair Office:			
Disaster Grants – Public Assistance	97.036	DR-PR-1946 DR-PR-4017	<u>1,372,967</u>
Total U.S. Department of Education:			<u>1,372,967</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 4,514,765</u></u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012 was \$2,350,000.

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. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of 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, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 28, 2013. 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

Management of the Municipality, is responsible for establishing and maintaining effective 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 12-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 12-II-01.

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

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 12-II-01 and 12-II-02.

We noted certain other matters that we reported to management of the Municipality in a separate letter dated March 28, 2013.

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 28, 2013



PEDRO C. ORTIZ LEDEE

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S 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, 2012. 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 12-III-04 and 12-III-06 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Cash Management and Procurement and Suspension and Debarment that are applicable to its Community Development Block Grant – State's Program. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

As described in item 12-III-07 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirement regarding Procurement and Suspension and Debarment that is applicable to its Disaster Grants - Public Assistance. Compliance with such requirement is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

As described in item 12-III-08 and 12-III-09 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Activities and Procurement and Suspension and Debarment that are applicable to its Twenty-First Century Community Learning Centers. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

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 (CONTINUED)

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, 2012. 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 12-III-03 and 12-III-05.

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 12-III-04, 12-III-06, 12-III-07, 12-III-08 and 12-III-09 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 12-III-03 and 12-III-05 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.

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

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.

Pl. Calle!
Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 18, 2013



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified for fund financial statement and adverse opinion 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 Opinion	
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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants / State's Program
84.287	Twenty-First Century Community Learning Centers
97.036	Disaster Grants – Public Assistance
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, 2012

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	12-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, 2012

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	12-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 trial balances by each fund in the modified accrual basis of accounting. In addition, the system should provide for the maintenance of the capital assets and the general long term debt of the Municipality.
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, 2012

