

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

OCAM
31/3/14

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|----------------------------|--|
| FINDING | 13-III-03 |
| 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 my cash management test, I noted that during the fiscal year 2012-2013, the Program maintained an average monthly balance of approximately \$39,684. In addition, I examined eleven (11) requests of funds made by the Program to the pass-through agency and found that six (6) requests took between eighteen (18) and one hundred thirty-seven (137) days from the moment the funds were deposited and the issuance of the checks. |
| CRITERIA | Code of Federal Regulations 24, Subpart I, Section 570.489 (c) (1) states that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement made by the grantee. |
| CAUSE | The Program and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs. |
| EFFECT | The Program is not in compliance with Code of Federal Regulations 24, Subpart I, CFR 570.489 (c) (1). |
| RECOMMENDATION | I 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 the Finance Department staff to implement new internal controls, in order to issue the programs 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, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|----------------------------|---|
| FINDING | 13-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 | PROGRAM INCOME |
| CONDITION | The Program did not comply with the program income requirement. |
| CONTEXT | During my program income test, I noted that the transactions of CDBG's program income were not properly recorded in the accounting records maintained by the Finance Department of the Municipality. |
| CRITERIA | Code of Federal Regulations 24, Subpart J, Section 570.504 (a), states that the receipts and expenditures of program income shall be recorded as part of the financial transactions of the grant program. |
| CAUSE | The Program does not maintained appropriate accounting records over the program income transactions. |
| EFFECT | The Program is not in compliance with Code of Federal Regulations 24, Subpart J, Section 570.504 (a). |
| RECOMMENDATION | I 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 generated 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, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|------------------------|--|
| FINDING | 13-III-05 |
| 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 my grant disbursement test, I examined thirty (30) voucher payments and noted that the Municipality paid \$64,933 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, I 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, Subpart C, Section 85.36 (i) (1-13) establishes all the required clauses that contracts should include. In addition, Code of Federal Regulations 24, Subpart C, 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, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|----------------------------|--|
| FINDING | 13-III-05 (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 | PROCUREMENT AND SUSPENSION AND DEBARMENT |
| 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, Subpart C, Section 85.36 (i) (1-13) and Section 85.35. |
| RECOMMENDATION | I recommend management to ensure that all contracts should be formalized with a formal written contract which includes all the required clauses. Management should obtain the EPLS in printed or electronic format, and verify if the contractor is not suspended or debarred from the Federal government. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE | Immediately, 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. |

COMMONWEALTH OF PUERTO RICO
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BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS
AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT

FISCAL YEAR ENDED JUNE 30, 2013

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AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT

FISCAL YEAR ENDED JUNE 30, 2013

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PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I 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, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Adverse Opinion on Governmental Activities

The Municipality has not recorded certain capital assets including the general infrastructure assets in the governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position and expenses of the governmental activities has not been determined.

Adverse of Opinion

In my opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to previously do not present fairly the financial position of the governmental activities of the Municipality, as of June 30, 2013, or the changes in financial position, thereof for the year then ended.

Unmodified Opinion

In my opinion, the financial statements referred to above 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, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 15 and 58 through 59 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

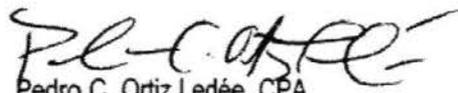
INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

My audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Because of the significance of the matter described in the "Basis for Adverse Opinion on Governmental Activities", it is inappropriate to and I do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 24, 2014, on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.


Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 24, 2014



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

This MD&A is prepared in order to comply with the reporting model required by Governmental Accounting Standards Board Statement No. 34 and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- The Municipality's assets exceeded its liabilities at June 30, 2013 by \$13,521,012, and at June 30, 2012 by \$17,941,804;
- The Municipality's total net positions decrease by \$(4,420,792) during fiscal year 2012-2013;
- As of June 30, 2013, the Municipality's governmental funds reported combined ending fund balance of \$7,986,049, a decrease of \$(4,726,053) from the prior year;
- At June 30, 2013, the Statement of Net position presented an unrestricted deficit of \$5,633,392;
- The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2013 were \$18,356,662 (net of accumulated depreciation);
- The investment in capital assets for this year was \$11,301,979 (net of related debt);
- Loans principal payments were \$630,300 and \$763,100 in 2013 and 2012, 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, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are composed of: (1) the statement of net positions and (2) the statement of activities. These financial statements can be found immediately following this MD&A. 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 POSITIONS

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

The difference between the Municipality's total assets and total liabilities reported in the statement of net positions is presented as net positions, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net positions, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

STATEMENT OF ACTIVITIES

The statement of activities presents information showing how the Municipality's net positions changed during the fiscal year ended June 30, 2013, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS

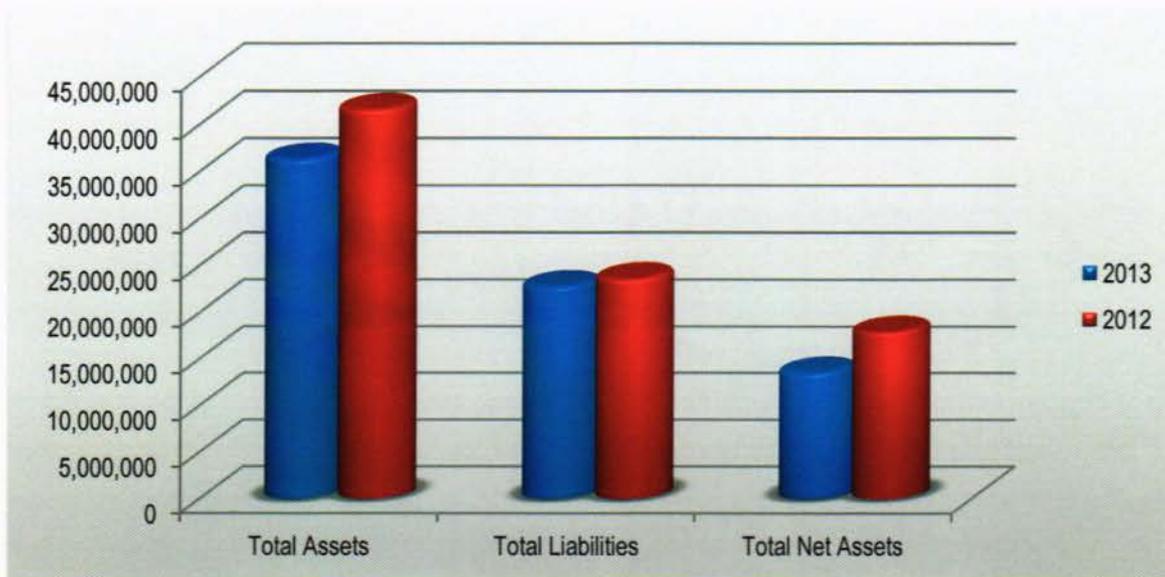
GOVERNMENTAL NET POSITIONS

As noted earlier, net positions may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$13,521,012 as of June 30, 2013, versus \$17,941,804 as of June 30, 2012. Our analysis below focuses on the net positions (**Table 1**) and changes in net positions of the Municipality's governmental activities.

Table 1

Statement of Net positions

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Current and non-current assets | \$ 17,925,505 | \$ 23,531,443 |
| Capital assets | 18,356,662 | 18,001,628 |
| Total Assets | 36,282,167 | 41,533,071 |
| Current liabilities | 4,465,005 | 4,125,208 |
| Long-term liabilities | 18,296,150 | 19,466,059 |
| Total Liabilities | 22,761,155 | 23,591,267 |
| Deferred Inflows of Resources | - | - |
| Net positions: | | |
| Investment in capital assets, net of related debt | 11,301,979 | 12,167,242 |
| Restricted | 7,852,425 | 11,360,877 |
| Deficit | (5,633,392) | (5,586,315) |
| Total Net positions | \$ 13,521,012 | \$ 17,941,804 |



**COMMONWEALTH OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

GOVERNMENTAL ACTIVITIES

Governmental activities decreased the Municipality's net positions. Key elements of this decrease are as follows: the Municipality's governmental activities had net expenses of \$14,816,111. 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 \$(4,420,792).

The cost of all governmental activities this year was \$21,363,653. **Table 2** presents the cost of each of the Municipality's largest programs.

| <u>Table 2</u> | | | |
|--------------------------------|-----------|--------------------------|-----------------------------|
| <u>Statement of Activities</u> | | <u>2013</u> | <u>2012</u> |
| Revenues | | | |
| Grants and contributions | \$ | 4,586,156 | \$ 8,593,971 |
| General revenues: | | | |
| Property taxes | | 1,467,781 | 1,507,306 |
| Sales taxes | | 1,255,686 | 1,082,800 |
| Volume of business taxes | | 999,398 | 1,120,373 |
| Intergovernmental | | 5,699,610 | 5,478,607 |
| Charges for services | | 1,961,386 | 1,868,556 |
| Other General revenues | | 972,844 | 1,504,154 |
| Total revenues | | <u>16,942,861</u> | <u>21,155,767</u> |
| Expenses | | | |
| General administration | | 4,629,460 | 5,102,683 |
| Public safety | | 489,739 | 408,929 |
| Public works | | 2,255,130 | 2,725,921 |
| Culture and recreation | | 1,142,541 | 1,030,937 |
| Health and sanitation | | 684,068 | 942,209 |
| Human services and welfare | | 4,528,256 | 5,455,594 |
| Urban development | | 7,026,306 | 5,563,014 |
| Interest on long-term debts | | 608,153 | 615,155 |
| Total expenses | | <u>21,363,653</u> | <u>21,844,442</u> |
| Changes in net positions | | (4,420,792) | (688,675) |
| Net positions – beginning | | <u>17,941,804</u> | <u>18,630,479</u> |
| Net positions – ending | \$ | <u>13,521,012</u> | \$ <u>17,941,804</u> |

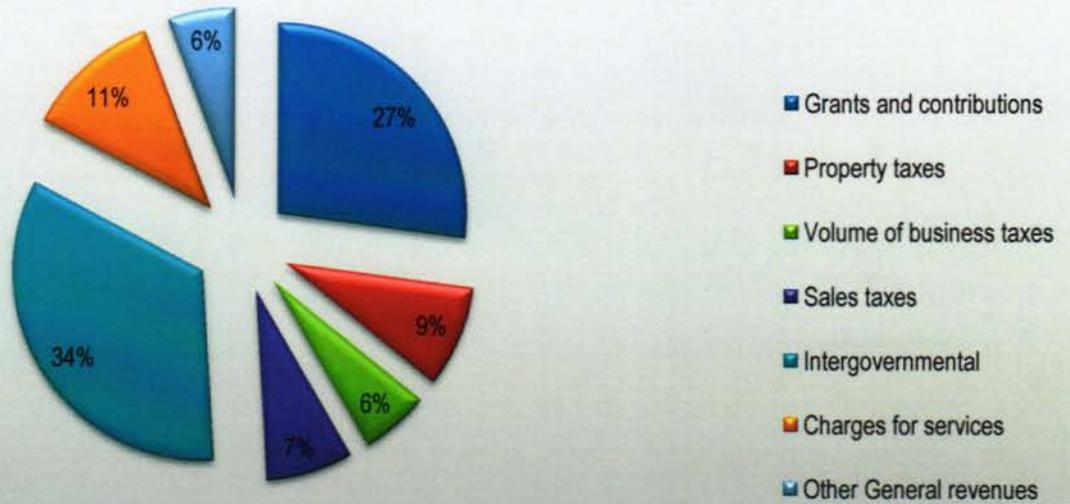
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

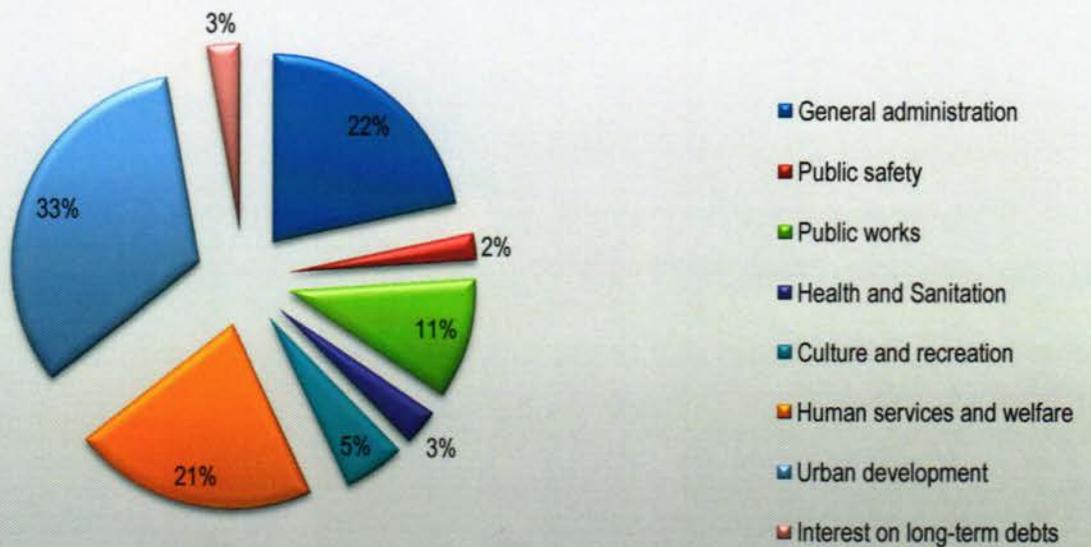
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

2013 Revenues



2013 Expenditures



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Approximately twenty seven percent (27%) of the Municipality's governmental activities total revenue came from grants and contributions, and thirty four percent (34%) came from state contributions not restricted for specific purposes. Federal grants represent fifty seven percent (57%) of the Municipality's grants and contributions revenues. Also, approximately twenty two percent (22) 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 one percent (21%) of total expenses resulted from human services and welfare, twenty two percent (22%) from general administration, thirty three percent (33%) from urban development and eleven percent (11%) from public works.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Assets: | | |
| Total assets – Major Funds | \$ 10,815,956 | \$ 11,275,711 |
| Total assets – Other Funds | 6,009,284 | 10,869,673 |
| Combined total assets | \$ 16,825,240 | \$ 22,145,384 |
| Liabilities: | | |
| Total liabilities – Major Funds | 6,062,923 | 5,211,208 |
| Total liabilities – Other Funds | 2,691,132 | 4,129,063 |
| Combined total liabilities | 8,754,055 | 9,340,271 |
| Deferred Inflows of Resources: | | |
| Total inflows – Major Funds | 85,136 | 93,011 |
| Total Inflows – Other Funds | - | - |
| Combined total deferred inflows of resources | 85,136 | 93,011 |
| Fund Balances (as restated): | | |
| Restricted, Committed or Assigned – Major Funds | 4,667,897 | 5,849,665 |
| Restricted, Committed or Assigned – Other Funds | 3,318,152 | 6,740,610 |
| Unassigned | - | 121,827 |
| Combined total fund balances | 7,986,049 | 12,712,102 |
| Total liabilities and fund balances | \$ 16,825,240 | \$ 22,145,384 |

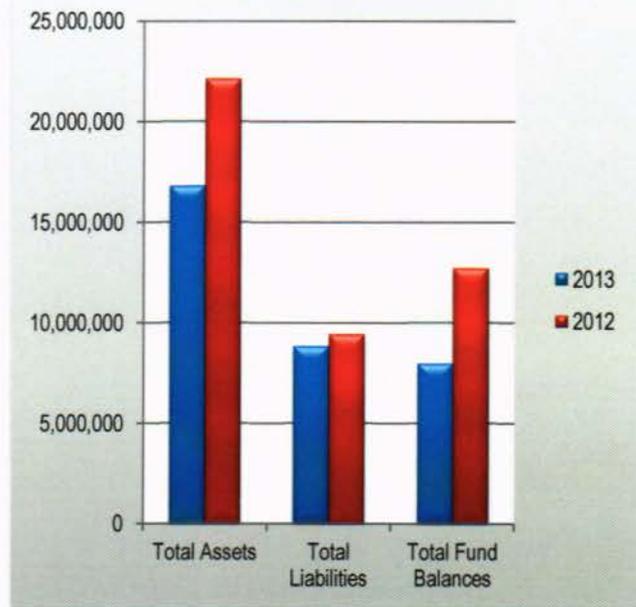
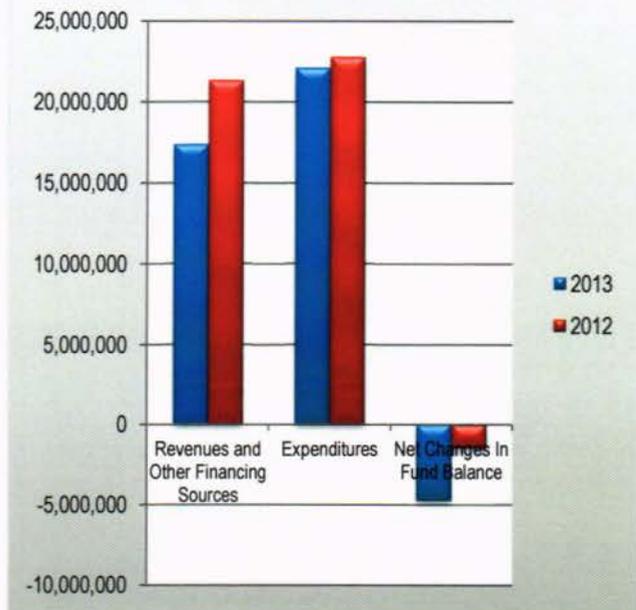


Table 4

Changes in Fund Balances

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|----------------------|
| Revenues: | | |
| Total revenues – Major Funds | \$ 12,288,302 | \$ 11,633,539 |
| Total revenues – Other Funds | 4,662,434 | 9,429,217 |
| Combined total revenues | 16,950,736 | 21,062,756 |
| Expenditures: | | |
| Total expenditures – Major Funds | 15,183,341 | 13,372,436 |
| Total expenditures – Other Funds | 6,923,448 | 9,402,066 |
| Combined total expenditures | 22,106,789 | 22,774,502 |
| Other financing sources: | | |
| Other financing sources – Major Funds | 430,000 | - |
| Other financing sources – Other Funds | - | 253,000 |
| Combined other financing sources, net | 430,000 | 253,000 |
| Net changes in fund balance | (4,726,053) | (1,458,746) |
| Fund Balance – beginning | 12,712,102 | 14,170,848 |
| Fund Balance – ending | \$ 7,986,049 | \$ 12,712,102 |



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013, the Municipality's governmental funds reported combined ending fund balances of \$7,986,049, a decrease of \$(4,726,053) from the prior year.

