

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

**MUNICIPIO DE JUANA DÍAZ  
AUDITORÍA 2012-2013  
30 DE JUNIO DE 2013**

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

*Fiscal Year Ended June 30, 2013*

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DIV. SERVICIOS GENERALES  
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*Commonwealth of Puerto Rico  
Municipality of Juana Díaz*

*Honorable Ramón A. Hernández Torres  
Mayor*

Municipality of Juana Díaz, P.O. Box 1409, Juana Díaz, Puerto Rico 00795

rec  
31/3/14  
or

**MUNICIPALITY OF JUANA DÍAZ,  
COMMONWEALTH OF PUERTO RICO**  
Single Audit Report  
Fiscal Year Ended June 30, 2013

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**PEDRO C. ORTIZ LEDEE**  
CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, each major fund, the business-type activities and the aggregate remaining fund information of the Municipality of **Juana Díaz**, 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 did not audit the financial statements of Villas del Parque (FmHA Project No. 63-033-0690660049), a business-type activity (proprietary fund) of the Municipality, which Single Audit report, reflects total assets, liabilities, net position, revenues and expenses of \$1,187,862, \$1,230,891, \$(43,029), \$447,935 and \$502,161, respectively, as of and for the fiscal year ended June 30, 2013. Those statements were audited by other auditors whose report has been furnished to us, and my opinion, insofar as it relates to the amounts included for Villas del Parque, is based solely on the report of other auditors. 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)

### **Basis for Disclaimer of Opinion on Governmental Activities**

The Municipality did not have a complete, updated and accurate accounting records of the capital assets in order to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying statement of net position for \$67,812,371, net of accumulated depreciation of \$34,603,024. Also, during the fiscal year the Municipality did not recorded certain capital assets additions and infrastructure assets. Because of the inadequacy of the accounting records, I was unable to form an opinion regarding the capital assets reported in the accompanying statement of net position.

The Municipality did not comply with the requirements established by Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*, issued by the Governmental Accounting Standards Board and the regulations set forth by the U.S. Environment Protection Agency in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. At June 30, 2013, the accompanying statement of net position does not include the required liability for closure and post closure care costs of the Municipality's solid waste landfill using current costs allocated based on the actual landfill capacity used at June 30, 2013. Because, of the inadequacy of the accounting records, I was unable to form an opinion regarding the liability for closure and post closure costs of the landfill.

### **Disclaimer of Opinion**

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities of the Municipality as of June 30, 2013, or the changes in financial position, thereof for the year then ended. Accordingly, I do not express an opinion on these financial statements.

### **Unmodified Opinion**

In my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, proprietary fund and the aggregate remaining fund information of the Municipality, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows 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 (u) 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.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### 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 17 and 80 through 81

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.

#### 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 Disclaimer of 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 31, 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 31, 2014



**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2013**

**MUNICIPALITY OF JUANA DÍAZ,  
COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2013

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

Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2012. This *Management's Discussion and Analysis* (MD&A) is prepared in order to comply with the Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments*", and among other purposes, to provide the financial statements users with the following major information:

- a broader basis in focusing important issues;
- acknowledgement of an overview of the Municipality's financial activities;
- provides for an evaluation of its financial condition as of the end of fiscal year 2012-2013 compared with prior year results;
- identification of uses of funds in the financing of the Municipality's variety of activities and;
- asses management's ability to handle budgetary functions.

## **FINANCIAL HIGHLIGHTS**

### ***Government-Wide Highlights:***

- Total Net Position of the Municipality Governmental Activities as of the end of the indicated fiscal year amounted to \$47,689,919 or fifty seven percent (57%) of total assets.
- The Municipality's Governmental Activities total Net Position increased by \$2,090,646 or a five percent (5%) from the prior fiscal year-end balance.
- At the end of fiscal year 2013, total liabilities of the Municipality Governmental Activities amounted to \$35,277,362. Out of said amount, \$30,191,659 corresponded to long-term liabilities of which \$26,866,442 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.

### ***Governmental Funds' Highlights:***

- As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$2,143,778 or \$3,234,150 under the similar figure corresponding to the previous fiscal year 2011-2012.

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- At the end of the current fiscal year, the deficit of the Municipality's General Fund amounted to (\$1,664,010), or \$727,783 more than the previous fiscal year.
- The actual General Fund budgetary activities resulted in an unfavorable balance of \$1,480,296.

***Proprietary Fund Highlights:***

- The total restricted net position of the proprietary fund amounted to (\$43,029).
- The total fund net position of the proprietary fund decreased by \$51,431 during the fiscal year ended June 30, 2013.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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

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

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

***a) Government-Wide Financial Statements***

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

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

**1. Statement of Net Position**

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

The difference between the Municipality's total assets and total liabilities reported in SNA is presented as *net position*, 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 a positive net position, 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.

**2. Statement of Activities**

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

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

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

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

GWFS and FFS present all of the Municipality's governmental and business-type activities, which are supported mostly by taxes, intergovernmental revenues (such as federal and state grants and contributions), and charge for services. All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; public housing and welfare; and economic and urban development.