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	12-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. Also, GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the statement of net assets and that there assets must be depreciated during its useful life.
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, and the GASB Statement No. 34.
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 gave 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	12-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- HOUSING REHABILITATION
CONDITION	The Program failed to maintained appropriate supporting documentation regarding the Housing Rehabilitation participant's files.
CONTEXT	As part of our grant disbursement test, we examined nine (9) Housing Rehabilitation participant's files and noted the following conditions: (a) the Program obtained the income evidence only from the head of household and did not obtain income evidence from the other members of the family; and (b) we did not found evidence in three (3) participants' files that the housing rehabilitations were made. At the moment of our examination, has been passed from 64 to 575 days since the first visit was made to the participants.
CRITERIA	Code of Federal Regulations 24, Section 570.506 (b) (9) states that when CDBG funds are used for residential rehabilitation activity to aid in the prevention or elimination of slums or blight in a slum or blighted area, the grantee must maintain records to support the local definition of "substandard", must document a pre-rehabilitation inspection report describing the deficiencies in each structure to be rehabilitated, and must document the details in each structure to be rehabilitated, and must document the details and scope of CDBG assisted rehabilitation, by structure. Also, the Operational Guide of Housing Rehabilitation (the guide) provided by the Office of Commissioner of Municipal Affairs, the pass through entity, stated that the Program has to conduct an initial unit inspection to determine if the unit is eligible to be rehabilitating under the criteria of the program. In addition, the guide stated that the Program has to conduct an intermediate and a final inspection to determine if the unit is being rehabilitated and that the rehabilitation has been completed, respectively.
CAUSE	The Program's internal controls procedures failed to assure that all required information regarding the income of the participants were obtained and the required 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 Code of Federal Regulation 24, Section 570.506 (b) (9) and with the operational guides of Housing Rehabilitation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	12-III-03 (CONTINUED)
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- HOUSING REHABILITATION
RECOMMENDATION	We recommend management to obtain the income evidence from all the family members and to verify this information with third party income information. Also, the Program should follow up the housing rehabilitation cases that are still open and assure that the materials donated were used in accordance with the Operational Guide and the Federal regulation.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	<p>Our Federal Department management will verify the housing rehabilitations not yet finalized, in order to monitoring the completion of the works, and verify if these works were performances in accordance with the operational guides.</p> <p>Also, for new applicant's evaluations, we will request evidence of all family members older than eighteen (18) years.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	12-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
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 2011-2012, the Program maintained an average monthly balance of approximately \$65,527. In addition, we examined twelve (12) requests of funds made by the Program to the pass-through agency and found that nine (9) requests took between six (6) and three hundred six (306) days from the moment the funds were deposited and the issuance of the checks.
CRITERIA	Code of Federal Regulations 24, 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, CFR 570.489 (c) (1).
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	We will establish a meeting with the Finance Department staff to implement new internal controls, in order to issue the program's checks no more than three (3) days after receiving of funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	12-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, 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, Section 570.504 (a).
RECOMMENDATION	We recommend management to implement adequate procedures to ensure that the financial transactions related to the program income and the disbursements related with these projects are properly recorded in the accounting records of the Program.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We will implement a new accounting register system, in order to determine all incomes generate from CDBG's projects.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	12-III-06
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	PROCUREMENT AND SUSPENSION AND DEBARMENT
CONDITION	The Municipality disbursed funds to a contractor without a written contract, instead, relying on a certification of bid adjudication. In addition, the Municipality formalized a contract and did not verify if the contractor was suspended or debarred by the Federal government.
CONTEXT	During our grant disbursement test, we examined seventeen (17) CDBG payments and noted that the Municipality issued \$85,198 in purchases orders for the service of asphalt carriages without a written formal contract with the contractor; instead the Municipality issued a certification of bid adjudication that did not included all the clauses required by the Federal regulation. In addition, we did not found evidence that the Municipality verified the Excluded Parties List System (EPLS) maintained by the General Service Administration, nor obtained a certification from the contractor, to assure that this contractor was not suspended or debarred.
CRITERIA	According to Chapter IX, Section 6 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM) the municipalities are required to issue written contracts with parties who will provide services to the municipalities or perform construction projects of public works. In addition, Code of Federal Regulations 24, Section 85.36 (i) (1-13) establishes all the required clauses that contracts should include. In addition, Code of Federal Regulations 24, Section 85.35 states that grantees and subgrantees must not make any award or permit any award at any tier to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs subject to 2 CFR part 2424.
CAUSE	The Program did not maintain appropriate procurement standard procedures to assure that a contract was formalized and included all the required clauses. The Program did not verify against the EPLS, that the contractor was not suspended or debarred.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	12-III-06 (CONTINUED)