The Municipality has a fund balance in its General Fund that is restricted, committed and assigned; (a) to liquidate prior year obligations (\$93,341); (b) to pay debt service (\$1,529,057) and; (c) for capital projects and other special purposes (\$6,363,651).

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 | \$ 9,089,563 | \$ 9,093,037 | \$ 3,474 |
| Total expenditures, encumbrances and other financing uses | <u>9,089,563</u> | <u>9,199,568</u> | <u>(110,005)</u> |
| Excess or deficiency | \$ - | \$ (106,531) | \$ (106,531) |

The original and the final budget of the General Fund for the fiscal year ended June 30, 2013 amounted to \$8,446,612 and \$9,089,563, 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, 2013 were \$9,093,037, which is \$3,474 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, 2013 were \$9,199,568, which is \$110,005 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, 2013

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, 2013 amounted to \$18,356,662 (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 \$1,007,841. 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):

| Table 6 Capital Assets | Amount |
|---|----------------------|
| Construction in progress | \$ 2,062,282 |
| Works of art | 8,000 |
| Land | 2,441,334 |
| Buildings | 11,432,146 |
| Infrastructure | 1,042,014 |
| Machinery and equipment | 1,081,786 |
| Motor vehicles | 289,100 |
| Total Assets | \$ 18,356,662 |

LONG-TERM DEBT

At June 30, 2013, the Municipality had total of \$18,296,150 in general obligations and others outstanding debts, as shown in **Table 7**. Of this amount, \$13,026,200 comprises debt backed by the full faith and credit of the government and \$5,269,950 is other obligations.

| Table 7 Long Term Debts | Amount |
|--|----------------------|
| General obligations bonds and notes | \$ 13,026,200 |
| Others | 5,269,950 |
| Total Long Term Debts | \$ 18,296,150 |

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, 2013

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, 2013, real estate held for sale presented in the governmental wide statement of net positions, related to these constructions, amounted \$5,810,510.

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 2013 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 January September 13, 2014, the Legislature of the Municipality of Jayuya issued Ordinance No. 13, which authorized the establishment of a municipal enterprise to undertake various commercial activities, as expressly assigned by Law No. 81 of August 30, 1991, as amended, known as Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81).

The Municipality's executive branch approved Ordinance No. 34, Series 2013-2014, authorizing the issuance of a General Obligation Note in the amount of \$530,000, for construction purposes. This note is payable with resources collected through the Special Additional Contribution Fund, and were disbursed by the Governmental Development Bank (GDB) during August 2013.

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's general fund.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended various Acts, Regulations and Codes. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions and other procedural changes.

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINAL COMMENTS (CONTINUED)

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities.

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 POSITION

FISCAL YEAR ENDED JUNE 30, 2013

| | Governmental Activities |
|--|------------------------------------|
| ASSETS: | |
| Cash and investments | \$ 3,544,851 |
| Cash with fiscal agent | 6,707,951 |
| Receivable (net): | |
| Property taxes | 88,559 |
| Sales taxes | 104,728 |
| State government | 464,201 |
| Federal grants | 1,204,705 |
| Real Estate Held for Sale | 5,810,510 |
| | 17,925,505 |
| Capital assets: | |
| Land, improvements, and construction in progress | 4,511,616 |
| Other capital assets, net of depreciation | 13,845,046 |
| Total capital assets | 18,356,662 |
| TOTAL ASSETS | 36,282,167 |
| LIABILITIES: | |
| Accounts payable and accrued expenses | 2,531,359 |
| Accrued interests | 622,458 |
| Unearned revenues | 1,311,188 |
| Long-term liabilities: | |
| Due within one year | 1,077,700 |
| Due in more than one year | 17,218,450 |
| TOTAL LIABILITIES | 22,761,155 |
| DEFERRED INFLOWS OF RESOURCES | - |
| NET POSITION | |
| Invested in capital assets, net of related debt | 11,301,979 |
| Restricted for: | |
| Debt service | 1,529,057 |
| Other purposes | 6,323,368 |
| Unrestricted (deficit) | (5,633,392) |
| TOTAL NET POSITION | \$ 13,521,012 |

See accompanying Notes to Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| 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 | \$ 1,199,953 | \$ - | \$ - | \$ - | \$ (1,199,953) |
| General government | 3,429,507 | 4,261 | - | - | (3,425,246) |
| Public safety | 489,739 | - | - | - | (489,739) |
| Public works | 2,255,130 | - | 38,490 | 420,189 | (1,796,451) |
| Culture and recreation | 1,142,541 | 537,281 | 16,970 | - | (588,290) |
| Health and sanitation | 684,068 | - | - | - | (684,068) |
| Human services and welfare | 4,528,256 | 1,238,233 | 2,040,086 | 100,997 | (1,148,940) |
| Urban development | 7,026,306 | 181,611 | 22,075 | 1,947,349 | (4,875,271) |
| Interest on long-term debt | 608,153 | - | - | - | (608,153) |
| Total governmental activities | \$ 21,363,653 | \$ 1,961,386 | \$ 2,117,621 | \$ 2,468,535 | \$ (14,816,111) |
| General revenues: | | | | | |
| Property taxes, levied for general purpose | | | | | 1,208,748 |
| Property taxes, levied for debt services | | | | | 259,033 |
| Volume of business taxes | | | | | 999,398 |
| Sales taxes | | | | | 260,605 |
| Sales taxes, levied for debt services | | | | | 995,081 |
| Intergovernmental | | | | | 5,699,610 |
| Licenses and permits | | | | | 157,468 |
| Rent | | | | | 171,521 |
| Interests | | | | | 302,071 |
| Miscellaneous | | | | | 341,784 |
| Total general revenues | | | | | 10,395,319 |
| Change in net position | | | | | (4,420,792) |
| Net position - beginning | | | | | 17,941,804 |
| Net position - ending | | | | | \$ 13,521,012 |

See accompanying Notes to Basic Financial Statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

BALANCE SHEET
GOVERNMENTAL FUNDS

FISCAL YEAR ENDED JUNE 30, 2013

| | General Fund | Municipal Hospital Fund | Loans Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------------------|---------------------|-------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash and investments | \$ 337,819 | \$ 272,870 | \$ - | \$ - | \$ 2,934,162 | \$ 3,544,851 |
| Cash with fiscal agent | - | - | 4,537,738 | 2,169,495 | 718 | 6,707,951 |
| Receivables: | | | | | | |
| Sales taxes | 23,326 | - | - | 81,402 | - | 104,728 |
| Property taxes | 85,136 | - | - | 3,423 | - | 88,559 |
| State government | - | 228,512 | - | - | 235,689 | 464,201 |
| Federal grants | - | - | - | - | 1,204,705 | 1,204,705 |
| Due from other funds | 3,076,235 | - | - | - | 1,634,010 | 4,710,245 |
| Total assets | \$ 3,522,516 | \$ 501,382 | \$ 4,537,738 | \$ 2,254,320 | \$ 6,009,284 | \$ 16,825,240 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | | | |
| Liabilities | | | | | | |
| Accounts payable and accrued liabilities | \$ 329,557 | \$ 135,668 | \$ 428,157 | \$ - | \$ 737,920 | \$ 1,631,302 |
| Bonds and notes payable | - | - | - | 524,000 | - | 524,000 |
| Accrued interests | - | - | - | 201,263 | - | 201,263 |
| Due to governmental units | 343,775 | - | - | - | 32,282 | 376,057 |
| Due to other funds | 1,484,192 | 365,714 | 1,064,082 | - | 1,796,257 | 4,710,245 |
| Unearned revenues | 1,186,515 | - | - | - | 124,673 | 1,311,188 |
| Total liabilities | 3,344,039 | 501,382 | 1,492,239 | 725,263 | 2,691,132 | 8,754,055 |
| Deferred inflows of resources | | | | | | |
| Unavailable revenues: | | | | | | |
| Property taxes | 85,136 | - | - | - | - | 85,136 |
| Total deferred inflows of resources | 85,136 | - | - | - | - | 85,136 |
| Fund balances | | | | | | |
| Restricted | - | - | - | 1,529,057 | 2,752,238 | 4,281,295 |
| Committed | - | - | 3,045,499 | - | 476,753 | 3,522,252 |
| Assigned | 93,341 | - | - | - | 89,161 | 182,502 |
| Total fund balances (deficit) | 93,341 | - | 3,045,499 | 1,529,057 | 3,318,152 | 7,986,049 |
| Total liabilities and fund balances | \$ 3,522,516 | \$ 501,382 | \$ 4,537,738 | \$ 2,254,320 | \$ 6,009,284 | \$ 16,825,240 |

See accompanying Notes to Basic Financial Statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | General Fund | Municipal Hospital Fund | Loans Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|------------------|-------------------------------|--------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 1,216,623 | \$ - | \$ - | \$ 259,033 | \$ - | \$ 1,475,656 |
| Volume of business taxes | 999,398 | - | - | - | - | 999,398 |
| Sales taxes | 260,605 | - | - | 995,081 | - | 1,255,686 |
| Charges for services | - | 1,191,543 | - | - | - | 1,191,543 |
| Federal assistances | - | - | - | - | 2,621,420 | 2,621,420 |
| Intergovernmental | 5,699,610 | 749,608 | - | - | 1,215,129 | 7,664,347 |
| Licenses and permits | 157,468 | - | - | - | - | 157,468 |
| Rent | 171,521 | - | - | - | - | 171,521 |
| Interests | 302,071 | - | - | - | - | 302,071 |
| Miscellaneous | 285,741 | - | - | - | 825,885 | 1,111,626 |
| Total revenues | 9,093,037 | 1,941,151 | - | 1,254,114 | 4,662,434 | 16,950,736 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| Mayor and municipal legislature | 1,193,480 | - | - | - | - | 1,193,480 |
| General government | 4,022,625 | - | - | - | 22,278 | 4,044,903 |
| Public safety | 359,040 | - | - | - | 101,746 | 460,786 |
| Public works | 1,630,415 | - | - | - | 550,529 | 2,180,944 |
| Culture and recreation | 417,188 | - | - | - | 721,192 | 1,138,380 |
| Health and sanitation | 738,975 | - | - | - | - | 738,975 |
| Human services and welfare | 590,687 | 2,285,306 | - | - | 1,651,241 | 4,527,234 |
| Urban development | 111,180 | - | 2,724,131 | - | 3,528,323 | 6,363,634 |
| Debt service: | - | - | - | - | - | - |
| Principal | - | - | - | 630,300 | 220,000 | 850,300 |
| Interest and other charges | - | - | - | 480,014 | 128,139 | 608,153 |
| Total expenditures | 9,063,590 | 2,285,306 | 2,724,131 | 1,110,314 | 6,923,448 | 22,106,789 |
| Excess (deficiency) of revenues over (under) expenditures | 29,447 | (344,155) | (2,724,131) | 143,800 | (2,261,014) | (5,156,053) |
| Other financing sources (uses) | | | | | | |
| Long term debt issuance | - | - | 430,000 | - | - | 430,000 |
| Transfers in | - | 99,470 | - | 141,124 | 167,843 | 408,437 |
| Transfers out | (323,283) | - | - | - | (85,154) | (408,437) |
| Total other financing sources (uses) | (323,283) | 99,470 | 430,000 | 141,124 | 82,689 | 430,000 |
| Net change in fund balances | (293,836) | (244,685) | (2,294,131) | 284,924 | (2,178,325) | (4,726,053) |
| Fund balance (deficit), beginning-as restated | 387,177 | 244,685 | 5,339,630 | 1,244,133 | 5,496,477 | 12,712,102 |
| Fund balance (deficit), ending | 93,341 | \$ - | \$ 3,045,499 | \$ 1,529,057 | \$ 3,318,152 | \$ 7,986,049 |

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See accompanying Notes to Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITIONS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS (PAGE 18)..... \$ 7,986,049

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:

| | | |
|--------------------------------------|--------------------|----------------|
| Non Depreciable Capital Assets | \$ 4,511,616 | |
| Depreciable Capital Assets | 22,788,115 | |
| Accumulated Depreciation..... | <u>(8,943,069)</u> | |
| Total Capital Assets | | 18,356,662 |

| | | |
|--|--|--------|
| 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..... | | 85,136 |
|--|--|--------|

| | | |
|---|--|-----------|
| Real Estate Held for Sale is not a current financial resources and therefore, is not reported in the funds..... | | 5,810,510 |
|---|--|-----------|

| | | |
|---|--|-----------|
| Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds..... | | (421,195) |
|---|--|-----------|

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 | (13,026,200) | |
| Compensated Absences | (1,444,120) | |
| Property Tax Debt – Law 42..... | (511,793) | |
| Property Tax Debt – Law 146..... | (73,296) | |
| Claims and Judgments | (150,000) | |
| Estimated Landfill Closure and Post-Closures Costs | (1,486,948) | |
| Line of Credit | (1,376,276) | |
| State Department of Labor – Debt Agreement | <u>(227,517)</u> | |
| Total Long-Term Liabilities | | (18,296,150) |

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES (PAGE 16)..... \$ 13,521,012

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, 2013

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (PAGE 19) .. **\$ (4,726,053)**

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 | 1,007,841 | |
| Depreciation Expense | <u>(652,807)</u> | |
| Excess of Capital Assets Additions over Depreciation Expense..... | | 355,034 |

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. 324,136

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:

| | | |
|---|---------------|---------|
| Prior year revenues | (93,011) | |
| Current year revenues | <u>85,136</u> | |
| Excess of Capital Assets Additions over Depreciation Expense..... | | (7,875) |

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long- term liabilities in the Statement of Net Position. In the current period, these amounts are:

| | | |
|------------------------------|----------------|-----------|
| Bonds and Notes Payable..... | (430,000) | |
| Compensated Absences | <u>(3,933)</u> | |
| General obligation bond..... | | (433,933) |

Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. In the current year, the repayments were:

| | | |
|---|----------------|-----------|
| Bonds and Notes Payable..... | 850,300 | |
| Property Tax Debt – Law 42 | 13,860 | |
| Property Tax Debt – Law 146 | 3,858 | |
| Claims and Judgments | 75,000 | |
| Compensated Absences | 26,747 | |
| Property Tax Debt – Advances..... | 25,738 | |
| State Department of Labor – Debt Agreement..... | <u>136,511</u> | |
| Total Additional Expenditures | | 1,132,014 |

Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds... (96,147)

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..... (967,968)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (PAGE 17) **\$ (4,420,792)**

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, 2013**

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.

A. FINANCIAL REPORTING MODEL

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

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

RSI consists of a (1) Management Discussion and Analysis (MD&A) and a Budgetary Comparison Schedule – General Fund, this is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements.

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2013, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. FINANCIAL REPORTING ENTITY

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality. In accordance with GASB No. 14 and GASB No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow: (1) The organization is legally separate entity; (2) The Municipality appoints a voting majority of the organization's board; (3) There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

Organizations meeting the above criteria are included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are considered to be blended component units of the Municipality: (1) The organization's governing body is substantively the same as the Municipality's governing body and (a) there is a financial benefit or burden relationship between the Municipality and the organization, or (b) management of the Municipality has operational responsibility for the organization; (2) The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it; (3) The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is bases on the nature and significance of the organization's relationship with the Municipality.

Based on the application of the criteria outlined above, the Municipality's management has concluded that there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2013.

C. FINANCIAL STATEMENT PRESENTATION

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-Wide Financial Statements (GWFS)

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The Statement of Net Position presents the reporting entities' assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Net Position are reported in three categories:

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

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position or liabilities changed during the fiscal year ended June 30, 2013, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, 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, 2013

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, 2013

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 positions 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, 2013

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 positions 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 accompanying FFS are composed of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds.

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, deferred outflow of resources, liabilities, deferred inflow of resources and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

As defined in the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), fund types are as follows:

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

Special Revenue Fund – is a governmental fund used to account for and report the proceeds of specific revenue sources that are legally restricted, committed or assigned to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

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

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

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

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

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

Debt Service Fund – This is the fund used to account for the accumulation of resources, from the property and sales taxes, for and the payment of general long-term debt principal, interest and related cost.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions, which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred inflow of resources.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying statement of net position. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying governmental fund financial statements. Therefore, the accompanying governmental fund financial statements include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the governmental fund financial statements.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Revenue sources not meeting this availability criterion or collected in advance are recorded as unearned revenues or differed inflow of resources at June 30, 2013.

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, 2013, has been reported only in the government-wide financial statements.

Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities and the statement of revenues, expenses and changes in fund balances, but are not recorded in the accompanying governmental fund financial statements.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 is restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

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

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

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

At June 30, 2013, the accompanying fund financial statements reported fund balances as restricted, committed and assigned.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013

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 legally required to prepare a budget. 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, 2013

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. DEFERRED OUTFLOW / INFLOW OF RESOURCES

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no deferred outflows of resources.