**b) Fund Financial Statements**

The Municipality's FFS consist of: (1) the balance sheet – governmental funds, (2) the statement of revenues, expenditures and changes in fund balances – governmental funds, (3) the statement of net position – proprietary fund, (4) the statement of revenues, expenses and changes in fund net position – proprietary fund, and (5) the statement of cash flows – proprietary fund. These financial statements report the financial position, the results of operations and cash flows of the Municipality's governmental and proprietary funds, with an emphasis on the Municipality's major governmental and proprietary funds.

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

**1. Governmental funds**

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

Governmental funds in FFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) debt service fund, (3) special revenue funds, (4) capital projects funds and (5) permanent funds.

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

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

The Municipality has five major governmental funds. Each major fund is presented in a separate column in the balance sheet – governmental funds and the statement of revenues, expenditures and changes in fund balances – governmental funds. The five major governmental funds are: (1) general fund, (2) debt service fund, (3) head start fund, (4) community development block grant fund, and (5) capital improvement bond fund.

## **2. Proprietary fund**

The proprietary fund is a fund used to report the financial position, results of operation and cash flows of Villas del Parque (FmHA Project No. 63-033-0690660049), is a housing development consisting of eighty-four (84) dwelling units located in Juana Díaz. The project is owned by the Municipality, but its operations are carried out by a private management agent unrelated to the Municipality. The housing development project of Villas del Parque has been designed to assist various segments of the general public in obtaining adequate and reasonable priced rental housing. The project operates under financing through the Section 8 New Construction and Substantial Rehabilitation Program of the U.S. Department of Housing and Urban Development and the Section 515 Rural Rental Housing Loans Program of the U.S. Department of Agriculture. The purpose of Villas del Parque is to provide adequate housing to low-income residents of the Municipality.

The activities of Villas del Parque have been reported as a proprietary fund in the accompanying basic financial statements since GAAP permits the use of enterprise funds to report any activity for which a fee is charged to external users of goods or services, regardless of whether the government intends to fully recover the cost of the goods or services provided. Thus, it is common to use proprietary fund reporting to account for services where the government intends to recover only a portion of its costs through fees or user charges.

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Proprietary funds provide the same type of information as the GWFS, but in more detail.

***c) Notes to Basic Financial Statements***

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

***d) Other Supplementary Information***

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

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**FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Juana Díaz, governmental activities assets exceeded total liabilities by \$47,689,919 at the end of 2013, as compared with \$45,599,273 at the end of the previous year. Business-type activities total assets are lesser than total liabilities by (\$43,029) at the end of 2013, as compared with total assets exceeding total liabilities by \$8,402 at the end of the previous year. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis the most important components of the \$2,090,646 increase reflected in the governmental activities Net Position figure, and the \$51,431 decrease reflected in the business-type activities Net Position figure:

	Governmental activities		Business-type activities		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Assets:</b>						
Current assets	\$15,154,910	\$11,331,768	\$ 227,469	\$ 193,170	\$15,382,379	\$11,524,938
Non-current assets:						
Capital assets, net	670,812,371	68,409,945	960,393	1,070,813	68,772,764	69,480,758
Total assets	<u>82,967,281</u>	<u>79,741,713</u>	<u>1,187,862</u>	<u>1,263,983</u>	<u>84,155,143</u>	<u>81,005,696</u>
<b>Liabilities:</b>						
Current liabilities, excluding long-term obligations	5,085,703	3,951,691	36,443	28,188	5,122,146	3,979,879
Long-term obligations:						
Due within one year	2,934,693	2,124,497	37,907	35,294	2,972,600	2,159,791
Due after one year	27,256,966	28,066,252	1,156,541	1,192,099	28,413,507	29,258,351
Total liabilities	<u>35,277,362</u>	<u>34,142,440</u>	<u>1,230,891</u>	<u>1,255,581</u>	<u>35,508,253</u>	<u>35,398,021</u>
<b>Net position:</b>						
Invested in capital assets, net of related debt	45,276,286	47,761,107	(234,055)	(156,580)	45,042,231	47,604,527
Restricted	3,807,788	4,221,109	191,026	164,982	3,998,814	4,386,091
Unrestricted	(1,394,155)	(6,382,943)	-	-	(1,394,155)	(6,382,943)
Total net position	<u>\$47,689,919</u>	<u>\$45,599,273</u>	<u>\$ (43,029)</u>	<u>\$ 8,402</u>	<u>\$47,646,890</u>	<u>\$45,607,675</u>

The Statement of Activities reflects that for fiscal year 2013, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$2,090,646 in governmental activities, and (\$51,431) in business-type activities. Approximately thirty percent (30%) of the Municipality's governmental activities total revenue came from taxes, while sixty six percent (66%) resulted from grants and contributions, including federal aid. In the case of the business-type, approximately ninety two percent (92%) of total revenues resulted from federal grant. The Municipality's governmental and business-type activities expenses included items such as general government, urban and economic development, health and sanitation, public safety, public housing and welfare, culture, recreation and education, and interest on long term obligations.