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
EFFECT	The Program is not in compliance with Chapter IX, Section 6 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM) and Code of Federal Regulation 24, Section 85.36 (i) (1-13) and Section 85.35.
RECOMMENDATION	We recommend management to ensure that all contracts should be formalized with a formal written contract which includes all the required clauses. We recommend management to obtain the EPLS in printed or electronic format, every time the Municipality formalized a contract with Programs' funds.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Immediately, we will formalize contracts for the service of asphalt carriages paid with Community Development Block Grants – State Program's funds. Also, we will verify if this contractor was included in the "Excluded Parties List", before proceed with the contract's formalization.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	12-III-07
FEDERAL PROGRAM	PUBLIC ASSISTANCE GRANTS – FEMA (CFDA 97.036) U.S. DEPARTMENT OF HOMELAND SECURITY PASS THROUGH – OFFICE OF THE GOVERNOR (GAR)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
CONDITION	<p>The Municipality disbursed funds to contractors without written contracts, instead, relying on certifications of bids adjudications. In addition, the Municipality formalized contracts and did not verify if these contractors were suspended or debarred by the Federal government. Also, the Municipality did not document adequately the procurement procedures for the selection of a contractor.</p>
CONTEXT	<p>During our grant disbursement test, we examined twenty-seven (27) payments and noted that the Municipality issued \$32,092 and \$73,406 in purchases orders for the service of asphalt carriages and asphaltting projects, respectively, without written formal contracts with the contractors; instead the Municipality issued a certification of bids adjudications that did not included all the clauses required by the Federal regulation. In addition, we did not found evidence that the Municipality verified the Excluded Parties List System (EPLS) maintained by the General Service Administration, nor obtained a certification from these contractors, to assure that they were not suspended or debarred.</p> <p>In addition, we noted that the Municipality adjudicated the rent of construction equipment to one (1) supplier. The process to acquire these services was requesting three (3) quotations from various suppliers. According to the supporting documents, the Municipality adjudicated the quotation to the highest bidder without documenting the reasons for not selecting the lower bidders.</p>
CRITERIA	<p>According to Chapter IX, Section 6 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM) the municipalities are required to issue written contracts with parties who will perform construction projects of public works. In addition, Code of Federal Regulations 44, Section 13.36 (i) (1-13) establishes all the required clauses that contracts should include. In addition, Code of Federal Regulations 44, Section 13.35 states that grantees and sub-grantees must not make any award or permit any award at any tier to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	12-III-07 (CONTINUED)
FEDERAL PROGRAM	PUBLIC ASSISTANCE GRANTS – FEMA (CFDA 97.036) U.S. DEPARTMENT OF HOMELAND SECURITY PASS THROUGH – OFFICE OF THE GOVERNOR (GAR)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
CRITERIA	Also, CFR 44 Section 13.36 (b) states that grantees and sub-grantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.
CAUSE	The Program did not maintain appropriate procurement standard procedures to assure that a contract was formalized and included all the required clauses. The Program did not verify against the EPLS, that the contractor was not suspended or debarred. Also, the Program does not perform an appropriate procurement process because failed to document adequately the selection of the highest bidder.
EFFECT	The Program is not in compliance with Chapter IX, Section 6 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM) and Code of Federal Regulation 44, Section 13.36 (b) (i) (1-13) and Section 85.35.
RECOMMENDATION	We recommend management to ensure that all contracts should be formalized with a formal written contract which includes all the required clauses. In addition, we recommend management to obtain the EPLS in printed or electronic format, every time the Municipality formalized a contract with Programs' funds. Also, the Municipality should document adequately the reasons for the selection of a higher bidder in a quotation process.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	<p>For the acquisition of asphalt carriages service and asphalt road works, we will formalize contracts with all provisions requires by the federal regulation. This also includes any professional service contracts, and others construction contracts. Also, we will establish the necessary internal controls to assure that all contractors and other suppliers are verify in the "Excluded Parties List System".</p> <p>In addition, we will assure that all bidders' selection process is adequately documented, for all goods and services acquired.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	12-III-08
FEDERAL PROGRAM	TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS (CFDA 84.287) U.S. DEPARTMENT OF EDUCATION PASS THROUGH – STATE DEPARTEMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE ACTIVITIES
CONDITION	The Program did not provide information related to the progress of the services provided to the participants during the fiscal year 2011-2012.
CONTEXT	During our audit, we did not obtain adequate supporting documentation regarding program's progress at June 30, 2012, in order to determine the Municipality's compliance with the dispositions established in the grant agreement with the pass-through agency.
CRITERIA	Code of Federal Regulation 34, Sections 80.42 (a) (1) establish that all financial and programmatic records, supporting documents, statistical records and other records of grantees and sub-grantees which required to be maintained by the terms of this part, program regulations or the grant agreement, or otherwise reasonably considered pertinent to program regulations or the grant agreement.
CAUSE	The Program failed to maintain an adequate control over the maintenance of the documents that justify the disbursements and the program activities.
EFFECT	The Program is not in compliance with Code of Federal Regulation 34, Section 80.42 (a) (1).
RECOMMENDATION	We recommend management to identify the information not provided during the audit. Also, we recommend that this information should be maintained in a safe place. In addition, the Municipality should continue strengthening the internal controls and procedures to appropriately maintain the supporting documentation that documents the activities of the Program.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Immediately, we will give instruction to the responsible employees, in order to identify all required information, not provided for the audit purpose.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	12-III-09