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period (s) an so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2013, the Municipality presents deferred inflows of resources.

J. 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.

K. REAL ESTATE HELD FOR SALE

Real estate's held for sale in the accompanying statement of net positions 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.

L. CAPITAL ASSETS

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

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

| Capital Assets | Years |
|---------------------------------|--------------|
| Buildings and site improvements | 40 |
| Infrastructure | 40 |
| Vehicles | 5 |
| Furniture and fixtures | 5 |
| Machinery and equipment | 3 to 5 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. CAPITAL ASSETS (CONTINUED)

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

M. LONG-TERM OBLIGATIONS

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

In the fund financial statements, governmental fund types recognize 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.

N. COMPENSATED ABSENCES

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

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

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

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2013.

| <u>BALANCE JUNE 30, 2012</u> | <u>NEW ISSUES</u> | <u>RETIREMENTS AND CURRENT MATURATES</u> | <u>BALANCE JUNE 30, 2013</u> | <u>CURRENT PORTION</u> | <u>LONG-TERM PORTION</u> |
|----------------------------------|-------------------|--|----------------------------------|----------------------------|------------------------------|
| \$ 1,470,867 | \$ - | \$ (26,747) | \$ 1,444,120 | \$ 120,000 | \$ 1,324,120 |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. Corresponding premiums payable monthly are paid directly by the Municipality. Also, there is an additional insurance cost that is withheld by the Municipal Revenue Collection Center from monthly advances of annual property tax and subsidy sent to the Municipality.

P. INTERFUND TRANSACTIONS

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

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

Q. CLAIMS AND JUDGMENTS

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

R. USE OF ESTIMATES

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. ACCOUNTING FOR PENSION COSTS

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

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

T. RISK FINANCING

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated directly by the Municipality.

Insurance cost paid by the Municipality during fiscal year 2012-2013 amounted \$204,022. In addition, cost of the workers compensation insurance that covers all municipal employees and is deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2013 amounted \$326,566.

U. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

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

- ❖ GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. 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.
- ❖ GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for periods beginning after June 15, 2013.
- ❖ GASB Statement No. 71 *Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB 68*. This statement is effective for periods beginning after June 15, 2014.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

V. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2013:

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Municipality has implemented this Statement in fiscal year 2012-2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Municipality has implemented this Statement in fiscal year 2012-2013.

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, 2013.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2013, (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, 2013, 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, 2013, 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, 2013. Therefore, the Municipality's management has concluded that at June 30, 2013 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – 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, 2013.

The Municipality's bank balances in commercial banks of \$337,819 in the General Fund and \$272,870 in Municipal Hospital Fund were fully collateralized at June 30, 2013. In the Other Governmental Funds, there were deposits with commercial banks of \$2,934,162 that were fully collateralized.

The deposits at GDB of \$4,537,738 in the Loans Fund, \$2,169,495 in the Debt Service 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 16, 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 \$23,326 in the General fund represents the amount due by the taxpayers at June 30, 2013.

Also, sales taxes receivable of \$81,402 in the Debt Service Fund represents the amount due at June 30, 2013 for the Municipal Redemption Fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 – RECEIVABLES (CONTINUED)

B. PROPERTY TAXES RECEIVABLES

Property taxes receivable of \$85,136 in the general fund represents excess of revenues over advances received from the CRIM during fiscal year 2012-2013, according final settlement statement.

C. STATE GOVERNMENT RECEIVABLES

At June 30, 2013, the Municipal Hospital maintained an account receivable from the state government of \$228,512. 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 – Law 52 | \$ 79,262 |
| Commonwealth of Puerto Rico-Special Communities Trust | <u>156,427</u> |
| Total | <u>\$ 235,689</u> |

D. FEDERAL GRANTS RECEIVABLE

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

| <u>Description</u> | <u>Amount</u> |
|---------------------------------------|----------------------------|
| Special Program for Aging, Title III | \$ 116,902 |
| Community Facilities Loans and Grants | 106,456 |
| Home Investment Partnership Program | 165,381 |
| Child Care Development Block Grant | 55,804 |
| Child and Adult Care Food Program | 22,676 |
| Emergency Solutions Grant Program | 60,358 |
| Disaster Grants – Public Assistance | 628,397 |
| Community Service Block Grant | 44,715 |
| Others | <u>4,016</u> |
| Total | <u>\$ 1,204,705</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 – DUE FROM / TO OTHER FUNDS

Interfund receivables and payables at June 30, 2013 are summarized as follows:

| Receivable Fund | Payable Fund | Purpose | Amount |
|-----------------------------|-----------------------------|--|----------------------------|
| General Fund | Municipal Hospital Fund | Payroll and related accruals paid and not reimbursed | \$ 365,714 |
| General Fund | Loans Fund | Payroll and related accruals paid and not reimbursed, and others reimbursable expenditures | 1,064,082 |
| General Fund | Other Governmental Funds | Payroll and related accruals paid and not reimbursed, and others reimbursable expenditures | 1,646,439 |
| Other Governmental Funds | General Fund | Cash pool in the same bank account | 1,484,192 |
| Other Governmental Funds | Other Governmental Funds | Reimbursable expenditures | <u>149,818</u> |
| Total | | | <u>\$ 4,710,245</u> |

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, 2013, real estate held for sale presented in the governmental wide statement of net positions, related to these constructions, amounted \$5,810,510.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 5 – CAPITAL ASSETS AND REAL ESTATE HELD FOR SALE (CONTINUED)

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 positions do not include a substantial portion of the Municipality's infrastructure assets constructed or acquired by the Municipality from 1980 through June 30, 2013. 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 2012-2013, 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, 2012 | Additions | Retirements / Reclassifications | Balance June 30, 2013 |
|--|----------------------------------|--------------------------|--|----------------------------------|
| Capital asset, not being depreciated: | | | | |
| Land | \$ 2,441,334 | \$ - | \$ - | \$ 2,441,334 |
| Works of art | - | 8,000 | - | 8,000 |
| 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>8,000</u> | <u>-</u> | <u>4,511,616</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 14,117,298 | 127,904 | - | 14,245,202 |
| Infrastructure | 1,296,131 | - | - | 1,296,131 |
| Machinery and equipment | 3,702,918 | 711,607 | - | 4,414,525 |
| Motor vehicles | <u>2,671,927</u> | <u>160,330</u> | <u>-</u> | <u>2,832,257</u> |
| Total capital assets being depreciated | <u>21,788,274</u> | <u>999,841</u> | <u>-</u> | <u>22,788,115</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,540,207) | (272,849) | - | (2,813,056) |
| Infrastructure | (239,996) | (14,121) | - | (254,117) |
| Machinery and equipment | (3,030,832) | (301,907) | - | (3,332,739) |
| Motor vehicles | <u>(2,479,227)</u> | <u>(63,930)</u> | <u>-</u> | <u>(2,543,157)</u> |
| Total accumulated depreciation | <u>(8,290,262)</u> | <u>(652,807)</u> | <u>-</u> | <u>(8,943,069)</u> |
| Total capital assets being depreciated, net | <u>13,498,012</u> | <u>347,034</u> | <u>-</u> | <u>13,845,046</u> |
| Governmental activities capital assets, net | <u>\$ 18,001,628</u> | <u>\$ 355,034</u> | <u>\$ -</u> | <u>\$ 18,356,662</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 | \$ 7,291 |
| General Government | 357,009 |
| Public Safety | 28,953 |
| Public Works | 74,186 |
| Culture and Recreation | 8,510 |
| Sanitation | 41,908 |
| Welfare | 2,380 |
| Urban development | <u>132,570</u> |
| Total depreciation expenses | <u>\$ 652,807</u> |

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2012-2013, and not paid by the Municipality at June 30, 2013. Following is a detail of these accounts payable and accrued liabilities by major fund:

| Major Governmental Funds | Accounts Payable | Accrued Liabilities | Total |
|---------------------------------|----------------------------|----------------------------|----------------------------|
| General Fund | \$ 164,714 | \$ 164,843 | \$ 329,557 |
| Municipal Hospital Fund | 135,668 | - | 135,668 |
| Loans Fund | 428,157 | - | 428,157 |
| Other Governmental Funds | <u>737,920</u> | <u>-</u> | <u>737,920</u> |
| Total | <u>\$ 1,466,459</u> | <u>\$ 164,843</u> | <u>\$ 1,631,302</u> |

NOTE 7 – BONDS AND NOTES PAYABLE

As described below in Note 11, 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, 2013, 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 | \$ 524,000 |
| Interests | <u>201,263</u> |
| Total | <u>\$ 725,263</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2013, balance due to other governmental units in General Fund consists of the following:

| <u>Governmental Agency</u> | <u>Amount</u> |
|--|--------------------------|
| Puerto Rico Aqueduct and Sewer Authority | \$ 210,106 |
| General Service Administration | 5,036 |
| State Department of Labor | <u>128,633</u> |
| Total | <u>\$ 343,775</u> |

At June 30, 2013, the Other Governmental Funds maintained a due to governmental units, amounting to \$32,282, related to the economies generated by the Public and Indian Housing Program.

NOTE 9 – UNEARNED REVENUES

Volume of business tax – unearned revenues of \$1,186,515 in the General Fund are related to volume of business taxes collected in fiscal year 2012-2013, that will be earned in fiscal year 2013-14.

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

| <u>Program Description</u> | <u>Amount</u> |
|---|--------------------------|
| Water and Waste Disposal System for Rural Communities | \$ 97,697 |
| Others | <u>26,976</u> |
| Total | <u>\$ 124,673</u> |

NOTE 10 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the General Fund amounting to \$85,136, were unavailable revenues related to property taxes that represents the final liquidation of the property taxes of the fiscal year 2012-2013. This amount was not collected by the Municipality at June 30, 2013.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2013, was as follows:

| Description | Beginning Balance (as restated) | Borrowings or Additions | Payments or Deductions | Ending Balance | Due Within One Year |
|--|---------------------------------------|----------------------------|---------------------------|----------------------|------------------------|
| Bonds and Notes Payable | \$ 13,446,500 | \$ 430,000 | \$ (850,300) | \$ 13,026,200 | \$ 802,600 |
| Compensated absences | 1,470,867 | - | (26,747) | 1,444,120 | 120,000 |
| Property Tax Debt – Law 42 | 525,653 | - | (13,860) | 511,793 | 14,731 |
| Property Tax Debt – Law 146 | 77,154 | - | (3,858) | 73,296 | 3,858 |
| Line of Credit | 1,848,104 | - | (471,828) | 1,376,276 | - |
| Claims and Judgments | 225,000 | - | (75,000) | 150,000 | - |
| Estimated landfill closure and post-closure care cost | 1,483,015 | 3,933 | - | 1,486,948 | - |
| State Department of Labor- Debt Agreement | 364,028 | - | (136,511) | 227,517 | 136,511 |
| Property Tax Debt – Advances | 25,738 | - | (25,738) | - | - |
| Total | \$ 19,466,059 | \$ 433,933 | \$ (1,603,842) | \$ 18,296,150 | \$ 1,077,700 |

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, 2013, 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 | \$ 49,000 |
| \$400,000, Series 1997, for operational purposes, payable in semiannual installments ranging from \$10,000 to \$40,000, excluding variable interest from 1.53% to 8.00%, through July 1, 2016 | 100,000 |
| \$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 | 290,000 |
| \$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 | 60,200 |
| \$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 | 315,000 |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – 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 1.53% to 6.62%, through July 1, 2028 | 305,000 |
| \$210,000, Series 2008, for real property acquisition, payable in semiannual installments ranging from \$5,000 to \$15,000, excluding variable interest from 1.53% to 7.25%, through July 1, 2032 | 180,000 |
| \$498,000, Series 2008, for real property acquisition, payable in semiannual installments ranging from \$5,000 to \$36,000, excluding variable interest from 1.53% to 7.50%, through July 1, 2032 | 441,000 |
| \$731,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$8,000 to \$60,000, excluding variable interest from 1.53% to 7.50%, through July 1, 2032 | 651,000 |
| \$2,990,000, Series 2011, for construction purposes, payable in semiannual installments ranging from \$45,000 to \$205,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2035 | 2,850,000 |
| \$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 | 735,000 |
| \$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 | 1,045,000 |
| \$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>241,000</u> |
| Total General Obligations – Bonds | <u>\$ 7,262,200</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

2. NOTES PAYABLE (CONTINUED)

| 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 | \$ 450,000 |
| \$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 | 1,680,000 |
| \$180,000, Series 2007, for purchase of equipment, payable in semiannual installments ranging from \$20,000 to \$35,000, excluding variable interest from 1.53% to 7.25%, through July 1, 2014 | 35,000 |
| \$115,000, Series 2008, for purchase of equipment, payable in semiannual installments ranging from \$15,000 to \$20,000, excluding variable interest from 1.53% to 7.25%, through July 1, 2014 | 20,000 |
| \$3,497,000, Series 2009, for real property acquisition and construction purposes, payable in semiannual installments ranging from \$50,000 to \$292,000, excluding variable interest from 1.53% to 7.50%, through July 1, 2033 | 3,199,000 |
| \$430,000, Series 2013, for purchase of equipment, payable in semiannual installments ranging from \$50,000 to \$75,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2019 | <u>380,000</u> |
| Total General Obligations – Notes | <u>\$ 5,764,000</u> |

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

The annual requirements to amortize the general obligations bonds outstanding as of June 30, 2013 are as follows:

| Year Ending June 30, | Principal payment | Interest payment | Total |
|-------------------------|----------------------------|----------------------------|-----------------------------|
| 2014 | \$ 398,600 | \$ 346,169 | \$ 744,769 |
| 2015 | 415,800 | 492,958 | 908,758 |
| 2016 | 428,100 | 464,022 | 892,122 |
| 2017 | 415,400 | 434,035 | 849,435 |
| 2018 | 224,600 | 404,047 | 628,647 |
| 2019-2023 | 1,351,700 | 1,759,024 | 3,110,724 |
| 2024-2028 | 1,588,000 | 1,247,937 | 2,835,937 |
| 2029-2033 | 1,768,000 | 640,334 | 2,408,334 |
| 2034-2038 | <u>672,000</u> | <u>75,348</u> | <u>747,348</u> |
| Total | <u>\$ 7,262,200</u> | <u>\$ 5,863,874</u> | <u>\$ 13,126,074</u> |

The annual requirements to amortize the general obligations notes outstanding as of June 30, 2013 are as follows:

| Year Ending June 30, | Principal payment | Interest payment | Total |
|-------------------------|----------------------------|----------------------------|----------------------------|
| 2014 | \$ 404,000 | \$ 230,222 | \$ 634,222 |
| 2015 | 354,000 | 332,441 | 686,441 |
| 2016 | 364,000 | 310,930 | 674,930 |
| 2017 | 375,000 | 288,714 | 663,714 |
| 2018 | 390,000 | 294,287 | 684,287 |
| 2019-2023 | 1,720,000 | 1,108,511 | 2,828,511 |
| 2024-2028 | 885,000 | 686,250 | 1,571,250 |
| 2029-2033 | <u>1,272,000</u> | <u>299,625</u> | <u>1,571,625</u> |
| Total | <u>\$ 5,764,000</u> | <u>\$ 3,550,980</u> | <u>\$ 9,314,980</u> |

B. COMPENSATED ABSENCES

The government-wide statement of net positions includes \$1,444,120 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

C. PROPERTY TAX DEBT – LAW 42

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

In addition, on February 12, 2003, the Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2013 amounted to \$511,793.

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, 2013 amounted to \$73,296.

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, 2013, this line of credit has an outstanding balance of \$1,376,276, and accrued interest of \$421,195. The line of credit will be repaid with the proceeds of the sale of the sixty(60) units.

F. CLAIMS AND JUDGMENTS

Liabilities of \$150,000 reported in the statement of net positions represent the balance owed for claims and judgments at June 30, 2013, as described in Note 20.

G. STATE DEPARTMENT OF LABOR

In fiscal year 2012-2013 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, 2013 of this agreement was \$227,517.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 12 – 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 positions date. The \$1,486,948 reported as landfill closure and post closure care liability at June 30, 2013, represents an estimate of the cumulative amount reported to date based on the percentage used (29%) of the estimated capacity of the landfill.

The Municipality will recognize the remaining estimated cost of closure and post closure care of \$3,662,052, 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 2013. The estimated life of the landfill according to the engineers of the Municipality is approximately twenty five (25) years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 13 – 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 14 – 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 14 – PROPERTY TAXES (CONTINUED)

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

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

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

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

NOTE 15 – 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 16 – 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 16 – SALES AND USE TAXES (CONTINUED)

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

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

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

NOTE 17 – 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 18 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended at June 30, 2013, are summarized as follows:

| Transfer Out | Transfer In | Purpose | Amount |
|-------------------------|-------------------------|-------------------------------------|-------------------|
| General Fund | Municipal Hospital Fund | To cover special funds deficit | \$ 99,470 |
| General Fund | Debt Service Fund | Debt retirement | 141,124 |
| General Fund | Other Governmental Fund | To cover special funds expenditures | 82,689 |
| Other Governmental Fund | Other Governmental Fund | To cover special funds expenditures | 85,154 |
| Total | | | \$ 408,437 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 19 – EMPLOYEE'S RETIREMENT PLAN

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

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

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

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

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

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

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 19 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

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

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

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

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

The total pension expenditures recorded in the category of administration for the fiscal year ended on June 30, 2011, 2012 and 2013 were, approximately, \$168,400, \$179,700 and \$187,461, 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, 2013. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 20 – 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 \$150,000 in the government wide statement of net positions.