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Approximately twenty one percent (21%) of total expenses resulted from general government, twenty four percent (24%) of total expenses resulted from urban and economic development, eight percent (8%) of total expenses resulted from health and sanitation, six percent (6%) of total expenses resulted from public safety, six percent (6%) of total expenses resulted from public housing and welfare, thirty one percent (31%) of total expenses resulted from culture, recreation and education, while four percent (4%) of total expenses resulted from interest on long term obligations. The following is a condensed presentation of the Municipality's results of operations as reported in the statement of activities for the fiscal years ended June 30, 2013 and 2012:

	Governmental activities		Business-type activities		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Program revenues:</b>						
Program-specific operating grants and contributions	\$ 7,697,018	\$8,290,133	\$415,594	\$407,365	\$ 8,112,612	\$8,697,498
Program-specific capital grants and contributions	1,704,121	2,845,782	-	-	1,704,121	2,845,782
Charges for services	427,758	737,307	32,341	35,723	460,099	773,030
Total program revenues	<u>9,828,897</u>	<u>11,873,222</u>	<u>447,935</u>	<u>443,088</u>	<u>10,276,832</u>	<u>12,316,310</u>
<b>General revenues:</b>						
Property taxes	4,477,977	4,961,696	-	-	4,477,977	4,961,696
Municipal license taxes	2,189,554	1,963,316	-	-	2,189,554	1,963,316
Sales and use taxes	2,611,835	2,447,324	-	-	2,611,835	2,447,324
Construction excise taxes	588,575	1,848,392	-	-	588,575	1,848,392
Unrestricted grants and contributions	11,836,111	4,924,453	-	-	11,836,111	4,924,453
Other general revenues (various sources)	859,842	897,648	2,795	1,096	862,637	898,744
Total general revenues	<u>22,563,894</u>	<u>17,042,829</u>	<u>2,795</u>	<u>1,096</u>	<u>22,566,689</u>	<u>17,043,925</u>
Total revenues	<u>32,392,791</u>	<u>28,916,051</u>	<u>450,730</u>	<u>444,184</u>	<u>32,843,521</u>	<u>29,360,235</u>
<b>Program expenses:</b>						
General government	6,448,712	4,913,923	-	-	6,448,712	4,913,923
Urban and economic development	7,197,581	6,966,179	-	-	7,197,581	6,966,179
Health and sanitation	2,340,894	1,825,681	-	-	2,340,894	1,825,681
Public safety	1,720,117	1,865,472	-	-	1,720,117	1,865,472
Public housing and welfare	1,882,246	2,160,584	502,161	491,987	2,384,407	2,652,571
Culture, recreation and education	9,503,892	10,196,018	-	-	9,503,892	10,196,018
Interest on long-term obligations	1,208,703	1,245,688	-	-	1,208,703	1,245,688
Total expenses	<u>30,302,145</u>	<u>29,173,545</u>	<u>502,161</u>	<u>491,987</u>	<u>30,804,306</u>	<u>29,665,532</u>
<b>Net change in net position</b>	2,090,646	(257,494)	(51,431)	(47,803)	2,039,215	(305,297)
<b>Net position, at beginning of fiscal year, as restated</b>	<u>45,599,273</u>	<u>45,856,767</u>	<u>8,402</u>	<u>56,205</u>	<u>45,607,675</u>	<u>45,912,972</u>
<b>Net position, at end of fiscal year</b>	<u>\$47,689,919</u>	<u>\$45,599,273</u>	<u>\$(43,029)</u>	<u>\$ 8,402</u>	<u>\$47,646,890</u>	<u>\$45,607,675</u>

**MUNICIPALITY OF JUANA DÍAZ,  
COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2013

**FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES**

*Analysis of Financial Position of Governmental Funds*

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances amounting to \$2,143,778, which represents a decrease of \$3,234,150 when compared with the prior year.

Fund balances at June 30, 2013 were restricted and committed for the following purposes: (1) for debt service payments (\$1,413,441); 2) to pay for capital projects (\$1,519,102); and 3) for other purposes (\$858,242). As of June 30, 2013, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of (\$1,664,010).

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

	<u>2013</u>	<u>2012</u>
<b>Assets:</b>		
Total assets - major governmental funds	\$ 13,781,330	\$ 8,946,118
Total assets - other governmental funds	2,297,154	1,999,751
Combined total assets	<u>16,078,484</u>	<u>10,945,869</u>
<b>Liabilities:</b>		
Total liabilities - major governmental funds	6,278,706	4,339,449
Total liabilities - other governmental funds	1,421,909	1,141,509
Combined total liabilities	<u>7,700,615</u>	<u>5,480,958</u>
<b>Deferred inflows of resources:</b>		
Total deferred inflow of resources - major governmental funds	6,234,091	86,983
Total deferred inflow of resources - other governmental funds	-	-
Combined total liabilities	<u>6,234,091</u>	<u>86,983</u>
<b>Fund balances (deficits):</b>		
Restricted, committed or assigned - major governmental funds	2,939,806	5,574,398
Restricted, committed or assigned - other governmental funds	875,245	858,242
Unassigned	(1,671,273)	(1,054,712)
Combined total fund balances	<u>2,143,778</u>	<u>5,377,928</u>
<b>Total liabilities and fund balances</b>	<u>\$ 16,078,484</u>	<u>\$ 10,945,869</u>

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Management's Discussion and Analysis  
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**FINANCIAL ANALYSIS OF BUSINESS-TYPE ACTIVITIES**

*Analysis of Financial Position of Proprietary Fund*

At June 30, 2013, the total assets of proprietary fund amounted to \$1,187,862, which consisted principally of: (1) restricted cash in commercial banks of \$208,785, and; (2) capital assets, net of accumulated depreciation of \$960,393.