FEDERAL PROGRAM	TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS (CFDA 84.287) U.S. DEPARTMENT OF EDUCATION PASS THROUGH – STATE DEPARTEMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
CONDITION	The Program disbursed funds during fiscal year 2011-2012 not in accordance with the adequate procurement process established by the Federal and State regulations. Also, the Program did not include in the contracts, all the clauses required by the Federal regulations.
CONTEXT	<p>During our disbursement test, we noted that the Municipality disbursed \$131,282 for the services of scholar transportation. The process to acquire these services was requesting three quotations from various suppliers instead of celebrating a public bid, in accordance with the State regulations.</p> <p>In addition, during our contract provisions test, we examined two (2) contracts formalized during fiscal year 2011-2012, to verify the completeness of its clauses and noted that various clauses were missing in the contracts.</p>
CRITERIA	Code of Federal Regulation 34, Section 80.36 (b) states that grantees and sub-grantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. Also, Chapter X, Article 10.001, Section (a) of the Law 81 of the Autonomous Municipalities of Puerto Rico, states that the municipalities, except for the special situations established in the Law 81, will comply with the requirement of a public bid when the purchase of materials, equipments, food, medicines and other services exceed the amount of \$100,000. In addition, Code of Federal Regulations 34, Section 80.36 (i) (1-13) establishes all the required clauses that contracts should include.
CAUSE	The Municipality does not performed an appropriate procurement process because failed to publish a public bidding for the services of scholar transportation that its specifications exceed \$100,000. Also, the Program did not maintain appropriate procurement standard procedures to assure that contracts include all the required clauses.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	12-III-09 (CONTINUED)
FEDERAL PROGRAM	TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS (CFDA 84.287) U.S. DEPARTMENT OF EDUCATION PASS THROUGH – STATE DEPARTEMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
EFFECT	The Municipality is not in compliance with Code of Federal Regulations 34, Section 80.36 (b) and Chapter X, Article 10.001, Section (a) of the Law 81 of the Autonomous Municipalities of Puerto Rico. Also, the Program is not in compliance with Code of Federal Regulation 34, Section 80.36 (i) (1-13).
RECOMMENDATION	We recommend management to publish a public bidding when the items or services requested exceed \$100,000 or the construction costs exceed \$200,000. Also, we recommend management to update the contract model according with the Federal requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	<p>We will establish internal controls in order to realize public biddings when the items or services requested exceed \$100,000 or the construction costs exceed \$200,000, as stated in the Law 81 of the Autonomous Municipalities of Puerto Rico.</p> <p>At this moment, the "Twenty-First Century Community Learning Centers" program was over. Nevertheless, we will implement measures to include the required provisions in all contracts paid with federal funds. Actually, these provisions are available for the contracts paid with "Community Development Block Grants – State Program".</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
11-III-03	Allowable Activities – Housekeeping Service	14.228	None	Full corrective action was taken. Adequate internal procedures were improved during the fiscal year 2011-2012 to correct this finding.
11-III-04	Cash Management	14.228	None	No corrective action has been taken. Finding Reference 12-III-04.
11-III-05	Program Income	14.228	None	No corrective action has been taken. Finding Reference 12-III-05.
11-III-06	Cash Management	14.850	None	No corrective action has been taken. Actually we are not the PHA that is administering the public housing complexes that we have in our Municipality.
11-III-07	Eligibility	14.850	None	No corrective action has been taken. Actually we are not the PHA that is administering the public housing complexes that we have in our Municipality.
11-III-08	Special Test- Depository Agreement	14.850	None	No corrective action has been taken. Actually we are not the PHA that is administering the public housing complexes that we have in our Municipality.
10-III-03	Allowable Activities – Housekeeping Service	14.228	None	Full corrective action was taken. Adequate internal procedures were improved during the fiscal year 2011-2012 to correct this finding.
10-III-04	Cash Management	14.228	None	No corrective action has been taken. Finding Reference 12-III-04.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
10-III-05	Cash Management	14.850	None	No corrective action has been taken. Actually we are not the PHA that is administering the public housing complexes that we have in our Municipality.
10-III-08	Program Income	14.228	None	No corrective action has been taken. Finding Reference 12-III-05.
09-III-03	Allowable Activities – Housekeeping Service	14.228	None	Full corrective action was taken. Adequate internal procedures were improved during the fiscal year 2011-2012 to correct this finding.
09-III-04	Cash Management	14.228	None	No corrective action has been taken. Finding Reference 12-III-04.
09-III-05	Cash Management	14.850	None	No corrective action has been taken. Actually we are not the PHA that is administering the public housing complexes that we have in our Municipality.
09-III-09	Program Income	14.228	None	No corrective action has been taken. Finding Reference 12-III-05.
08-III-05	Allowable Activities – Housing Rehabilitation	14.228	None	No corrective action has been taken. Finding Reference 12-III-03.
08-III-06	Allowable Activities – Housekeeping Service	14.228	None	Full corrective action was taken. Adequate internal procedures were improved during the fiscal year 2011-2012 to correct this finding.
08-III-07	Cash Management	14.228 14.239	None	No corrective action has been taken. Finding Reference 12-III-04.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
08-III-10	Procurement and Suspension and Debarment- Acquisition Process	14.228 14.248	None	Full corrective action was taken. Adequate internal procedures were improved during the fiscal year 2011-2012 to correct this finding.
08-III-12	Cash Management	14.850	None	No corrective action has been taken. Actually we are not the PHA that is administering the public housing complexes that we have in our Municipality.
08-III-16	Procurement Standards	83.544 97.036	None	No corrective action has been taken. Finding Reference 12-III-07.