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 cannot determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

B. FEDERAL GRANTS

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

C. CONSTRUCTION

The Municipality had commitments at June 30, 2013 of approximately \$2,129,034 for the construction, improvements, or renovation of several capital facilities and the capital assets.

D. OTHER COMMITMENTS

At June 30, 2013 the general fund had commitments of approximately \$238,749 for executory purchase orders or contracts that will be honored during the subsequent year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 21 – FUND BALANCE

As of June 30, 2013, the fund balance (deficit) classifications are as follows:

| Fund Balance | General Fund | Municipal Hospital Fund | Loans Fund | Debt Service Fund | Other Governmental Fund | Total |
|---------------------------------|------------------|-------------------------------|---------------------|----------------------|-------------------------------|---------------------|
| Restricted for: | | | | | | |
| Public safety | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Public works | - | - | - | - | 203,495 | 203,495 |
| Culture and recreation | - | - | - | - | 80,170 | 80,170 |
| Human services and welfare | - | - | - | - | 396,626 | 396,626 |
| Urban development | - | - | - | - | 1,959,431 | 1,959,431 |
| Debt service | - | - | - | 1,529,057 | 112,516 | 1,641,573 |
| Committed for: | | | | | | |
| General government | - | - | - | - | 118,657 | 118,657 |
| Public safety | - | - | - | - | 1,469 | 1,469 |
| Public works | - | - | - | - | 222,243 | 222,243 |
| Culture and recreation | - | - | - | - | 41,846 | 41,846 |
| Human services and welfare | - | - | - | - | 86,579 | 86,579 |
| Urban development | - | - | 3,045,499 | - | 5,959 | 3,051,458 |
| Assigned for: | | | | | | |
| Mayor and municipal legislature | 30,828 | - | - | - | - | 30,828 |
| General government | 20,495 | - | - | - | 32,182 | 52,677 |
| Public safety | 2,087 | - | - | - | 11,813 | 13,900 |
| Public works | 24,923 | - | - | - | 3,456 | 28,379 |
| Culture and recreation | 4,827 | - | - | - | 21,371 | 26,198 |
| Human services and welfare | 7,871 | - | - | - | 20,339 | 28,210 |
| Urban development | 2,310 | - | - | - | - | 2,310 |
| Total Fund Balance | \$ 93,341 | \$ - | \$ 3,045,499 | \$ 1,529,057 | \$ 3,318,152 | \$ 7,986,049 |

NOTE 22 – SUBSEQUENT EVENTS

On January September 13, 2014, the Legislature of the Municipality of Jayuya issued Ordinance No. 13, which authorized the establishment of a municipal enterprise to undertake various commercial activities, as expressly assigned by Law No. 81 of August 30, 1991, as amended, known as Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81).

The Municipality's executive branch approved Ordinance No. 34, Series 2013-2014, authorizing the issuance of a General Obligation Note in the amount of \$530,000, for construction purposes. This note is payable with resources collected through the Special Additional Contribution Fund, and were disbursed by the Governmental Development Bank (GDB) during August 2013.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 22 – SUBSEQUENT EVENTS (CONTINUED)

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. The ERS financial situation was approached through Act 3, which became effective on July 1, 2013 ("Effective Date"). The Act establishes the following: (i) it freezes and grandfatheres the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS's defined benefit formula (those who joined the ERS prior to January 1, 2000 whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service) (the "Defined Benefit Employees"); (ii) it provides that, beginning on July 1, 2013, the retirement benefits accruing on and after the Effective Date for Defined Benefit Employees will be based on a defined contribution plan and will be paid out in the form of a lifetime annuity (upon retirement, the employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013 in the form of a lifetime annuity); (iii) it provides that defined contribution benefits accrued pursuant to System 2000 will also be paid in the form of a lifetime annuity rather than a lump sum payment; (iv) it eliminates the so called "merit pension" that provided to participants who joined the Employees Retirement System prior to April 1, 1990, after attaining 30 years of service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age 55 or greater) of the average salary earned during the highest 36 months of employment; (v) it increases the retirement age for various groups of participants; (vi) it increases the employee contribution to the ERS from 8.275% to a minimum of 10%; (vii) it eliminates or reduces various retirement benefits previously granted by special laws and the System will benefit from the savings generated; (viii) it increases the minimum pension from \$400 to \$500 per month for current retirees; and (ix) it eliminates or modifies other benefits, such as disability and survivor benefits.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42).

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund, which authorize municipalities to pledge the funds deposited on the Municipal Administration Fund to secure the repayment of any loan, bond, promissory note or other evidence of debt, whose source of repayment are the funds deposited into the Special Fund and to meet any budgeted expenditure of the municipalities and any activity or project of the municipalities; authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in the approved Law; amend paragraph (b) of section 4020.01; amended paragraph (b) of section 4020.02, and amend paragraph (a) and repealing paragraph (e) of section 6080.14 of the law No. 1 - 2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico", for the purposes of restructuring the sales and use tax so that tax rate is six (6) percent statewide and one (1) percent at municipal level; to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 22 – SUBSEQUENT EVENTS (CONTINUED)

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico"; in order to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

On December 19, 2013 the Municipality's executive branch approved Ordinance Number 34, authorizing the issuance of a General Obligation Bond in the amount of \$530,000, for construction purposes. This bond is payable with resources collected through the Municipal Redemption Fund.

Management has evaluated subsequent events through March 24, 2014, 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, 2013

| | <u>Budgeted Amounts</u> | | Actual Amounts (Budgetary Basis) (See Note A) | Variance with Final Budget Positive (Negative) |
|---|-------------------------|------------------|--|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Property taxes | \$ 1,099,835 | \$ 1,216,623 | \$ 1,216,623 | \$ - |
| Volume of Business Taxes | 959,307 | 995,531 | 999,398 | 3,867 |
| Sales Taxes | 230,000 | 255,079 | 260,605 | 5,526 |
| Intergovernmental | 5,592,948 | 5,711,372 | 5,699,610 | (11,762) |
| Licenses and permits | 172,522 | 157,468 | 157,468 | - |
| Rent | 60,000 | 171,521 | 171,521 | - |
| Interests | 60,000 | 302,071 | 302,071 | - |
| Miscellaneous | <u>272,000</u> | <u>279,898</u> | <u>285,741</u> | <u>5,843</u> |
| Total revenues | <u>8,446,612</u> | <u>9,089,563</u> | <u>9,093,037</u> | <u>3,474</u> |
| EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES: | | | | |
| Current: | | | | |
| Mayor and Municipal Legislature | 891,535 | 1,216,972 | 1,214,038 | 2,934 |
| General government | 3,390,003 | 3,917,151 | 4,038,130 | (120,979) |
| Public safety | 547,938 | 358,414 | 358,414 | - |
| Public works | 1,105,094 | 1,627,649 | 1,625,424 | 2,225 |
| Culture and Recreation | 621,399 | 422,214 | 416,164 | 6,050 |
| Health and Sanitation | 746,863 | 715,377 | 714,588 | 789 |
| Urban Development | 123,421 | 104,070 | 104,070 | - |
| Human Service and Welfare | 839,259 | 586,592 | 587,616 | (1,024) |
| Transfers out | <u>181,100</u> | <u>141,124</u> | <u>141,124</u> | <u>-</u> |
| Total expenditures, encumbrances and other financing uses | <u>8,446,612</u> | <u>9,089,563</u> | <u>9,199,568</u> | <u>(110,005)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES) | | | | |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (106,531)</u> | <u>\$ (106,531)</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 | \$ 9,093,037 |
| Differences-budget to GAAP | - |
| Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances | <u>\$ 9,093,037</u> |

Uses/outflows of resources:

| | |
|--|---------------------|
| Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule | \$ 9,199,568 |
| Differences-budget to GAAP: | |
| Prior year expenditure are not outflows of budgetary resources, but are expenditure for financial purposes | 212,572 |
| Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes | (182,426) |
| Adjustments to expenditures | (25,000) |
| Transfer to other funds are outflows of budgetary resources but are not expenditure for financial reporting purposes | <u>(141,124)</u> |
| Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances | <u>\$ 9,063,590</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| 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 | | \$ 49,617 |
| Community Facilities Loans and Grants | 10.780 | | 491,375 |
| Pass-Through State – State Department of Education: | | | |
| Child and Adult Care Food Program | 10.558 | N/AV | 72,983 |
| Total U.S. Department of Agriculture | | | 613,975 |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | |
| Direct Program: | | | |
| Section 8 Housing Choice Vouchers | 14.871 | | 16,910 |
| Pass-Through State - Office of the Commissioner of Municipal Affairs: | | | |
| Community Development Block Grants – State's Program | 14.228 | 12-AB 11-AB-FC 10-AB-FC 09-AB 08-FC-AB | 877,939 |
| Community Development Block Grant - Section 108 Loan Guarantees | 14.248 | B-01-DC-72-0001-A | 66,787 |
| Pass-Through State – State Department of Family: | | | |
| Emergency Solutions Grant Program | 14.231 | N/AV | 60,401 |
| Pass-Through State – Department of Housing: Home Investment Partnerships Program | 14.239 | N/AV | 33,419 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

| <u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Expenditures</u> |
|--|------------------------------------|---|---|
| Pass-Through State – Department of Health: Housing Opportunities for Persons with AIDS | 14.241 | N/AV | 13,147 |
| Pass-Through State – Puerto Rico Housing Administration: Public and Indian Housing | 14.850 | RQ-3040 RQ-5233 RQ-5247 RQ-5270 | <u>598</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>1,069,201</u> |
| U.S. DEPARTMENT OF ENERGY: | | | |
| Pass-through State – Office of the Energy Affairs Administration: ARRA – Energy Efficiency and Conservation Block Grant Program | 81.128 | 2011-132008 | <u>101,746</u> |
| Total U.S. Department of Energy | | | <u>101,746</u> |
| 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 | <u>166,927</u> |
| Total U.S. Department of Education: | | | <u>166,927</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE | | | |
| Pass-Through Office of Governor, Regional Elderly Office: Special Program for the Aging, Title III | 93.045 | N/AV | 190,576 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

| <u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Expenditures</u> |
|--|------------------------------------|---|----------------------------|
| Pass-Through Administration of Children and Families: | | | |
| Child Care and Development Block Grant | 93.575 | N/AV | 242,042 |
| Pass-Through Instituto Socio- Económico Comunitario, Inc.: | | | |
| Community Services Block Grant | 93.569 | N/AV | <u>69,765</u> |
| Total U.S. Department of Health and Human Service: | | | <u>502,383</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>1,198,902</u> |
| Total U.S. Department of Homeland Security: | | | <u>1,198,902</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 3,653,134</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, 2013

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, 2013 was \$2,130,000.

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**

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of **Jayuya**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated March 24, 2014. The report on the governmental fund financial statements was unmodified. In addition, the report on the governmental activities statement has an adverse opinion because of the inadequacies of the capital assets subsidiary ledger.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Municipality's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, I do not express an opinion on the effectiveness of the Municipality's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not design to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and 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. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Finding 13-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. I consider the deficiencies described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 13-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, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 13-II-01 and 13-II-02.

Municipality's Response to Findings

Municipality's response to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 24, 2014



PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

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

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

Report on Compliance for Each Major Federal Program

I 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, 2013. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 I considered necessary in the circumstances.

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

Opinion on Each Major Federal Programs

In my opinion, the Municipality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2013.

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

Other Matters

The results of my auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 13-III-03, 13-III-04 and 13-III-05. My opinion on each major federal program is not modified with respect to these matters.

Municipality's response to the noncompliance findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly I express no opinion on the response.

Report on Internal Control over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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

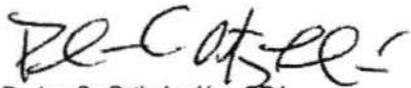
My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, I identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 13-III-03, 13-III-04 and 13-III-05 that I consider to be significant deficiencies.

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

Report on Internal Control Over Compliance (Continued)

Municipality's response to the internal control over compliance findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 24, 2014



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

| | | |
|---|--|---------------|
| Type of auditor’s report issued: | Adverse opinion in the governmental activities | |
| | Unmodified opinion for fund financial statement | |
| Internal control over financial reporting: | | |
| Material weakness identified? | Yes <input checked="" type="checkbox"/> | No |
| Significant deficiencies identified? | Yes <input checked="" type="checkbox"/> | None reported |
| Noncompliance material to financial statements noted? | Yes <input checked="" type="checkbox"/> | No |

Federal awards

| | | |
|---|---|--|
| Internal Control over major programs: | | |
| Material weakness identified? | Yes | No <input checked="" type="checkbox"/> |
| Significant deficiencies identified? | Yes <input checked="" type="checkbox"/> | None reported |
| Type of auditor’s report issued on compliance for major programs: | Unmodified opinion | |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | Yes <input checked="" type="checkbox"/> | No |

Identification of major programs

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 10.780 | Community Facilities Loans and Grants |
| 14.228 | Community Development Block Grants/ State’s |
| 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 <input checked="" type="checkbox"/> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|--------------------|---|
| FINDING | 13-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 my examination of the accounting cycle, I noted that the Municipality's management did not have adequate internal control procedures in place over the financial statements issued by the Municipality using the basis of accounting required by GAAP. The accounting records are maintained in the cash and budgetary basis and at the end of year, external consultants summarized in electronic worksheets the revenues, expenditures, 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, I noted the following conditions during my audit:</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. Both accounting systems does not help management to distinguish between expenditures incurred and encumbrances and does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payables and long-term debts. |
| 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, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|----------------------------|--|
| FINDING | 13-II-01 (CONTINUED) |
| REQUIREMENT | ACCOUNTING RECORDS AND REPORTING SYSTEM |
| RECOMMENDATION | I 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 record for financial statement preparation purpose. 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, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|----------------------------|---|
| FINDING | 13-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 my examination of the capital assets records, I 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 a capital assets subsidiary ledger. Also, the Municipality has not recorded certain infrastructure assets, accordingly, has not recorded depreciation expenses for those assets. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). |
| CRITERIA | Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociados de Puerto Rico de 1991</i> of August 30, 1991, states that Municipalities should maintain updated property accounting records. |
| CAUSE | The Municipality did not maintain an adequate control of the accountability of the capital assets, including the infrastructure. |
| EFFECT | The Municipality is not in compliance with Article 8.010 (c) (3) of the State Law Number 81 of August 30, 1991. |
| RECOMMENDATION | I recommend management and the Property Division of the Municipality to make an inventory of the capital assets in order to reconcile with the capital assets subsidiary ledger. In addition, the Municipality should implement adequate internal control procedures to improve the accountability of infrastructure assets. |
| MANAGEMENT RESPONSE | The Finance Director will give instructions to the property staff, to update the capital assets, including the infrastructure, with the subsidiary ledger in order to comply with the requirements established in the GASB No. 34. Also, we will make an inventory of the capital assets. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|----------------------------|--|
| FINDING | 13-III-03 |
| 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 my cash management test, I noted that during the fiscal year 2012-2013, the Program maintained an average monthly balance of approximately \$39,684. In addition, I examined eleven (11) requests of funds made by the Program to the pass-through agency and found that six (6) requests took between eighteen (18) and one hundred thirty-seven (137) days from the moment the funds were deposited and the issuance of the checks. |
| CRITERIA | Code of Federal Regulations 24, Subpart I, Section 570.489 (c) (1) states that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement made by the grantee. |
| CAUSE | The Program and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs. |
| EFFECT | The Program is not in compliance with Code of Federal Regulations 24, Subpart I, CFR 570.489 (c) (1). |
| RECOMMENDATION | I 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 the Finance Department staff to implement new internal controls, in order to issue the programs 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, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|----------------------------|---|
| FINDING | 13-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 | PROGRAM INCOME |
| CONDITION | The Program did not comply with the program income requirement. |
| CONTEXT | During my program income test, I noted that the transactions of CDBG's program income were not properly recorded in the accounting records maintained by the Finance Department of the Municipality. |
| CRITERIA | Code of Federal Regulations 24, Subpart J, Section 570.504 (a), states that the receipts and expenditures of program income shall be recorded as part of the financial transactions of the grant program. |
| CAUSE | The Program does not maintained appropriate accounting records over the program income transactions. |
| EFFECT | The Program is not in compliance with Code of Federal Regulations 24, Subpart J, Section 570.504 (a). |
| RECOMMENDATION | I 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 generated 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, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|------------------------|--|
| FINDING | 13-III-05 |
| 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 my grant disbursement test, I examined thirty (30) voucher payments and noted that the Municipality paid \$64,933 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, I 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, Subpart C, Section 85.36 (i) (1-13) establishes all the required clauses that contracts should include. In addition, Code of Federal Regulations 24, Subpart C, 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, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|----------------------------|--|
| FINDING | 13-III-05 (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 | PROCUREMENT AND SUSPENSION AND DEBARMENT |
| 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, Subpart C, Section 85.36 (i) (1-13) and Section 85.35. |
| RECOMMENDATION | I recommend management to ensure that all contracts should be formalized with a formal written contract which includes all the required clauses. Management should obtain the EPLS in printed or electronic format, and verify if the contractor is not suspended or debarred from the Federal government. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE | Immediately, 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. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

| FINDING NUMBER | COMPLIANCE | CFDA NUMBER | QUESTIONED COSTS | AUDITEE COMMENTS |
|-----------------------|--|--------------------|-------------------------|---|
| 12-III-03 | Allowable Activities- Housing Rehabilitation | 14.228 | None | Full corrective action taken. We improved our internal control over the housing rehabilitation activities. |
| 12-III-04 | Cash Management | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-03. |
| 12-III-05 | Program Income | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-04. |
| 12-III-06 | Procurement and Suspension and Debarment | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-05. |
| 12-III-07 | Procurement and Suspension and Debarment | 97.036 | None | Full corrective action taken. We improved our internal control over the procurement process. |
| 12-III-08 | Allowable Activities | 84.287 | None | Actually we are not administering funds related to this Federal program. |
| 12-III-09 | Procurement and Suspension and Debarment | 84.287 | None | Actually we are not administering funds related to this Federal program. |
| 11-III-04 | Cash Management | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-03. |
| 11-III-05 | Program Income | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-04. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| FINDING NUMBER | COMPLIANCE | CFDA NUMBER | QUESTIONED COSTS | AUDITEE COMMENTS |
|-----------------------|-----------------------------------|--------------------|-------------------------|--|
| 11-III-06 | Cash Management | 14.850 | None | 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 | 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 | Actually we are not the PHA that is administering the public housing complexes that we have in our Municipality. |
| 10-III-04 | Cash Management | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-03. |
| 10-III-05 | Cash Management | 14.850 | None | 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 13-III-04. |
| 09-III-04 | Cash Management | 14.228 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 09-III-05 | Cash Management | 14.850 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| FINDING NUMBER | COMPLIANCE | CFDA NUMBER | QUESTIONED COSTS | AUDITEE COMMENTS |
|----------------|---|------------------|------------------|--|
| 09-III-09 | Program Income | 14.228 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 08-III-05 | Allowable Activities – Housing Rehabilitation | 14.228 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 08-III-07 | Cash Management | 14.228 14.239 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 08-III-12 | Cash Management | 14.850 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 08-III-16 | Procurement Standards | 83.544 97.036 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013

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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, 2013

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FINDINGS AND QUESTIONED COSTS

| | |
|--|-------|
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PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I 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, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Adverse Opinion on Governmental Activities

The Municipality has not recorded certain capital assets including the general infrastructure assets in the governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position and expenses of the governmental activities has not been determined.