At June 30, 2013, the total liabilities of the proprietary fund amounted to \$1,230,891, which consisted principally of mortgage notes payable of \$1,194,448, including current portion of \$37,907.

The total restricted net position of proprietary fund amounted to (\$43,029) at June 30, 2013. The following table presents a summary of the financial position of the proprietary fund (PF) at June 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
<i>Assets:</i>		
Total current assets	\$ 227,469	\$ 193,170
Total non-current assets	960,393	1,070,813
Total assets	1,187,862	1,263,983
<i>Liabilities:</i>		
Total current liabilities	74,350	63,482
Total non-current liabilities	1,156,541	1,192,099
Total liabilities	1,230,891	1,255,581
<i>Net position:</i>		
Invested in capital assets, net of related debt	(234,055)	(156,580)
Restricted for federal funded program	191,026	164,982
<i>Total restricted net position</i>	\$ (43,029)	\$ 8,402

**BUDGETARY HIGHLIGHTS**

**a) General Fund**

The original and the final budget of the general fund for the fiscal year ended June 30, 2013 amounted to \$16,300,046. Over the course of the fiscal year, the Municipality revised the GF's budget in order to include increases and decreases in expenditures. 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 \$ 14,559,755, which is eleven percent (11%), or \$1,740,291 less than the budgeted revenues. In addition, the total actual expenditures and other financing sources (budgetary basis) of

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the general fund for the fiscal year ended June 30, 2013 were \$ 16,040,051, which is two percent (2%), or \$259,995 less than the budgeted expenditures.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**a) Capital Assets**

The Municipality has invested \$102,415,395 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$34,603,024 at June 30, 2013. The net capital assets of governmental activities decreased during the current fiscal year by \$597,574. The current fiscal year's capital additions were \$3,067,143, which were offset by the depreciation and amortization expense of \$3,664,717 for the same period.

The capital additions made to capital assets during the fiscal year ended June 30, 2013 (including construction in progress reclassification) were the following:

Buildings, structures and improvements	\$ 2,243,676
Infrastructure	508,004
Machinery, equipment, furniture and fixtures	267,627
Licensed vehicles	<u>47,836</u>
Other capital additions for the fiscal year ended June 30, 2013	<u>\$ 3,067,143</u>

**b) Debt Administration**

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act establishes that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Funds and the annual amounts collected with respect to such Municipality's Sales and Use Tax and Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

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The Municipality is required under prevailing applicable law to levy a Special Additional Tax and a Sales and Use Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax and the Sales and Use Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Funds, are not sufficient to cover such debt service. In the particular case of the Municipality of Juana Díaz, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent, but for the fiscal year 2013-2014, the property tax and subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government were slightly increased. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2013-2014.

### **FINAL COMMENTS**

The Municipality of Juana Díaz is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, sales taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

Since the Municipality is significantly dependent on the intergovernmental grants and contributions received from the government of the Commonwealth of Puerto Rico and from property tax advances received from CRIM, the municipality could suffer a significant financial burden for certain scheduled intergovernmental revenues that could not be collected during the fiscal year 2013-2014, and accordingly, management is continuously evaluating alternatives for the permanent financing of the operations of the general fund and the Municipality.

In order to achieve its budget control and cost reduction objectives, management is currently trying to manage the Municipality within its cash and budget constraints, including the periodic review and update of its cash flows projections, actual vs. budget comparisons for budget adjustments as needed, and the monitoring of the execution of the collections.

The success of the foregoing plans and strategies to reduce the general fund's accumulated deficit, to improve the cash flows and liquidity of the Municipality and to achieve excess revenues over

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expenditures in the general fund of the Municipality cannot be assured, as it is significantly dependent upon events and circumstances which outcome cannot presently be determined. However, management is committed to undertake whatever actions may be necessary to prevent operating deficiencies in the future, but without affecting its fiduciary duty with its citizens regarding services and city improvements.

**REQUEST FOR INFORMATION**

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 1409, Juana Díaz, PR 00795, or call (787) 837-2185.