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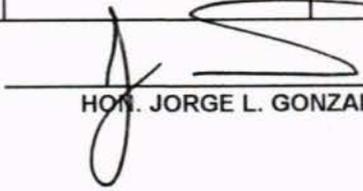
**MUNICIPALITY OF JAYUYA
FINANCIAL DEPARTMENT
P. O. BOX 488
JAYUYA, PUERTO RICO 00664**

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE, 2012

SINGLE AUDIT, 2011-12

FINDING	RESPONSIBLE	MANAGEMENT	CORRECTIVE	ANTICIPATED
NUMBER	INDIVIDUAL	VIEWS	ACTION	COMPLETION
			PLAN	DATE
12-II-01	Finance Director	We agree with the findings and recommendations.	The transactions in the Municipality are recorded in a manual system and in a computerized system. The manual system is the primary financial record for financial statement preparation purpose. We will analyze if it is cost effective to adjust the computerized system with the manual accounting records.	jun. 30, 2013
12-II-02	Finance Director	We agree with the findings and recommendations.	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.	jun. 30, 2013
12-III-03	Federal Programs Director	We agree with the findings and recommendations.	Our Federal Department Management will verify the Housing rehabilitations not yet finalized, in order to monitoring the completion of the works, and verify if these works were performances in accordance with operational guides.	jun. 30, 2013

AUDITEE:


HON. JORGE L. GONZALEZ OTERO - MAYOR

**MUNICIPALITY OF JAYUYA
FINANCIAL DEPARTMENT
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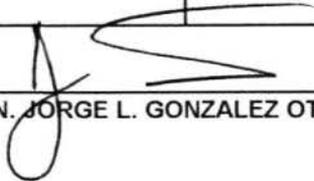
CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE, 2012

SINGLE AUDIT, 2011-12

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FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
12-III-04	Federal Programs Director	We agree with the findings and recommendations.	We will establish a meeting the Finance Department staff to implement new internal controls, in order to issue the programs cheks no more than three (3) days after receiving of funds.	jun. 30, 2013
12-III-05	Federal Programs Director	We agree with the findings and recommendations.	We wil implement a new accounting register system, in order to determine all incomes generete from CDBG's projects	jun. 30, 2013
12-III-06	Federal Programs Director	We agree with the findings and recommendations.	Inmediatly, we will formalize contracts for the service of asphalt carriages paid with Community Development Block Grants-State Programs funds. Also, we will verify if this contractor was included in the 'Excluded Parties List', before proceed with the contracts formalization.	jun. 30, 2013
12-III-07	Federal Programs Director	We agree with the findings and recommendations.	For the adquisition of asphalt carriages service and asphalt road works, we will formalize contracts with the provisions requires by the federal regulations. This also includes any professional service contracts, and other construction contracts. Also, we will establish the	

AUDITEE:


HON. JORGE L. GONZALEZ OTERO - MAYOR

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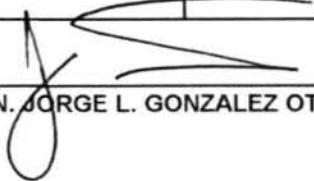
CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE, 2012

SINGLE AUDIT, 2011-12

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FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
12-III-08	The Programs Director	We agree with the findings and recommendations.	necessary internal controls to assure that all contractors and other suppliers are verify in the 'Excluded Parties List System'. In addition, we will assure that all bidders selection process is adequately documented, for goods and services acquired. Immediately, we will give instructions to the responsible employees, in order to identify all required information, not provided for the audit purpose.	jun. 30, 2013 jun. 30, 2013
12-III-09	The Programs Director	We agree with the findings and recommendations.	Wi will establishe internal contrlos in order to realiza public biddings when the items or services requested exceed \$100,000 or the construction costs exceed \$200,000, as stated in the Law 81 of the Autonomous Municipalities of Puerto Rico. At this moment the "Twenty-First Century Development Learning Centers programs was over. Nevertheless, we will implement measures to include the required provisions in all contracts paid with federal funds. Actually, these provisions are available for the	

AUDITEE:


HON. JORGE L. GONZALEZ OTERO - MAYOR

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 JAYUYA, PUERTO RICO 00664**

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE, 2012

SINGLE AUDIT, 2011-12

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FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
			contracts paid with "Community Development Block Grants-State Programs".	Jun. 30, 2013

AUDITEE:



 HON. JORGE L. GONZALEZ OTERO - MAYOR