Adverse of Opinion

In my opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to previously do not present fairly the financial position of the governmental activities of the Municipality, as of June 30, 2013, or the changes in financial position, thereof for the year then ended.

Unmodified Opinion

In my opinion, the financial statements referred to above 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, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 15 and 58 through 59 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

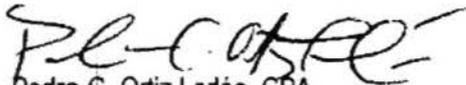
INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

My audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Because of the significance of the matter described in the "Basis for Adverse Opinion on Governmental Activities", it is inappropriate to and I do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 24, 2014, on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.


Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 24, 2014



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

This MD&A is prepared in order to comply with the reporting model required by Governmental Accounting Standards Board Statement No. 34 and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- The Municipality's assets exceeded its liabilities at June 30, 2013 by \$13,521,012, and at June 30, 2012 by \$17,941,804;
- The Municipality's total net positions decrease by \$(4,420,792) during fiscal year 2012-2013;
- As of June 30, 2013, the Municipality's governmental funds reported combined ending fund balance of \$7,986,049, a decrease of \$(4,726,053) from the prior year;
- At June 30, 2013, the Statement of Net position presented an unrestricted deficit of \$5,633,392;
- The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2013 were \$18,356,662 (net of accumulated depreciation);
- The investment in capital assets for this year was \$11,301,979 (net of related debt);
- Loans principal payments were \$630,300 and \$763,100 in 2013 and 2012, 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, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are composed of: (1) the statement of net positions and (2) the statement of activities. These financial statements can be found immediately following this MD&A. 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 POSITIONS

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

The difference between the Municipality's total assets and total liabilities reported in the statement of net positions is presented as net positions, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net positions, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

STATEMENT OF ACTIVITIES

The statement of activities presents information showing how the Municipality's net positions changed during the fiscal year ended June 30, 2013, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS

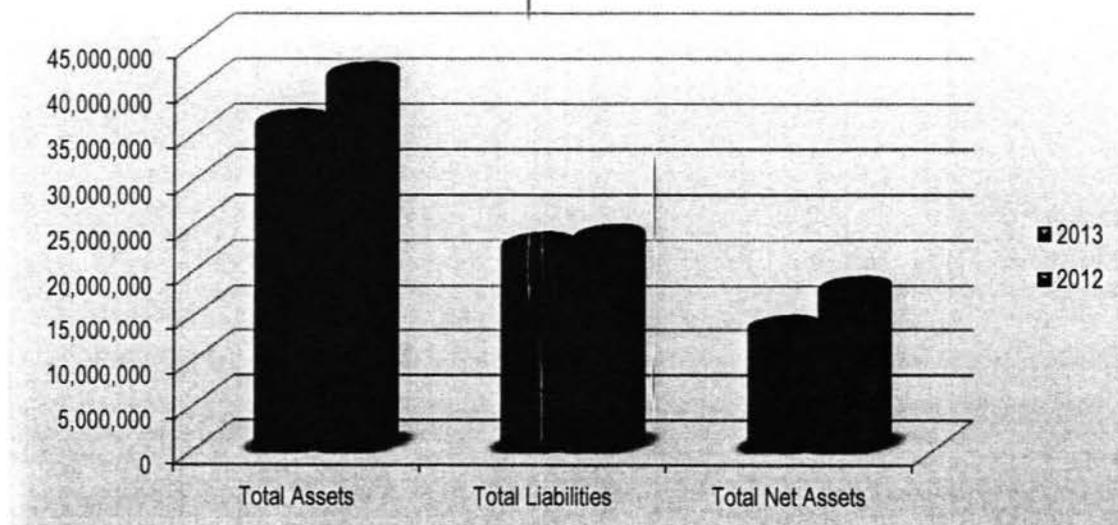
GOVERNMENTAL NET POSITIONS

As noted earlier, net positions may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$13,521,012 as of June 30, 2013, versus \$17,941,804 as of June 30, 2012. Our analysis below focuses on the net positions (**Table 1**) and changes in net positions of the Municipality's governmental activities.

Table 1

Statement of Net positions

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Current and non-current assets | \$ 17,925,505 | \$ 23,531,443 |
| Capital assets | 18,356,662 | 18,001,628 |
| Total Assets | 36,282,167 | 41,533,071 |
| Current liabilities | 4,465,005 | 4,125,208 |
| Long-term liabilities | 18,296,150 | 19,466,059 |
| Total Liabilities | 22,761,155 | 23,591,267 |
| Deferred Inflows of Resources | - | - |
| Net positions: | | |
| Investment in capital assets, net of related debt | 11,301,979 | 12,167,242 |
| Restricted | 7,852,425 | 11,360,877 |
| Deficit | (5,633,392) | (5,586,315) |
| Total Net positions | \$ 13,521,012 | \$ 17,941,804 |



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

GOVERNMENTAL ACTIVITIES

Governmental activities decreased the Municipality's net positions. Key elements of this decrease are as follows: the Municipality's governmental activities had net expenses of \$14,816,111. 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 \$(4,420,792).

The cost of all governmental activities this year was \$21,363,653. **Table 2** presents the cost of each of the Municipality's largest programs.

| Table 2 | | | |
|--------------------------------|-----------------------------|--|-----------------------------|
| Statement of Activities | 2013 | | 2012 |
| Revenues | | | |
| Grants and contributions | \$ 4,586,156 | | \$ 8,593,971 |
| General revenues: | | | |
| Property taxes | 1,467,781 | | 1,507,306 |
| Sales taxes | 1,255,686 | | 1,082,800 |
| Volume of business taxes | 999,398 | | 1,120,373 |
| Intergovernmental | 5,699,610 | | 5,478,607 |
| Charges for services | 1,961,386 | | 1,868,556 |
| Other General revenues | 972,844 | | 1,504,154 |
| Total revenues | <u>16,942,861</u> | | <u>21,155,767</u> |
| Expenses | | | |
| General administration | 4,629,460 | | 5,102,683 |
| Public safety | 489,739 | | 408,929 |
| Public works | 2,255,130 | | 2,725,921 |
| Culture and recreation | 1,142,541 | | 1,030,937 |
| Health and sanitation | 684,068 | | 942,209 |
| Human services and welfare | 4,528,256 | | 5,455,594 |
| Urban development | 7,026,306 | | 5,563,014 |
| Interest on long-term debts | 608,153 | | 615,155 |
| Total expenses | <u>21,363,653</u> | | <u>21,844,442</u> |
| Changes in net positions | (4,420,792) | | (688,675) |
| Net positions – beginning | 17,941,804 | | 18,630,479 |
| Net positions – ending | <u>\$ 13,521,012</u> | | <u>\$ 17,941,804</u> |

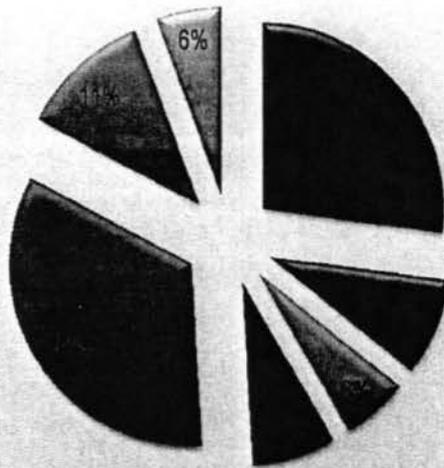
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

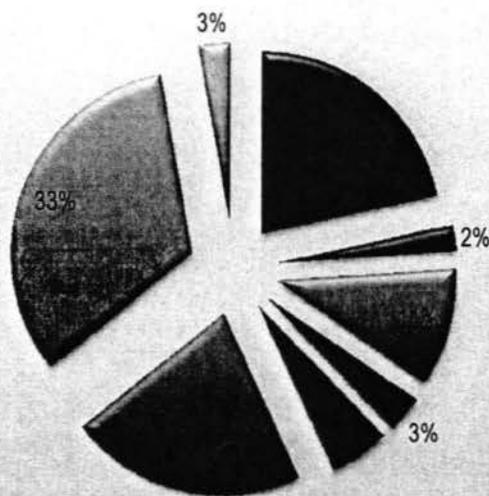
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

2013 Revenues



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

2013 Expenditures



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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Approximately twenty seven percent (27%) of the Municipality's governmental activities total revenue came from grants and contributions, and thirty four percent (34%) came from state contributions not restricted for specific purposes. Federal grants represent fifty seven percent (57%) of the Municipality's grants and contributions revenues. Also, approximately twenty two percent (22) 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 one percent (21%) of total expenses resulted from human services and welfare, twenty two percent (22%) from general administration, thirty three percent (33%) from urban development and eleven percent (11%) from public works.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Assets: | | |
| Total assets – Major Funds | \$ 10,815,956 | \$ 11,275,711 |
| Total assets – Other Funds | 6,009,284 | 10,869,673 |
| Combined total assets | \$ 16,825,240 | \$ 22,145,384 |
| Liabilities: | | |
| Total liabilities – Major Funds | 6,062,923 | 5,211,208 |
| Total liabilities – Other Funds | 2,691,132 | 4,129,063 |
| Combined total liabilities | 8,754,055 | 9,340,271 |
| Deferred Inflows of Resources: | | |
| Total inflows – Major Funds | 85,136 | 93,011 |
| Total inflows – Other Funds | - | - |
| Combined total deferred inflows of resources | 85,136 | 93,011 |
| Fund Balances (as restated): | | |
| Restricted, Committed or Assigned – Major Funds | 4,667,897 | 5,849,665 |
| Restricted, Committed or Assigned – Other Funds | 3,318,152 | 6,740,610 |
| Unassigned | - | 121,827 |
| Combined total fund balances | 7,986,049 | 12,712,102 |
| Total liabilities and fund balances | \$ 16,825,240 | \$ 22,145,384 |

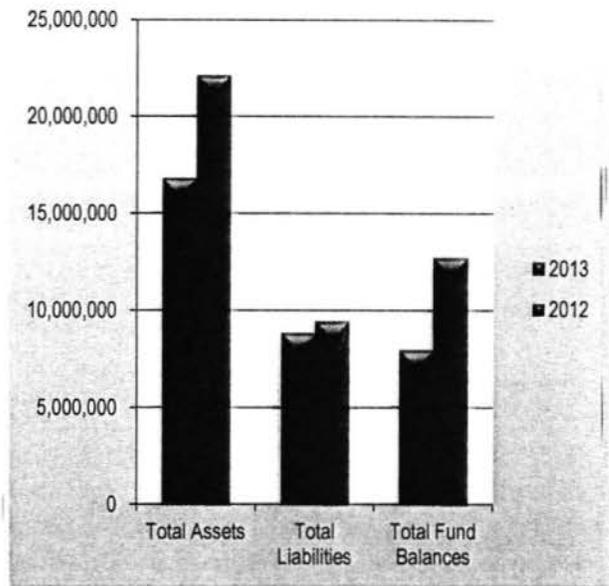
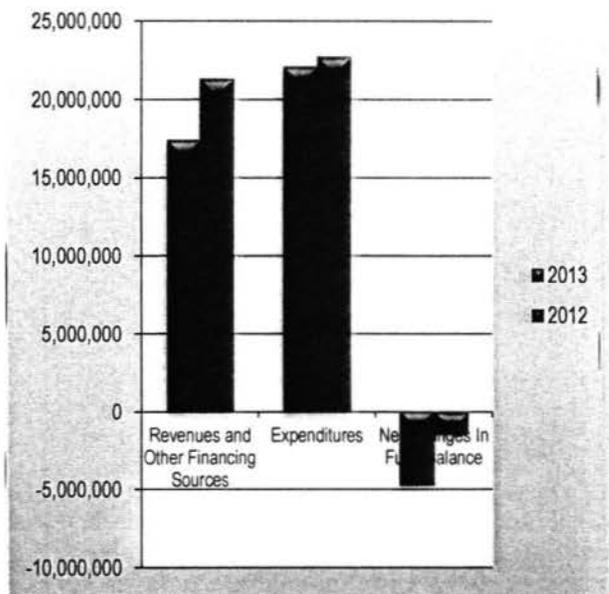


Table 4

Changes in Fund Balances

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|----------------------|
| Revenues: | | |
| Total revenues – Major Funds | \$ 12,288,302 | \$ 11,633,539 |
| Total revenues – Other Funds | 4,662,434 | 9,429,217 |
| Combined total revenues | 16,950,736 | 21,062,756 |
| Expenditures: | | |
| Total expenditures – Major Funds | 15,183,341 | 13,372,436 |
| Total expenditures – Other Funds | 6,923,448 | 9,402,066 |
| Combined total expenditures | 22,106,789 | 22,774,502 |
| Other financing sources: | | |
| Other financing sources – Major Funds | 430,000 | - |
| Other financing sources – Other Funds | - | 253,000 |
| Combined other financing sources, net | 430,000 | 253,000 |
| Net changes in fund balance | (4,726,053) | (1,458,746) |
| Fund Balance – beginning | 12,712,102 | 14,170,848 |
| Fund Balance – ending | \$ 7,986,049 | \$ 12,712,102 |



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013, the Municipality's governmental funds reported combined ending fund balances of \$7,986,049, a decrease of \$(4,726,053) from the prior year.

The Municipality has a fund balance in its General Fund that is restricted, committed and assigned; (a) to liquidate prior year obligations (\$93,341); (b) to pay debt service (\$1,529,057) and; (c) for capital projects and other special purposes (\$6,363,651).

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 | \$ 9,089,563 | \$ 9,093,037 | \$ 3,474 |
| Total expenditures, encumbrances and other financing uses | <u>9,089,563</u> | <u>9,199,568</u> | <u>(110,005)</u> |
| Excess or deficiency | \$ - | \$ (106,531) | \$ (106,531) |

The original and the final budget of the General Fund for the fiscal year ended June 30, 2013 amounted to \$8,446,612 and \$9,089,563, 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, 2013 were \$9,093,037, which is \$3,474 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, 2013 were \$9,199,568, which is \$110,005 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, 2013

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, 2013 amounted to \$18,356,662 (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 \$1,007,841. 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):

| Table 6 Capital Assets | Amount |
|-----------------------------------|-----------------------------|
| Construction in progress | \$ 2,062,282 |
| Works of art | 8,000 |
| Land | 2,441,334 |
| Buildings | 11,432,146 |
| Infrastructure | 1,042,014 |
| Machinery and equipment | 1,081,786 |
| Motor vehicles | 289,100 |
| Total Assets | <u>\$ 18,356,662</u> |

LONG-TERM DEBT

At June 30, 2013, the Municipality had total of \$18,296,150 in general obligations and others outstanding debts, as shown in **Table 7**. Of this amount, \$13,026,200 comprises debt backed by the full faith and credit of the government and \$5,269,950 is other obligations.

| Table 7 Long Term Debts | Amount |
|-------------------------------------|-----------------------------|
| General obligations bonds and notes | \$ 13,026,200 |
| Others | 5,269,950 |
| Total Long Term Debts | <u>\$ 18,296,150</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, 2013

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, 2013, real estate held for sale presented in the governmental wide statement of net positions, related to these constructions, amounted \$5,810,510.

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 2013 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 January September 13, 2014, the Legislature of the Municipality of Jayuya issued Ordinance No. 13, which authorized the establishment of a municipal enterprise to undertake various commercial activities, as expressly assigned by Law No. 81 of August 30, 1991, as amended, known as Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81).

The Municipality's executive branch approved Ordinance No. 34, Series 2013-2014, authorizing the issuance of a General Obligation Note in the amount of \$530,000, for construction purposes. This note is payable with resources collected through the Special Additional Contribution Fund, and were disbursed by the Governmental Development Bank (GDB) during August 2013.

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's general fund.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended various Acts, Regulations and Codes. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions and other procedural changes.

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINAL COMMENTS (CONTINUED)

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities.