**Basic Financial Statements and  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2013**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF JUANA DIAZ**  
Statement of Net Position  
June 30, 2013

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
<b>Assets</b>			
<b>Current assets:</b>			
Cash in commercial banks	\$ 1,901,371	\$ 208,785	\$ 2,110,156
Cash in fiscal agent	5,270,365		5,270,365
Accounts receivable, net of allowance for doubtful accounts:			
Property taxes	16,516		16,516
Intergovernmental	6,867,812		6,867,812
Sales tax	215,831		215,831
Interest	4,719		4,719
Other	61,381	15,200	76,581
Real estate held for sale	816,915		816,915
Other current assets		3,484	3,484
Total current assets	<u>15,154,910</u>	<u>227,469</u>	<u>15,382,379</u>
<b>Noncurrent assets:</b>			
Capital assets, net of accumulated depreciation and amortization of \$34,603,024 and \$2,952,178 for governmental and business-type activities, respectively	67,812,371	960,393	68,772,764
Total noncurrent assets	<u>67,812,371</u>	<u>960,393</u>	<u>68,772,764</u>
Total assets	<u>\$ 82,967,281</u>	<u>\$ 1,187,862</u>	<u>\$ 84,155,143</u>
<b>Current Liabilities (due within one year):</b>			
Accounts payable	\$ 1,473,257	\$ 36,443	\$ 1,509,700
Intergovernmental payables	767,428		767,428
Accrued interest payable on long-term debt	432,097		432,097
Accrued christmas bonuses of employees	189,577		189,577
Unearned revenues	2,223,344		2,223,344
Current portion of long-term obligations:			
Bonds payable	1,235,000		1,235,000
Notes payable	152,537	37,907	190,444
Compensated Absences	450,000		450,000
Claims and judgments	1,097,156		1,097,156
Total current liabilities	<u>8,020,396</u>	<u>74,350</u>	<u>8,094,746</u>
<b>Noncurrent liabilities (due in more than one year):</b>			
Bonds payable	20,337,000		20,337,000
Notes payable	5,141,905	1,156,541	6,298,446
Compensated Absences	1,778,061		1,778,061
Total current liabilities	<u>27,256,966</u>	<u>1,156,541</u>	<u>28,413,507</u>
Total liabilities	<u>\$ 35,277,362</u>	<u>\$ 1,230,891</u>	<u>\$ 36,508,253</u>
<b>Net position:</b>			
Invested in capital assets, net of related debt	\$ 45,276,286	\$ (234,055)	\$ 45,042,231
Restricted for:			
Debt service	2,288,686		2,288,686
Other specified purposes	1,519,102	191,026	1,710,128
Unrestricted net liabilities	(1,394,155)		(1,394,155)
Total net position	<u>\$ 47,689,919</u>	<u>\$ (43,029)</u>	<u>\$ 47,646,890</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF JUANA DIAZ**  
Statement of Activities  
June 30, 2013

Functions/programs	Expenses	Charges for services	Program Revenues		Net (Expense) Revenue and Change in Net Position		
			Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
<b>Governmental activities :</b>							
General government	\$ 6,448,712	\$ 5,750	\$ 154,683	\$ -	\$ (6,288,279)	\$ -	\$ (6,288,279)
Urban and economic development	7,197,581	-	74,060	1,670,161	(5,453,360)	-	(5,453,360)
Health and sanitation	2,340,894	188,186	-	-	(2,152,708)	-	(2,152,708)
Public safety	1,720,117	58,671	21,727	25,969	(1,613,750)	-	(1,613,750)
Public housing and welfare	1,882,246	847	1,579,006	7,991	(294,402)	-	(294,402)
Culture, recreation and education	9,503,892	174,304	5,867,542	-	(3,462,046)	-	(3,462,046)
Interest on long-term obligation	1,208,703	-	-	-	(1,208,703)	-	(1,208,703)
Total governmental activities	<u>\$ 30,302,145</u>	<u>\$ 427,758</u>	<u>\$ 7,697,018</u>	<u>\$ 1,704,121</u>	<u>\$ (20,473,248)</u>	<u>\$ -</u>	<u>\$ (20,473,248)</u>
<b>Business-type activities :</b>							
Public housing and welfare, including interests on long term obligation of \$ 89,327	\$ 502,161	\$ 32,341	\$ 415,594	\$ -	\$ -	\$ (54,226)	\$ (54,226)
Total business-type activities	<u>\$ 502,161</u>	<u>\$ 32,341</u>	<u>\$ 415,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (54,226)</u>	<u>\$ (54,226)</u>

General Revenues:

Taxes:		
Property taxes	4,477,977	4,477,977
Municipal license taxes	2,189,554	2,189,554
Sales taxes	2,611,835	2,611,835
Construction excise taxes	588,575	588,575
Total taxes	<u>9,867,941</u>	<u>9,867,941</u>
Grants and contributions, not restricted to specific programs	11,836,111	11,836,111
Interests on deposits	145,927	146,256
Miscellaneous	713,915	716,381
Total general revenues	<u>22,563,894</u>	<u>22,566,689</u>
Changes in net position	2,090,646	2,039,215
Net position at beginning of the year, as restated	45,599,273	45,607,675
Net position at the end of the year	<u>\$ 47,689,919</u>	<u>\$ 47,646,890</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF JUANA DIAZ**  
Balance Sheet  
Governmental Funds  
June 30, 2013

	MAJOR FUNDS						Total Governmental Funds
	General Fund	Debt Service Fund	Head Start Fund	CDBG Fund	Capital Improvement Bond Fund	Other Nonmajor Funds	
<b>ASSETS</b>							
Cash in commercial banks	\$ 501	\$ -	\$ 121,951	\$ 281,601	\$ 578	\$ 1,496,740	\$ 1,901,371
Cash in fiscal agent	7,263	3,559,627	-	-	1,559,240	144,235	5,270,365
Account receivable, net of doubtful accounts:							
Property taxes	-	16,516	-	-	-	-	16,516
Sales tax	150,147	65,684	-	-	-	-	215,831
Interest	4,719	-	-	-	-	-	4,719
Other	41,402	-	13,866	-	-	6,113	61,381
Due from other funds	1,586,343	-	-	-	-	154,146	1,740,489
Due from governmental entities	6,234,091	-	-	137,801	-	495,920	6,867,812
Total assets	<u>\$ 8,024,466</u>	<u>\$ 3,641,827</u>	<u>\$ 135,817</u>	<u>\$ 419,402</u>	<u>\$ 1,559,818</u>	<u>\$ 2,297,154</u>	<u>\$ 16,078,484</u>
<b>LIABILITIES</b>							
Accounts payable	\$ 1,021,956	\$ -	\$ 66,344	\$ 129,238	\$ 23,014	\$ 232,705	\$ 1,473,257
Intergovernmental	767,428	-	-	-	-	-	767,428
Due to other funds	320	732,289	26,711	16,600	17,702	946,867	1,740,489
Unearned revenue	1,664,681	-	42,762	273,564	-	242,337	2,223,344
Matured bonds due and payable	-	1,064,000	-	-	-	-	1,064,000
Matured interests due and payable	-	432,097	-	-	-	-	432,097
Total liabilities	<u>3,454,385</u>	<u>2,228,386</u>	<u>135,817</u>	<u>419,402</u>	<u>40,716</u>	<u>1,421,909</u>	<u>7,700,615</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenue	6,234,091	-	-	-	-	-	6,234,091
Total deferred inflows of resources	<u>6,234,091</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,234,091</u>
<b>FUND BALANCE</b>							
Fund balance:							
Restricted	7,263	1,413,441	-	-	1,519,102	-	2,939,806
Committed	-	-	-	-	-	875,245	875,245
Unassigned	(1,671,273)	-	-	-	-	-	(1,671,273)
Total fund balances (deficit)	<u>(1,664,010)</u>	<u>1,413,441</u>	<u>-</u>	<u>-</u>	<u>1,519,102</u>	<u>875,245</u>	<u>2,143,778</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE (DEFICIT)</b>	<u>\$ 8,024,466</u>	<u>\$ 3,641,827</u>	<u>\$ 135,817</u>	<u>\$ 419,402</u>	<u>\$ 1,559,818</u>	<u>\$ 2,297,154</u>	<u>\$ 16,078,484</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF JUANA DIAZ**  
 Statement of Revenues, Expenditures and  
 Changes in Fund Balance - Governmental Funds  
 Year Ended June 30, 2013

	<b>MAJOR FUNDS</b>						Total Governmental Funds
	General Fund	Debt Service Fund	Head Start Fund	CDBG Fund	Capital Improvement Bond Fund	Other Nonmajor Funds	
<b>REVENUES</b>							
Taxes:							
Property taxes	\$ 3,415,973	\$ 1,043,438	\$ -	\$ -	\$ -	\$ 18,566	\$ 4,477,977
Municipal license	2,189,554	-	-	-	-	-	2,189,554
Construction excise taxes	588,575	-	-	-	-	-	588,575
Sales tax	1,791,273	820,562	-	-	-	-	2,611,835
Charges of service	237,639	-	-	-	-	190,119	427,758
Intergovernmental grants and contributions:							
Federal government	-	-	5,867,542	1,401,245	-	1,895,618	9,164,405
State government	6,017,528	-	-	-	-	236,734	6,254,262
Investment earnings	144,111	1,488	-	121	-	207	145,927
Miscellaneous	323,205	-	-	-	-	390,710	713,915
Total Revenues	<u>14,707,858</u>	<u>1,865,488</u>	<u>5,867,542</u>	<u>1,401,366</u>	<u>-</u>	<u>2,731,954</u>	<u>26,574,208</u>
<b>EXPENDITURES</b>							
Current:							
General government	5,162,212	-	-	-	-	166,561	5,328,773
Urban and economic development	5,346,006	-	-	592,119	-	147,518	6,085,643
Health and sanitation	2,159,600	-	-	-	-	166,991	2,326,591
Public safety	1,594,710	-	-	-	-	21,727	1,616,437
Public housing and welfare	234,794	-	-	-	-	1,647,452	1,882,246
Culture, recreation and education	1,169,217	-	5,867,542	-	-	168,140	7,204,899
Debt service:							
Principal	447,923	1,225,000	-	100,000	-	-	1,772,923
Interest	12,291	900,047	-	296,365	-	-	1,208,703
Capital outlays	41,177	-	-	412,882	2,216,522	396,562	3,067,143
Total Expenditures	<u>16,167,930</u>	<u>2,125,047</u>	<u>5,867,542</u>	<u>1,401,366</u>	<u>2,216,522</u>	<u>2,714,951</u>	<u>30,493,358</u>
Revenues over (under) expenditures	<u>(1,460,072)</u>	<u>(259,559)</u>	<u>-</u>	<u>-</u>	<u>(2,216,522)</u>	<u>17,003</u>	<u>(3,919,150)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfer in from other funds	732,289	-	-	-	-	-	732,289
Transfer out to other funds	-	(732,289)	-	-	-	-	-732,289
Proceeds from debt issuance	-	-	-	-	685,000	-	685,000
Total Other Financing Sources (uses)	<u>732,289</u>	<u>(732,289)</u>	<u>-</u>	<u>-</u>	<u>685,000</u>	<u>-</u>	<u>685,000</u>
<b>NET CHANGE IN FUND BALANCES (DEFICITS)</b>	<b>(727,783)</b>	<b>(991,848)</b>	<b>-</b>	<b>-</b>	<b>(1,531,522)</b>	<b>17,003</b>	<b>(3,234,150)</b>
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR</b>	<b>(936,227)</b>	<b>2,405,289</b>	<b>-</b>	<b>-</b>	<b>3,050,624</b>	<b>858,242</b>	<b>5,377,928</b>
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<b>\$ (1,664,010)</b>	<b>\$ 1,413,441</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,519,102</b>	<b>\$ 875,245</b>	<b>\$ 2,143,778</b>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF JUANA DIAZ**  
Reconciliation of the Balance Sheet - Governmental Funds  
and the Statement of Position - Proprietary Fund  
to the Statement of Position  
June 30, 2013