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 POSITION

FISCAL YEAR ENDED JUNE 30, 2013

| | Governmental Activities |
|--|------------------------------------|
| ASSETS: | |
| Cash and investments | \$ 3,544,851 |
| Cash with fiscal agent | 6,707,951 |
| Receivable (net): | |
| Property taxes | 88,559 |
| Sales taxes | 104,728 |
| State government | 464,201 |
| Federal grants | 1,204,705 |
| Real Estate Held for Sale | <u>5,810,510</u> |
| | <u>17,925,505</u> |
| Capital assets: | |
| Land, improvements, and construction in progress | 4,511,616 |
| Other capital assets, net of depreciation | <u>13,845,046</u> |
| Total capital assets | <u>18,356,662</u> |
| TOTAL ASSETS | <u>36,282,167</u> |
| LIABILITIES: | |
| Accounts payable and accrued expenses | 2,531,359 |
| Accrued interests | 622,458 |
| Unearned revenues | 1,311,188 |
| Long-term liabilities: | |
| Due within one year | 1,077,700 |
| Due in more than one year | <u>17,218,450</u> |
| TOTAL LIABILITIES | <u>22,761,155</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>-</u> |
| NET POSITION | |
| Invested in capital assets, net of related debt | 11,301,979 |
| Restricted for: | |
| Debt service | 1,529,057 |
| Other purposes | 6,323,368 |
| Unrestricted (deficit) | <u>(5,633,392)</u> |
| TOTAL NET POSITION | <u>\$ 13,521,012</u> |

See accompanying Notes to Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue</u> |
|--|-----------------------------|---------------------------------|---|---|----------------------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | |
| Governmental Activities: | | | | | |
| Mayor and municipal legislature | \$ 1,199,953 | \$ - | \$ - | \$ - | \$ (1,199,953) |
| General government | 3,429,507 | 4,261 | - | - | (3,425,246) |
| Public safety | 489,739 | - | - | - | (489,739) |
| Public works | 2,255,130 | - | 38,490 | 420,189 | (1,796,451) |
| Culture and recreation | 1,142,541 | 537,281 | 16,970 | - | (588,290) |
| Health and sanitation | 684,068 | - | - | - | (684,068) |
| Human services and welfare | 4,528,256 | 1,238,233 | 2,040,086 | 100,997 | (1,148,940) |
| Urban development | 7,026,306 | 181,611 | 22,075 | 1,947,349 | (4,875,271) |
| Interest on long-term debt | 608,153 | - | - | - | (608,153) |
| Total governmental activities | <u>\$ 21,363,653</u> | <u>\$ 1,961,386</u> | <u>\$ 2,117,621</u> | <u>\$ 2,468,535</u> | <u>\$ (14,816,111)</u> |
| General revenues: | | | | | |
| Property taxes, levied for general purpose | | | | | 1,208,748 |
| Property taxes, levied for debt services | | | | | 259,033 |
| Volume of business taxes | | | | | 999,398 |
| Sales taxes | | | | | 260,605 |
| Sales taxes, levied for debt services | | | | | 995,081 |
| Intergovernmental | | | | | 5,699,610 |
| Licenses and permits | | | | | 157,468 |
| Rent | | | | | 171,521 |
| Interests | | | | | 302,071 |
| Miscellaneous | | | | | 341,784 |
| Total general revenues | | | | | <u>10,395,319</u> |
| Change in net position | | | | | (4,420,792) |
| Net position - beginning | | | | | 17,941,804 |
| Net position - ending | | | | | <u>\$ 13,521,012</u> |

See accompanying Notes to Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

**BALANCE SHEET
GOVERNMENTAL FUNDS**

FISCAL YEAR ENDED JUNE 30, 2013

| | General Fund | Municipal Hospital Fund | Loans Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------------------|---------------------|-------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash and investments | \$ 337,819 | \$ 272,870 | \$ - | \$ - | \$ 2,934,162 | \$ 3,544,851 |
| Cash with fiscal agent | - | - | 4,537,738 | 2,169,495 | 718 | 6,707,951 |
| Receivables: | | | | | | |
| Sales taxes | 23,326 | - | - | 81,402 | - | 104,728 |
| Property taxes | 85,136 | - | - | 3,423 | - | 88,559 |
| State government | - | 228,512 | - | - | 235,689 | 464,201 |
| Federal grants | - | - | - | - | 1,204,705 | 1,204,705 |
| Due from other funds | 3,076,235 | - | - | - | 1,634,010 | 4,710,245 |
| Total assets | \$ 3,522,516 | \$ 501,382 | \$ 4,537,738 | \$ 2,254,320 | \$ 6,009,284 | \$ 16,825,240 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | | | |
| Liabilities | | | | | | |
| Accounts payable and accrued liabilities | \$ 329,557 | \$ 135,668 | \$ 428,157 | \$ - | \$ 737,920 | \$ 1,631,302 |
| Bonds and notes payable | - | - | - | 524,000 | - | 524,000 |
| Accrued interests | - | - | - | 201,263 | - | 201,263 |
| Due to governmental units | 343,775 | - | - | - | 32,282 | 376,057 |
| Due to other funds | 1,484,192 | 365,714 | 1,064,082 | - | 1,796,257 | 4,710,245 |
| Unearned revenues | 1,186,515 | - | - | - | 124,673 | 1,311,188 |
| Total liabilities | 3,344,039 | 501,382 | 1,492,239 | 725,263 | 2,691,132 | 8,754,055 |
| Deferred inflows of resources | | | | | | |
| Unavailable revenues: | | | | | | |
| Property taxes | 85,136 | - | - | - | - | 85,136 |
| Total deferred inflows of resources | 85,136 | - | - | - | - | 85,136 |
| Fund balances | | | | | | |
| Restricted | - | - | - | 1,529,057 | 2,752,238 | 4,281,295 |
| Committed | - | - | 3,045,499 | - | 476,753 | 3,522,252 |
| Assigned | 93,341 | - | - | - | 89,161 | 182,502 |
| Total fund balances (deficit) | 93,341 | - | 3,045,499 | 1,529,057 | 3,318,152 | 7,986,049 |
| Total liabilities and fund balances | \$ 3,522,516 | \$ 501,382 | \$ 4,537,738 | \$ 2,254,320 | \$ 6,009,284 | \$ 16,825,240 |

See accompanying Notes to Basic Financial Statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | General Fund | Municipal Hospital Fund | Loans Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|------------------|-------------------------------|---------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 1,216,623 | \$ - | \$ - | \$ 259,033 | \$ - | \$ 1,475,656 |
| Volume of business taxes | 999,398 | - | - | - | - | 999,398 |
| Sales taxes | 260,605 | - | - | 995,081 | - | 1,255,686 |
| Charges for services | - | 1,191,543 | - | - | - | 1,191,543 |
| Federal assistances | - | - | - | - | 2,621,420 | 2,621,420 |
| Intergovernmental | 5,699,610 | 749,608 | - | - | 1,215,129 | 7,664,347 |
| Licenses and permits | 157,468 | - | - | - | - | 157,468 |
| Rent | 171,521 | - | - | - | - | 171,521 |
| Interests | 302,071 | - | - | - | - | 302,071 |
| Miscellaneous | 285,741 | - | - | - | 825,885 | 1,111,626 |
| Total revenues | 9,093,037 | 1,941,151 | - | 1,254,114 | 4,662,434 | 16,950,736 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| Mayor and municipal legislature | 1,193,480 | - | - | - | - | 1,193,480 |
| General government | 4,022,625 | - | - | - | 22,278 | 4,044,903 |
| Public safety | 359,040 | - | - | - | 101,746 | 460,786 |
| Public works | 1,630,415 | - | - | - | 550,529 | 2,180,944 |
| Culture and recreation | 417,188 | - | - | - | 721,192 | 1,138,380 |
| Health and sanitation | 738,975 | - | - | - | - | 738,975 |
| Human services and welfare | 590,687 | 2,285,306 | - | - | 1,651,241 | 4,527,234 |
| Urban development | 111,180 | - | 2,724,131 | - | 3,528,323 | 6,363,634 |
| Debt service: | - | - | - | - | - | - |
| Principal | - | - | - | 630,300 | 220,000 | 850,300 |
| Interest and other charges | - | - | - | 480,014 | 128,139 | 608,153 |
| Total expenditures | 9,063,590 | 2,285,306 | 2,724,131 | 1,110,314 | 6,923,448 | 22,106,789 |
| Excess (deficiency) of revenues over (under) expenditures | 29,447 | (344,155) | (2,724,131) | 143,800 | (2,261,014) | (5,156,053) |
| Other financing sources (uses) | | | | | | |
| Long term debt issuance | - | - | 430,000 | - | - | 430,000 |
| Transfers in | - | 99,470 | - | 41,124 | 167,843 | 408,437 |
| Transfers out | (323,283) | - | - | - | (85,154) | (408,437) |
| Total other financing sources (uses) | (323,283) | 99,470 | 430,000 | 141,124 | 82,689 | 430,000 |
| Net change in fund balances | (293,836) | (244,685) | (2,294,131) | 284,924 | (2,178,325) | (4,726,053) |
| Fund balance (deficit), beginning as restated | 387,177 | 244,685 | 5,339,630 | 1,244,133 | 5,496,477 | 12,712,102 |
| Fund balance (deficit), ending | \$ 93,341 | \$ - | \$ 3,045,499 | \$ 1,529,057 | \$ 3,318,152 | \$ 7,966,049 |

See accompanying Notes to Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITIONS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | |
|--|---------------------|
| TOTAL FUND BALANCES – GOVERNMENTAL FUNDS (PAGE 18)..... | \$ 7,986,049 |
|--|---------------------|

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:

| | | |
|-------------------------------------|--------------------|----------------|
| Non Depreciable Capital Assets..... | \$ 4,511,616 | |
| Depreciable Capital Assets..... | 22,788,115 | |
| Accumulated Depreciation..... | <u>(8,943,069)</u> | |
| Total Capital Assets..... | | 18,356,662 |

| | |
|--|--------|
| 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..... | 85,136 |
|--|--------|

| | |
|---|-----------|
| Real Estate Held for Sale is not a current financial resources and therefore, is not reported in the funds..... | 5,810,510 |
|---|-----------|

| | |
|---|-----------|
| Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds..... | (421,195) |
|---|-----------|

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..... | (13,026,200) | |
| Compensated Absences..... | (1,444,120) | |
| Property Tax Debt – Law 42..... | (511,793) | |
| Property Tax Debt – Law 146..... | (73,296) | |
| Claims and Judgments..... | (150,000) | |
| Estimated Landfill Closure and Post-Closures Costs..... | (1,486,948) | |
| Line of Credit..... | (1,376,276) | |
| State Department of Labor – Debt Agreement..... | <u>(227,517)</u> | |
| Total Long-Term Liabilities..... | | <u>(18,296,150)</u> |

| | |
|---|-----------------------------|
| TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES (PAGE 16)..... | <u>\$ 13,521,012</u> |
|---|-----------------------------|

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (PAGE 19) .. **\$ (4,726,053)**

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 | 1,007,841 | |
| Depreciation Expense | <u>(652,807)</u> | |
| Excess of Capital Assets Additions over Depreciation Expense | | 355,034 |

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. 324,136

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:

| | | |
|--|---------------|---------|
| Prior year revenues | (93,011) | |
| Current year revenues | <u>85,136</u> | |
| Excess of Capital Assets Additions over Depreciation Expense | | (7,875) |

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. In the current period, these amounts are:

| | | |
|-------------------------------|----------------|-----------|
| Bonds and Notes Payable | (430,000) | |
| Compensated Absences | <u>(3,933)</u> | |
| General obligation bond | | (433,933) |

Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. In the current year, the repayments were:

| | | |
|--|----------------|-----------|
| Bonds and Notes Payable | 850,300 | |
| Property Tax Debt – Law 42 | 13,860 | |
| Property Tax Debt – Law 146 | 3,858 | |
| Claims and Judgments | 75,000 | |
| Compensated Absences | 26,747 | |
| Property Tax Debt – Advances | 25,738 | |
| State Department of Labor – Debt Agreement | <u>136,511</u> | |
| Total Additional Expenditures | | 1,132,014 |

Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds... (96,147)

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..... (967,968)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (PAGE 17) **\$ (4,420,792)**

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, 2013

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.

A. FINANCIAL REPORTING MODEL

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

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

RSI consists of a (1) Management Discussion and Analysis (MD&A) and a Budgetary Comparison Schedule – General Fund, this is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements.

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2013, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. FINANCIAL REPORTING ENTITY

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality. In accordance with GASB No. 14 and GASB No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow: (1) The organization is legally separate entity; (2) The Municipality appoints a voting majority of the organization's board; (3) There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

Organizations meeting the above criteria are included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are considered to be blended component units of the Municipality: (1) The organization's governing body is substantively the same as the Municipality's governing body and (a) there is a financial benefit or burden relationship between the Municipality and the organization, or (b) management of the Municipality has operational responsibility for the organization; (2) The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it; (3) The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is bases on the nature and significance of the organization's relationship with the Municipality.

Based on the application of the criteria outlined above, the Municipality's management has concluded that there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2013.

C. FINANCIAL STATEMENT PRESENTATION

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-Wide Financial Statements (GWFS)

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The Statement of Net Position presents the reporting entities' assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Net Position are reported in three categories:

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

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position or liabilities changed during the fiscal year ended June 30, 2013, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, 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, 2013

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, 2013

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 positions 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, 2013

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 positions 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 accompanying FFS are composed of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds.

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, deferred outflow of resources, liabilities, deferred inflow of resources and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

As defined in the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), fund types are as follows:

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

Special Revenue Fund – is a governmental fund used to account for and report the proceeds of specific revenue sources that are legally restricted, committed or assigned to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

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

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

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

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

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

Debt Service Fund – This is the fund used to account for the accumulation of resources, from the property and sales taxes, for and the payment of general long-term debt principal, interest and related cost.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions, which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred inflow of resources.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying statement of net position. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying governmental fund financial statements. Therefore, the accompanying governmental fund financial statements include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the governmental fund financial statements.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Revenue sources not meeting this availability criterion or collected in advance are recorded as unearned revenues or differed inflow of resources at June 30, 2013.

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, 2013, has been reported only in the government-wide financial statements.

Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities and the statement of revenues, expenses and changes in fund balances, but are not recorded in the accompanying governmental fund financial statements.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013.

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

At June 30, 2013, the accompanying fund financial statements reported fund balances as restricted, committed and assigned.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013

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 legally required to prepare a budget. 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, 2013

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. DEFERRED OUTFLOW / INFLOW OF RESOURCES

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no deferred outflows of resources.

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period (s) and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2013, the Municipality presents deferred inflows of resources.

J. 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.

K. REAL ESTATE HELD FOR SALE

Real estate's held for sale in the accompanying statement of net positions 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.

L. CAPITAL ASSETS

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

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

| Capital Assets | Years |
|---------------------------------|--------------|
| Buildings and site improvements | 40 |
| Infrastructure | 40 |
| Vehicles | 5 |
| Furniture and fixtures | 5 |
| Machinery and equipment | 3 to 5 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. CAPITAL ASSETS (CONTINUED)

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

M. LONG-TERM OBLIGATIONS

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

In the fund financial statements, governmental fund types recognize 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.

N. COMPENSATED ABSENCES

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

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

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

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2013.

| <u>BALANCE</u> <u>JUNE 30, 2012</u> | <u>NEW ISSUES</u> | <u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u> | <u>BALANCE</u> <u>JUNE 30, 2013</u> | <u>CURRENT</u> <u>PORTION</u> | <u>LONG-TERM</u> <u>PORTION</u> |
|--|-------------------|--|--|----------------------------------|------------------------------------|
| \$ 1,470,867 | \$ - | \$ (26,747) | \$ 1,444,120 | \$ 120,000 | \$ 1,324,120 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. Corresponding premiums payable monthly are paid directly by the Municipality. Also, there is an additional insurance cost that is withheld by the Municipal Revenue Collection Center from monthly advances of annual property tax and subsidy sent to the Municipality.

P. INTERFUND TRANSACTIONS

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

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

Q. CLAIMS AND JUDGMENTS

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

R. USE OF ESTIMATES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. ACCOUNTING FOR PENSION COSTS

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

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

T. RISK FINANCING

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated directly by the Municipality.

Insurance cost paid by the Municipality during fiscal year 2012-2013 amounted \$204,022. In addition, cost of the workers compensation insurance that covers all municipal employees and is deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2013 amounted \$326,566.

U. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

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

- ❖ GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. 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.
- ❖ GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for periods beginning after June 15, 2013.
- ❖ GASB Statement No. 71 *Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB 68*. This statement is effective for periods beginning after June 15, 2014.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

V. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2013:

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Municipality has implemented this Statement in fiscal year 2012-2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Municipality has implemented this Statement in fiscal year 2012-2013.

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, 2013.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2013, (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, 2013, 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, 2013, 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, 2013. Therefore, the Municipality's management has concluded that at June 30, 2013 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – 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, 2013.

The Municipality's bank balances in commercial banks of \$337,819 in the General Fund and \$272,870 in Municipal Hospital Fund were fully collateralized at June 30, 2013. In the Other Governmental Funds, there were deposits with commercial banks of \$2,934,162 that were fully collateralized.

The deposits at GDB of \$4,537,738 in the Loans Fund, \$2,169,495 in the Debt Service 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 16, 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 \$23,326 in the General fund represents the amount due by the taxpayers at June 30, 2013.

Also, sales taxes receivable of \$81,402 in the Debt Service Fund represents the amount due at June 30, 2013 for the Municipal Redemption Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 – RECEIVABLES (CONTINUED)

B. PROPERTY TAXES RECEIVABLES

Property taxes receivable of \$85,136 in the general fund represents excess of revenues over advances received from the CRIM during fiscal year 2012-2013, according final settlement statement.

C. STATE GOVERNMENT RECEIVABLES

At June 30, 2013, the Municipal Hospital maintained an account receivable from the state government of \$228,512. 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 – Law 52 | \$ 79,262 |
| Commonwealth of Puerto Rico-Special Communities Trust | <u>156,427</u> |
| Total | <u>\$ 235,689</u> |

D. FEDERAL GRANTS RECEIVABLE

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

| <u>Description</u> | <u>Amount</u> |
|---------------------------------------|----------------------------|
| Special Program for Aging, Title III | \$ 116,902 |
| Community Facilities Loans and Grants | 106,456 |
| Home Investment Partnership Program | 165,381 |
| Child Care Development Block Grant | 55,804 |
| Child and Adult Care Food Program | 22,676 |
| Emergency Solutions Grant Program | 60,358 |
| Disaster Grants – Public Assistance | 628,397 |
| Community Service Block Grant | 44,715 |
| Others | <u>4,016</u> |
| Total | <u>\$ 1,204,705</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 – DUE FROM / TO OTHER FUNDS

Interfund receivables and payables at June 30, 2013 are summarized as follows:

| Receivable Fund | Payable Fund | Purpose | Amount |
|-----------------------------|-----------------------------|--|----------------------------|
| General Fund | Municipal Hospital Fund | Payroll and related accruals paid and not reimbursed | \$ 365,714 |
| General Fund | Loans Fund | Payroll and related accruals paid and not reimbursed, and others reimbursable expenditures | 1,064,082 |
| General Fund | Other Governmental Funds | Payroll and related accruals paid and not reimbursed, and others reimbursable expenditures | 1,646,439 |
| Other Governmental Funds | General Fund | Cash pool in the same bank account | 1,484,192 |
| Other Governmental Funds | Other Governmental Funds | Reimbursable expenditures | <u>149,818</u> |
| Total | | | <u>\$ 4,710,245</u> |

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, 2013, real estate held for sale presented in the governmental wide statement of net positions, related to these constructions, amounted \$5,810,510.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 5 – CAPITAL ASSETS AND REAL ESTATE HELD FOR SALE (CONTINUED)

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 positions do not include a substantial portion of the Municipality's infrastructure assets constructed or acquired by the Municipality from 1980 through June 30, 2013. 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 2012-2013, 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, 2012 | Additions | Retirements / Reclassifications | Balance June 30, 2013 |
|--|--------------------------|-------------------|------------------------------------|--------------------------|
| Capital asset, not being depreciated: | | | | |
| Land | \$ 2,441,334 | \$ - | \$ - | \$ 2,441,334 |
| Works of art | - | 8,000 | - | 8,000 |
| 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>8,000</u> | <u>-</u> | <u>4,511,616</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 14,117,298 | 127,904 | - | 14,245,202 |
| Infrastructure | 1,296,131 | - | - | 1,296,131 |
| Machinery and equipment | 3,702,918 | 711,607 | - | 4,414,525 |
| Motor vehicles | <u>2,671,927</u> | <u>160,330</u> | <u>-</u> | <u>2,832,257</u> |
| Total capital assets being depreciated | <u>21,788,274</u> | <u>999,841</u> | <u>-</u> | <u>22,788,115</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,540,207) | (272,849) | - | (2,813,056) |
| Infrastructure | (239,996) | (14,121) | - | (254,117) |
| Machinery and equipment | (3,030,832) | (301,907) | - | (3,332,739) |
| Motor vehicles | <u>(2,479,227)</u> | <u>(63,930)</u> | <u>-</u> | <u>(2,543,157)</u> |
| Total accumulated depreciation | <u>(8,290,262)</u> | <u>(652,807)</u> | <u>-</u> | <u>(8,943,069)</u> |
| Total capital assets being depreciated, net | <u>13,498,012</u> | <u>347,034</u> | <u>-</u> | <u>13,845,046</u> |
| Governmental activities capital assets, net | <u>\$ 18,001,628</u> | <u>\$ 355,034</u> | <u>\$ -</u> | <u>\$ 18,356,662</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 | \$ 7,291 |
| General Government | 357,009 |
| Public Safety | 28,953 |
| Public Works | 74,186 |
| Culture and Recreation | 8,510 |
| Sanitation | 41,908 |
| Welfare | 2,380 |
| Urban development | 132,570 |
| Total depreciation expenses | <u>\$ 652,807</u> |

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2012-2013, and not paid by the Municipality at June 30, 2013. Following is a detail of these accounts payable and accrued liabilities by major fund:

| Major Governmental Funds | Accounts Payable | Accrued Liabilities | Total |
|---------------------------------|----------------------------|----------------------------|----------------------------|
| General Fund | \$ 164,714 | \$ 164,843 | \$ 329,557 |
| Municipal Hospital Fund | 135,668 | - | 135,668 |
| Loans Fund | 428,157 | - | 428,157 |
| Other Governmental Funds | 737,920 | - | 737,920 |
| Total | <u>\$ 1,466,459</u> | <u>\$ 164,843</u> | <u>\$ 1,631,302</u> |

NOTE 7 – BONDS AND NOTES PAYABLE

As described below in Note 11, 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, 2013, 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 | \$ 524,000 |
| Interests | 201,263 |
| Total | <u>\$ 725,263</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2013, balance due to other governmental units in General Fund consists of the following:

| <u>Governmental Agency</u> | <u>Amount</u> |
|--|--------------------------|
| Puerto Rico Aqueduct and Sewer Authority | \$ 210,106 |
| General Service Administration | 5,036 |
| State Department of Labor | <u>128,633</u> |
| Total | <u>\$ 343,775</u> |

At June 30, 2013, the Other Governmental Funds maintained a due to governmental units, amounting to \$32,282, related to the economies generated by the Public and Indian Housing Program.

NOTE 9 – UNEARNED REVENUES

Volume of business tax – unearned revenues of \$1,186,515 in the General Fund are related to volume of business taxes collected in fiscal year 2012-2013, that will be earned in fiscal year 2013-14.

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

| <u>Program Description</u> | <u>Amount</u> |
|---|--------------------------|
| Water and Waste Disposal System for Rural Communities | \$ 97,697 |
| Others | <u>26,976</u> |
| Total | <u>\$ 124,673</u> |

NOTE 10 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the General Fund amounting to \$85,136, were unavailable revenues related to property taxes that represents the final liquidation of the property taxes of the fiscal year 2012-2013. This amount was not collected by the Municipality at June 30, 2013.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2013, was as follows:

| Description | Beginning Balance (as restated) | Borrowings or Additions | Payments or Deductions | Ending Balance | Due Within One Year |
|--|---------------------------------------|----------------------------|---------------------------|----------------------|------------------------|
| Bonds and Notes Payable | \$ 13,446,500 | \$ 430,000 | \$ (850,300) | \$ 13,026,200 | \$ 802,600 |
| Compensated absences | 1,470,867 | - | (26,747) | 1,444,120 | 120,000 |
| Property Tax Debt – Law 42 | 525,653 | - | (13,860) | 511,793 | 14,731 |
| Property Tax Debt – Law 146 | 77,154 | - | (3,858) | 73,296 | 3,858 |
| Line of Credit | 1,848,104 | - | (471,828) | 1,376,276 | - |
| Claims and Judgments | 225,000 | - | (75,000) | 150,000 | - |
| Estimated landfill closure and post-closure care cost | 1,483,015 | 3,933 | - | 1,486,948 | - |
| State Department of Labor- Debt Agreement | 364,028 | - | (136,511) | 227,517 | 136,511 |
| Property Tax Debt – Advances | 25,738 | - | (25,738) | - | - |
| Total | \$ 19,466,059 | \$ 433,933 | \$ (1,603,842) | \$ 18,296,150 | \$ 1,077,700 |

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, 2013, 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 | \$ 49,000 |
| \$400,000, Series 1997, for operational purposes, payable in semiannual installments ranging from \$10,000 to \$40,000, excluding variable interest from 1.53% to 8.00%, through July 1, 2016 | 100,000 |
| \$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 | 290,000 |
| \$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 | 60,200 |
| \$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 | 315,000 |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – 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 1.53% to 6.62%, through July 1, 2028 | 305,000 |
| \$210,000, Series 2008, for real property acquisition, payable in semiannual installments ranging from \$5,000 to \$15,000, excluding variable interest from 1.53% to 7.25%, through July 1, 2032 | 180,000 |
| \$498,000, Series 2008, for real property acquisition, payable in semiannual installments ranging from \$5,000 to \$36,000, excluding variable interest from 1.53% to 7.50%, through July 1, 2032 | 441,000 |
| \$731,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$8,000 to \$60,000, excluding variable interest from 1.53% to 7.50%, through July 1, 2032 | 651,000 |
| \$2,990,000, Series 2011, for construction purposes, payable in semiannual installments ranging from \$45,000 to \$205,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2035 | 2,850,000 |
| \$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 | 735,000 |
| \$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 | 1,045,000 |
| \$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 | 241,000 |
| Total General Obligations – Bonds | <u>\$ 7,262,200</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

2. NOTES PAYABLE (CONTINUED)

| 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 | \$ 450,000 |
| \$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 | 1,680,000 |
| \$180,000, Series 2007, for purchase of equipment, payable in semiannual installments ranging from \$20,000 to \$35,000, excluding variable interest from 1.53% to 7.25%, through July 1, 2014 | 35,000 |
| \$115,000, Series 2008, for purchase of equipment, payable in semiannual installments ranging from \$15,000 to \$20,000, excluding variable interest from 1.53% to 7.25%, through July 1, 2014 | 20,000 |
| \$3,497,000, Series 2009, for real property acquisition and construction purposes, payable in semiannual installments ranging from \$50,000 to \$292,000, excluding variable interest from 1.53% to 7.50%, through July 1, 2033 | 3,199,000 |
| \$430,000, Series 2013, for purchase of equipment, payable in semiannual installments ranging from \$50,000 to \$75,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2019 | <u>380,000</u> |
| Total General Obligations – Notes | <u>\$ 5,764,000</u> |

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

The annual requirements to amortize the general obligations bonds outstanding as of June 30, 2013 are as follows:

| Year Ending June 30, | Principal payment | Interest payment | Total |
|-------------------------|----------------------------|----------------------------|-----------------------------|
| 2014 | \$ 398,600 | \$ 346,169 | \$ 744,769 |
| 2015 | 415,800 | 492,958 | 908,758 |
| 2016 | 428,100 | 464,022 | 892,122 |
| 2017 | 415,400 | 434,035 | 849,435 |
| 2018 | 224,600 | 404,047 | 628,647 |
| 2019-2023 | 1,351,700 | 1,759,024 | 3,110,724 |
| 2024-2028 | 1,588,000 | 1,247,937 | 2,835,937 |
| 2029-2033 | 1,768,000 | 640,334 | 2,408,334 |
| 2034-2038 | <u>672,000</u> | <u>75,348</u> | <u>747,348</u> |
| Total | <u>\$ 7,262,200</u> | <u>\$ 5,863,874</u> | <u>\$ 13,126,074</u> |

The annual requirements to amortize the general obligations notes outstanding as of June 30, 2013 are as follows:

| Year Ending June 30, | Principal payment | Interest payment | Total |
|-------------------------|----------------------------|----------------------------|----------------------------|
| 2014 | \$ 404,000 | \$ 230,222 | \$ 634,222 |
| 2015 | 354,000 | 332,441 | 686,441 |
| 2016 | 364,000 | 310,930 | 674,930 |
| 2017 | 375,000 | 288,714 | 663,714 |
| 2018 | 390,000 | 294,287 | 684,287 |
| 2019-2023 | 1,720,000 | 1,108,511 | 2,828,511 |
| 2024-2028 | 885,000 | 686,250 | 1,571,250 |
| 2029-2033 | <u>1,272,000</u> | <u>299,625</u> | <u>1,571,625</u> |
| Total | <u>\$ 5,764,000</u> | <u>\$ 3,550,980</u> | <u>\$ 9,314,980</u> |

B. COMPENSATED ABSENCES

The government-wide statement of net positions includes \$1,444,120 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

C. PROPERTY TAX DEBT – LAW 42

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

In addition, on February 12, 2003, the Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2013 amounted to \$511,793.

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, 2013 amounted to \$73,296.

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, 2013, this line of credit has an outstanding balance of \$1,376,276, and accrued interest of \$421,195. The line of credit will be repaid with the proceeds of the sale of the sixty(60) units.

F. CLAIMS AND JUDGMENTS

Liabilities of \$150,000 reported in the statement of net positions represent the balance owed for claims and judgments at June 30, 2013, as described in Note 20.

G. STATE DEPARTMENT OF LABOR

In fiscal year 2012-2013 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, 2013 of this agreement was \$227,517.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 12 – 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 positions date. The \$1,486,948 reported as landfill closure and post closure care liability at June 30, 2013, represents an estimate of the cumulative amount reported to date based on the percentage used (29%) of the estimated capacity of the landfill.

The Municipality will recognize the remaining estimated cost of closure and post closure care of \$3,662,052, 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 2013. The estimated life of the landfill according to the engineers of the Municipality is approximately twenty five (25) years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 13 – 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 14 – 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 14 – PROPERTY TAXES (CONTINUED)

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

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

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

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

NOTE 15 – 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 16 – 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 16 – SALES AND USE TAXES (CONTINUED)

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

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

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

NOTE 17 – 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 18 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended at June 30, 2013, are summarized as follows:

| Transfer Out | Transfer In | Purpose | Amount |
|-------------------------|-------------------------|-------------------------------------|-------------------|
| General Fund | Municipal Hospital Fund | To cover special funds deficit | \$ 99,470 |
| General Fund | Debt Service Fund | Debt retirement | 141,124 |
| General Fund | Other Governmental Fund | To cover special funds expenditures | 82,689 |
| Other Governmental Fund | Other Governmental Fund | To cover special funds expenditures | 85,154 |
| Total | | | \$ 408,437 |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 19 – EMPLOYEE'S RETIREMENT PLAN

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

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

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

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

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

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

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 19 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

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

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

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

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

The total pension expenditures recorded in the category of administration for the fiscal year ended on June 30, 2011, 2012 and 2013 were, approximately, \$168,400, \$179,700 and \$187,461, 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, 2013. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 20 – 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 \$150,000 in the government wide statement of net positions.

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 cannot determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

B. FEDERAL GRANTS

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

C. CONSTRUCTION

The Municipality had commitments at June 30, 2013 of approximately \$2,129,034 for the construction, improvements, or renovation of several capital facilities and the capital assets.

D. OTHER COMMITMENTS

At June 30, 2013 the general fund had commitments of approximately \$238,749 for executory purchase orders or contracts that will be honored during the subsequent year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 21 – FUND BALANCE

As of June 30, 2013, the fund balance (deficit) classifications are as follows:

| Fund Balance | General Fund | Municipal Hospital Fund | Loans Fund | Debt Service Fund | Other Governmental Fund | Total |
|---------------------------------|------------------|-------------------------------|---------------------|----------------------|-------------------------------|---------------------|
| Restricted for: | | | | | | |
| Public safety | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Public works | - | - | - | - | 203,495 | 203,495 |
| Culture and recreation | - | - | - | - | 80,170 | 80,170 |
| Human services and welfare | - | - | - | - | 396,626 | 396,626 |
| Urban development | - | - | - | - | 1,959,431 | 1,959,431 |
| Debt service | - | - | - | 1,529,057 | 112,516 | 1,641,573 |
| Committed for: | | | | | | |
| General government | - | - | - | - | 118,657 | 118,657 |
| Public safety | - | - | - | - | 1,469 | 1,469 |
| Public works | - | - | - | - | 222,243 | 222,243 |
| Culture and recreation | - | - | - | - | 41,846 | 41,846 |
| Human services and welfare | - | - | - | - | 86,579 | 86,579 |
| Urban development | - | - | 3,045,499 | - | 5,959 | 3,051,458 |
| Assigned for: | | | | | | |
| Mayor and municipal legislature | 30,828 | - | - | - | - | 30,828 |
| General government | 20,495 | - | - | - | 32,182 | 52,677 |
| Public safety | 2,087 | - | - | - | 11,813 | 13,900 |
| Public works | 24,923 | - | - | - | 3,456 | 28,379 |
| Culture and recreation | 4,827 | - | - | - | 21,371 | 26,198 |
| Human services and welfare | 7,871 | - | - | - | 20,339 | 28,210 |
| Urban development | 2,310 | - | - | - | - | 2,310 |
| Total Fund Balance | \$ 93,341 | \$ - | \$ 3,045,499 | \$ 1,529,057 | \$ 3,318,152 | \$ 7,986,049 |

NOTE 22 – SUBSEQUENT EVENTS

On January September 13, 2014, the Legislature of the Municipality of Jayuya issued Ordinance No. 13, which authorized the establishment of a municipal enterprise to undertake various commercial activities, as expressly assigned by Law No. 81 of August 30, 1991, as amended, known as Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81).