	<b>Governmental activities</b>	<b>Business-type activities</b>	<b>Total</b>
<p>The amounts of governmental and business-type activities reported in the statement of position are different to the amounts reported in the balance sheet - governmental funds and the statement of position - proprietary fund, respectively, for the following reasons:</p>			
<p>Total fund balance and fund net position reported in the balance sheet - governmental funds and the statement of position - proprietary fund, respectively.</p> <p>Add (Deduct):</p>	\$ 2,143,778	(43,029)	\$ 2,100,749
<p>Capital asset held for sale reported in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital asset held for sale at June 30, 2013.</p>	816,915		816,915
<p>Capital assets used in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital assets, net of accumulated depreciation and amortization of \$34,603,024 at June 30, 2013.</p>	67,812,371		67,812,371
<p>Certain deferred inflows of resources in the governmental funds are recognized as revenues in the statement of activities. This is the deferred inflows of resource (earned and unavailable revenues) for revenue streams that are measurable but not available at June 30, 2013 (intergovernmental grants and contributions).</p>	6,234,091		6,234,091
<p>The following liabilities are not due (mature) in the current fiscal year, therefore, are not reported in the governmental funds at June 30, 2013:</p>			
Bonds payable	(20,508,000)		(20,508,000)
Notes payable	(5,294,442)		(5,294,442)
Compensated absences	(2,228,061)		(2,228,061)
Claims and judgments	(1,097,156)		(1,097,156)
Accrued christmas bonuses	(189,577)		(189,577)
<p>Net position - governmental and business-type activities, as reported in statement of position</p>	\$ 47,689,919	(43,029)	\$ 47,646,890

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances (Deficits) - Governmental Funds and the Statement of Revenues, Expenses  
and Changes in Fund Net Position - Proprietary Fund to the Statement of Activities  
For the Year Ended June 30, 2013

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
The amounts of governmental and business-type activities reported in the GWFS statement of activities and the statements of revenues, expenditures\expenses and changes in fund balances\net position - governmental funds and proprietary fund, are different for the following reasons:			
Total net change in fund balances\net position reported in the statement of revenues, expenditures\expenses and changes in fund balances\net position – governmental funds and proprietary fund	\$ (3,234,150)	(51,431)	\$ (3,285,581)
Add (Deduct):			
Certain revenue streams recorded in the statement of activities do not necessarily provide current financial resources, therefore, sometimes are deferred in the governmental funds. This is the net change in deferred inflows of resources items, that are measurable but not available at fiscal year end.	6,147,108		6,147,108
Governmental funds report sale of real estate held for sale as intergovernmental grant and contributions due to program income restrictions. However in the statement of activities, proceed of those assets sale reduce thee amount invested in real estate held for sale.	(328,525)		(328,525)
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense. This is the amount by which depreciation and amortization expense (\$3,664,717) exceeded capital outlays expenditures (\$3,067,143) for the fiscal year ended June 30, 2013.	(597,574)	-	(597,574)
Repayment of principal of long-term obligations is reported as an expenditure in the governmental funds, however, the repayment reduces long-term liabilities in the statement of net assets.	1,772,923	-	1,772,923
Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds. This is the net change in liabilities of the related expenses\expenditures accounts.	(984,136)	-	(984,136)
Issuance of long term debt provide current financial resources to governmental funds, but issuing such debt increases long-term liabilities in the statement of net assets.	(685,000)	-	(685,000)
Change in net position, as reported in statement of activities	<u>\$ 2,090,646</u>	<u>(51,431)</u>	<u>\$ 2,039,215</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