The Municipality's executive branch approved Ordinance No. 34, Series 2013-2014, authorizing the issuance of a General Obligation Note in the amount of \$530,000, for construction purposes. This note is payable with resources collected through the Special Additional Contribution Fund, and were disbursed by the Governmental Development Bank (GDB) during August 2013.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 22 – SUBSEQUENT EVENTS (CONTINUED)

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. The ERS financial situation was approached through Act 3, which became effective on July 1, 2013 ("Effective Date"). The Act establishes the following: (i) it freezes and grandfathers the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS's defined benefit formula (those who joined the ERS prior to January 1, 2000 whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service) (the "Defined Benefit Employees"); (ii) it provides that, beginning on July 1, 2013, the retirement benefits accruing on and after the Effective Date for Defined Benefit Employees will be based on a defined contribution plan and will be paid out in the form of a lifetime annuity (upon retirement, the employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013 in the form of a lifetime annuity); (iii) it provides that defined contribution benefits accrued pursuant to System 2000 will also be paid in the form of a lifetime annuity rather than a lump sum payment; (iv) it eliminates the so called "merit pension" that provided to participants who joined the Employees Retirement System prior to April 1, 1990, after attaining 30 years of service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age 55 or greater) of the average salary earned during the highest 36 months of employment; (v) it increases the retirement age for various groups of participants; (vi) it increases the employee contribution to the ERS from 8.275% to a minimum of 10%; (vii) it eliminates or reduces various retirement benefits previously granted by special laws and the System will benefit from the savings generated; (viii) it increases the minimum pension from \$400 to \$500 per month for current retirees; and (ix) it eliminates or modifies other benefits, such as disability and survivor benefits.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42).

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund, which authorize municipalities to pledge the funds deposited on the Municipal Administration Fund to secure the repayment of any loan, bond, promissory note or other evidence of debt, whose source of repayment are the funds deposited into the Special Fund and to meet any budgeted expenditure of the municipalities and any activity or project of the municipalities; authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in the approved Law; amend paragraph (b) of section 4020.01; amended paragraph (b) of section 4020.02, and amend paragraph (a) and repealing paragraph (e) of section 6080.14 of the law No. 1 - 2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico", for the purposes of restructuring the sales and use tax so that tax rate is six (6) percent statewide and one (1) percent at municipal level; to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 22 – SUBSEQUENT EVENTS (CONTINUED)

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico"; in order to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

On December 19, 2013 the Municipality's executive branch approved Ordinance Number 34, authorizing the issuance of a General Obligation Bond in the amount of \$530,000, for construction purposes. This bond is payable with resources collected through the Municipal Redemption Fund.

Management has evaluated subsequent events through March 24, 2014, 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, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with</u> |
|---|-------------------------|------------------|---|---|
| | <u>Original</u> | <u>Final</u> | <u>(Budgetary Basis)</u> <u>(See Note A)</u> | <u>Final Budget Positive</u> <u>(Negative)</u> |
| REVENUES: | | | | |
| Property taxes | \$ 1,099,835 | \$ 1,216,623 | \$ 1,216,623 | \$ - |
| Volume of Business Taxes | 959,307 | 995,531 | 999,398 | 3,867 |
| Sales Taxes | 230,000 | 255,079 | 260,605 | 5,526 |
| Intergovernmental | 5,592,948 | 5,711,372 | 5,699,610 | (11,762) |
| Licenses and permits | 172,522 | 157,468 | 157,468 | - |
| Rent | 60,000 | 171,521 | 171,521 | - |
| Interests | 60,000 | 302,071 | 302,071 | - |
| Miscellaneous | <u>272,000</u> | <u>279,898</u> | <u>285,741</u> | <u>5,843</u> |
| Total revenues | <u>8,446,612</u> | <u>9,089,563</u> | <u>9,093,037</u> | <u>3,474</u> |
| EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES: | | | | |
| Current: | | | | |
| Mayor and Municipal Legislature | 891,535 | 1,216,972 | 1,214,038 | 2,934 |
| General government | 3,390,003 | 3,917,151 | 4,038,130 | (120,979) |
| Public safety | 547,938 | 358,414 | 358,414 | - |
| Public works | 1,105,094 | 1,627,649 | 1,625,424 | 2,225 |
| Culture and Recreation | 621,399 | 422,214 | 416,164 | 6,050 |
| Health and Sanitation | 746,863 | 715,377 | 714,588 | 789 |
| Urban Development | 123,421 | 104,070 | 104,070 | - |
| Human Service and Welfare | 839,259 | 586,592 | 587,616 | (1,024) |
| Transfers out | <u>181,100</u> | <u>141,124</u> | <u>141,124</u> | <u>-</u> |
| Total expenditures, encumbrances and other financing uses | <u>8,446,612</u> | <u>9,089,563</u> | <u>9,199,568</u> | <u>(110,005)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (106,531)</u> | <u>\$ (106,531)</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 | \$ 9,093,037 |
| Differences-budget to GAAP | - |
| Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances | <u>\$ 9,093,037</u> |
| Uses/outflows of resources: | |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | \$ 9,199,568 |
| Differences-budget to GAAP: | |
| Prior year expenditure are not outflows of budgetary resources, but are expenditure for financial purposes | 212,572 |
| Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes | (182,426) |
| Adjustments to expenditures | (25,000) |
| Transfer to other funds are outflows of budgetary resources but are not expenditure for financial reporting purposes | (141,124) |
| Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances | <u>\$ 9,063,590</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| 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 | | \$ 49,617 |
| Community Facilities Loans and Grants | 10.780 | | 491,375 |
| Pass-Through State – State Department of Education: | | | |
| Child and Adult Care Food Program | 10.558 | N/AV | 72,983 |
| Total U.S. Department of Agriculture | | | 613,975 |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | |
| Direct Program: | | | |
| Section 8 Housing Choice Vouchers | 14.871 | | 16,910 |
| Pass-Through State - Office of the Commissioner of Municipal Affairs: | | | |
| Community Development Block Grants – State's Program | 14.228 | 12-AB 11-AB-FC 10-AB-FC 09-AB 08-FC-AB | 877,939 |
| Community Development Block Grant - Section 108 Loan Guarantees | 14.248 | B-01-DC-72-0001-A | 66,787 |
| Pass-Through State – State Department of Family: | | | |
| Emergency Solutions Grant Program | 14.231 | N/AV | 60,401 |
| Pass-Through State – Department of Housing: | | | |
| Home Investment Partnerships Program | 14.239 | N/AV | 33,419 |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (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 | 13,147 |
| Pass-Through State – Puerto Rico Housing Administration: Public and Indian Housing | 14.850 | RQ-3040 RQ-5233 RQ-5247 RQ-5270 | 598 |
| Total U.S. Department of Housing and Urban Development | | | 1,069,201 |
| U.S. DEPARTMENT OF ENERGY: | | | |
| Pass-through State – Office of the Energy Affairs Administration: ARRA – Energy Efficiency and Conservation Block Grant Program | 81.128 | 2011-132008 | 101,746 |
| Total U.S. Department of Energy | | | 101,746 |
| 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 | 166,927 |
| Total U.S. Department of Education: | | | 166,927 |
| 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 | 190,576 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)**

| <u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Expenditures</u> |
|--|------------------------------------|---|----------------------------|
| Pass-Through Administration of Children and Families: | | | |
| Child Care and Development Block Grant | 93.575 | N/AV | 242,042 |
| Pass-Through Instituto Socio- Económico Comunitario, Inc.: | | | |
| Community Services Block Grant | 93.569 | N/AV | <u>69,765</u> |
| Total U.S. Department of Health and Human Service: | | | <u>502,383</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>1,198,902</u> |
| Total U.S. Department of Homeland Security: | | | <u>1,198,902</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 3,653,134</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, 2013

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, 2013 was \$2,130,000.

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**

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of **Jayuya**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated March 24, 2014. The report on the governmental fund financial statements was unmodified. In addition, the report on the governmental activities statement has an adverse opinion because of the inadequacies of the capital assets subsidiary ledger.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Municipality's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, I do not express an opinion on the effectiveness of the Municipality's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not design to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and 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. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Finding 13-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. I consider the deficiencies described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 13-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, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 13-II-01 and 13-II-02.

Municipality's Response to Findings

Municipality's response to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 24, 2014



PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

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

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

Report on Compliance for Each Major Federal Program

I 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, 2013. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 I considered necessary in the circumstances.

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

Opinion on Each Major Federal Programs

In my opinion, the Municipality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2013.

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

Other Matters

The results of my auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 13-III-03, 13-III-04 and 13-III-05. My opinion on each major federal program is not modified with respect to these matters.

Municipality's response to the noncompliance findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly I express no opinion on the response.

Report on Internal Control over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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

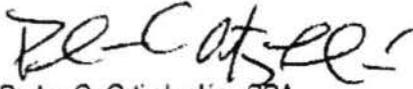
My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, I identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 13-III-03, 13-III-04 and 13-III-05 that I consider to be significant deficiencies.

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

Report on Internal Control Over Compliance (Continued)

Municipality's response to the internal control over compliance findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 24, 2014



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | | |
|---|---|--|
| Type of auditor's report issued: | | Adverse opinion in the governmental activities |
| | | Unmodified opinion for fund financial statement |
| Internal control over financial reporting: | | |
| Material weakness identified? | Yes <input checked="" type="checkbox"/> | No |
| Significant deficiencies identified? | Yes <input checked="" type="checkbox"/> | None reported |
| Noncompliance material to financial statements noted? | Yes <input checked="" type="checkbox"/> | No |

Federal awards

| | | |
|---|---|--|
| Internal Control over major programs: | | |
| Material weakness identified? | Yes | No <input checked="" type="checkbox"/> |
| Significant deficiencies identified? | Yes <input checked="" type="checkbox"/> | None reported |
| Type of auditor's report issued on compliance for major programs: | | Unmodified opinion |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | Yes <input checked="" type="checkbox"/> | No |

Identification of major programs

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 10.780 | Community Facilities Loans and Grants |
| 14.228 | Community Development Block Grants/ State's |
| 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 <input checked="" type="checkbox"/> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|-------------|---|
| FINDING | 13-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 my examination of the accounting cycle, I noted that the Municipality's management did not have adequate internal control procedures in place over the financial statements issued by the Municipality using the basis of accounting required by GAAP. The accounting records are maintained in the cash and budgetary basis and at the end of year, external consultants summarized in electronic worksheets the revenues, expenditures, 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, I noted the following conditions during my audit:</p> <ol 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. Both accounting systems does not help management to distinguish between expenditures incurred and encumbrances and does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payables and long-term debts. |
| 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, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|----------------------------|--|
| FINDING | 13-II-01 (CONTINUED) |
| REQUIREMENT | ACCOUNTING RECORDS AND REPORTING SYSTEM |
| RECOMMENDATION | I 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 record for financial statement preparation purpose. 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, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|----------------------------|---|
| FINDING | 13-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 my examination of the capital assets records, I 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 a capital assets subsidiary ledger. Also, the Municipality has not recorded certain infrastructure assets, accordingly, has not recorded depreciation expenses for those assets. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). |
| CRITERIA | Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociados de Puerto Rico de 1991</i> of August 30, 1991, states that Municipalities should maintain updated property accounting records. |
| CAUSE | The Municipality did not maintain an adequate control of the accountability of the capital assets, including the infrastructure. |
| EFFECT | The Municipality is not in compliance with Article 8.010 (c) (3) of the State Law Number 81 of August 30, 1991. |
| RECOMMENDATION | I recommend management and the Property Division of the Municipality to make an inventory of the capital assets in order to reconcile with the capital assets subsidiary ledger. In addition, the Municipality should implement adequate internal control procedures to improve the accountability of infrastructure assets. |
| MANAGEMENT RESPONSE | The Finance Director will give instructions to the property staff, to update the capital assets, including the infrastructure, with the subsidiary ledger in order to comply with the requirements established in the GASB No. 34. Also, we will make an inventory of the capital assets. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|----------------------------|--|
| FINDING | 13-III-03 |
| 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 my cash management test, I noted that during the fiscal year 2012-2013, the Program maintained an average monthly balance of approximately \$39,684. In addition, I examined eleven (11) requests of funds made by the Program to the pass-through agency and found that six (6) requests took between eighteen (18) and one hundred thirty-seven (137) days from the moment the funds were deposited and the issuance of the checks. |
| CRITERIA | Code of Federal Regulations 24, Subpart I, Section 570.489 (c) (1) states that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement made by the grantee. |
| CAUSE | The Program and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs. |
| EFFECT | The Program is not in compliance with Code of Federal Regulations 24, Subpart I, CFR 570.489 (c) (1). |
| RECOMMENDATION | I 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 the Finance Department staff to implement new internal controls, in order to issue the programs 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, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|----------------------------|---|
| FINDING | 13-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 | PROGRAM INCOME |
| CONDITION | The Program did not comply with the program income requirement. |
| CONTEXT | During my program income test, I noted that the transactions of CDBG's program income were not properly recorded in the accounting records maintained by the Finance Department of the Municipality. |
| CRITERIA | Code of Federal Regulations 24, Subpart J, Section 570.504 (a), states that the receipts and expenditures of program income shall be recorded as part of the financial transactions of the grant program. |
| CAUSE | The Program does not maintained appropriate accounting records over the program income transactions. |
| EFFECT | The Program is not in compliance with Code of Federal Regulations 24, Subpart J, Section 570.504 (a). |
| RECOMMENDATION | I 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 generated 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, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|------------------------|--|
| FINDING | 13-III-05 |
| 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 my grant disbursement test, I examined thirty (30) voucher payments and noted that the Municipality paid \$64,933 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, I 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, Subpart C, Section 85.36 (i) (1-13) establishes all the required clauses that contracts should include. In addition, Code of Federal Regulations 24, Subpart C, 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, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|----------------------------|--|
| FINDING | 13-III-05 (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 | PROCUREMENT AND SUSPENSION AND DEBARMENT |
| 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, Subpart C, Section 85.36 (i) (1-13) and Section 85.35. |
| RECOMMENDATION | I recommend management to ensure that all contracts should be formalized with a formal written contract which includes all the required clauses. Management should obtain the EPLS in printed or electronic format, and verify if the contractor is not suspended or debarred from the Federal government. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE | Immediately, 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. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| FINDING NUMBER | COMPLIANCE | CFDA NUMBER | QUESTIONED COSTS | AUDITEE COMMENTS |
|----------------|--|-------------|------------------|---|
| 12-III-03 | Allowable Activities- Housing Rehabilitation | 14.228 | None | Full corrective action taken. We improved our internal control over the housing rehabilitation activities. |
| 12-III-04 | Cash Management | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-03. |
| 12-III-05 | Program Income | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-04. |
| 12-III-06 | Procurement and Suspension and Debarment | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-05. |
| 12-III-07 | Procurement and Suspension and Debarment | 97.036 | None | Full corrective action taken. We improved our internal control over the procurement process. |
| 12-III-08 | Allowable Activities | 84.287 | None | Actually we are not administering funds related to this Federal program. |
| 12-III-09 | Procurement and Suspension and Debarment | 84.287 | None | Actually we are not administering funds related to this Federal program. |
| 11-III-04 | Cash Management | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-03. |
| 11-III-05 | Program Income | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-04. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| FINDING NUMBER | COMPLIANCE | CFDA NUMBER | QUESTIONED COSTS | AUDITEE COMMENTS |
|----------------|--|-------------|------------------|--|
| 11-III-06 | Cash Management | 14.850 | None | 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 | 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 | Actually we are not the PHA that is administering the public housing complexes that we have in our Municipality. |
| 10-III-04 | Cash Management | 14.228 | None | No corrective action has been taken. Finding Reference 13-III-03. |
| 10-III-05 | Cash Management | 14.850 | None | 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 13-III-04. |
| 09-III-04 | Cash Management | 14.228 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 09-III-05 | Cash Management | 14.850 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| FINDING NUMBER | COMPLIANCE | CFDA NUMBER | QUESTIONED COSTS | AUDITEE COMMENTS |
|----------------|---|------------------|------------------|--|
| 09-III-09 | Program Income | 14.228 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 08-III-05 | Allowable Activities – Housing Rehabilitation | 14.228 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 08-III-07 | Cash Management | 14.228 14.239 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 08-III-12 | Cash Management | 14.850 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 08-III-16 | Procurement Standards | 83.544 97.036 | None | Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |

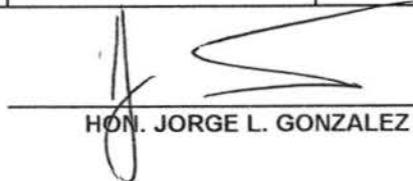
**MUNICIPALITY OF JAYUYA
FINANCIAL DEPARTMENT
P. O. BOX 488
JAYUYA, PUERTO RICO 00664**

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE, 2013

SINGLE AUDIT, 2012-13

| FINDING NUMBER | RESPONSIBLE INDIVIDUAL | MANAGEMENT VIEWS | CORRECTIVE ACTION PLAN | ANTICIPATED COMPLETION DATE |
|-------------------|---------------------------|---|---|-----------------------------------|
| 13-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, 2014 |
| 13-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, 2014 |
| 13-III-03 | 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 checks no more than three (3) days after receiving of funds. | jun. 30, 2014 |

AUDITEE:


HON. JORGE L. GONZALEZ OTERO - MAYOR

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

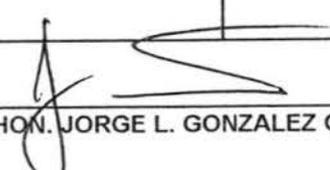
CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE, 2013

SINGLE AUDIT, 2012-13

page 2

| FINDING NUMBER | RESPONSIBLE INDIVIDUAL | MANAGEMENT VIEWS | CORRECTIVE ACTION PLAN | ANTICIPATED COMPLETION DATE |
|----------------|---------------------------|---|---|-----------------------------|
| 13-III-04 | Federal Programs Director | We agree with the findings and recommendations. | We will implement a new accounting register system, in order to determine all incomes generate from CDBG's projects | jun. 30, 2014 |
| 13-III-05 | 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, 2014 |
| 13-III-06 | Federal Programs Director | We agree with the findings and recommendations. | We will ensure that all contracts will be formalized with a formal written contract which will include all require clauses, and obtain the EPLS in printed or electronic format. Also we will verify if the contractor is not suspended or debarred from the Federal government. | jun. 30, 2014 |

AUDITEE:


HON. JORGE L. GONZALEZ OTERO - MAYOR