Statement of Net Position  
Proprietary Fund  
Year Ended June 30, 2013

**Business-Type Activities - Enterprise Fund**

<b>Restricted Assets</b>	<b>Villas del Parque FmHA Project No. 63-033-0690660049</b>
<b>Current assets:</b>	
Cash in commercial banks (including cash for operations of \$75,740)	\$ 208,785
Tenants accounts receivable	8,432
Account receivable from HUD	6,768
Prepaid insurance	1,159
Other assets	2,325
Total current assets	<u>227,469</u>
<b>Non-current assets:</b>	
Depreciable capital assets, net of accumulated depreciation of \$2,952,178	864,164
Non-depreciable capital assets	96,229
Total non-current assets	<u>960,393</u>
Total assets	<u>\$ 1,187,862</u>
<b>Liabilities and fund net assets</b>	
<b>Current liabilities (due within one year):</b>	
Accounts payables and accrued liabilities	\$ 36,443
Current portion of mortgage notes payable	37,907
Total current liabilities	<u>74,350</u>
<b>Non-current liabilities, excluding current portion</b>	
Mortgage notes payable – due in more than one year	1,156,541
Total liabilities	<u>1,230,891</u>
<b>Fund net position:</b>	
Invested in capital assets, net of related debt	(234,055)
Restricted for other purposes	191,026
Total restricted net position	<u>\$ (43,029)</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF JUANA DIAZ**  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Fund  
Year Ended June 30, 2013

	<b>Business-type Activities-Enterprise Fund</b>	
	<b>Villa del Parque FmHA</b>	
	<b>Project No. 63-033-</b>	
	<b>0690660049</b>	
<b>Operating revenues:</b>		
Intergovernmental grants and contributions - tenants assistance payments from U.S. Department of Housing and Urban Development	\$	415,594
Charge for services – rental income from tenants		32,341
Miscellaneous		2,466
Total operating revenues		450,401
<b>Operating expenses:</b>		
General and administrative		158,982
Utilities		19,401
Maintenance		74,154
Taxes and insurance		40,284
Interest on mortgage notes payable		86,754
Depreciation of capital assets		122,586
Total operating expenses		502,161
Operating income (loss)		(51,760)
<b>Nonoperating income (expense):</b>		
Interest on deposits		329
Total nonoperating income (expense)		329
Change in restricted fund net position		(51,431)
<b>Net position at beginning of fiscal year</b>		8,402
<b>Net position at end of fiscal year</b>	\$	(43,029)

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF JUANA DIAZ**  
Statement of Statement of Cash Flows  
Proprietary Fund  
Year Ended June 30, 2013

	<b>Business-type Activities-Enterprise Fund</b>	
	<b>Villa del Parque FmHA</b>	
	<b>Project No. 63-033-</b>	
	<b>0690660049</b>	
<b>Cash flows from operating activities:</b>		
Receipts from rent	\$	447,975
Interest received		329
Payments to suppliers and employees		(284,382)
Payment of mortgage interests		(86,754)
Net cash provided (used) by operating activities		77,168
<b>Cash flows from investing activities:</b>		
Interest deposited on replacement reserve		(254)
Increase in other reserves		(6,653)
Deposit to replacement reserve		(19,620)
Acquisition of capital assets		(12,166)
Net cash provided (used) by investing activities		(38,693)
<b>Cash flows from financing activities:</b>		
Principal payments on mortgage		(32,945)
Net cash used by capital and related financing activities		(32,945)
Net change in cash and cash equivalents		5,530
<b>Cash and Cash Equivalents - Beginning</b>		70,210
<b>Cash and Cash Equivalents - Ending</b>	\$	75,740
Displayed on statement of net assets as:		
Cash in commercial banks	\$	75,740
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$	(51,431)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense		122,586
Increase (Decrease) in:		
Tenants accounts receivable		(2,428)
HUD accounts receivable		2
Prepaid expenses		49
Accounts payable and accrued payroll taxes		8,390
Total adjustments		128,599
Net cash provided (used) by operating activities	\$	77,168

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

**MUNICIPALITY OF JUANA DÍAZ,  
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Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2013

**1. Summary of Significant Accounting Policies**

The Municipality of Juana Díaz, Commonwealth of Puerto Rico (the Municipality), is a local municipal government constituted in 1798 in the Commonwealth of Puerto Rico. The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipal governments legally separated from the state government of the Commonwealth of Puerto Rico (the Commonwealth).

The Constitution of the Commonwealth provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, the Municipality's governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power of the Municipality is exercised by the Municipal Legislature, whose members are also elected every four years. The judiciary power is exercised by the General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban development, economic development, and many other fiscal, general and administrative services.

**a) Financial Reporting Model**

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

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental and proprietary fund financial statements (FFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI consists of: (1) a Management's Discussion and Analysis (MD&A) and (2) a budgetary comparison schedule – general fund. RSI is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements.

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*MD&A* is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended 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.

In addition to the required financial reporting requirements referred to above, the accompanying basic financial statements are accompanied by additional supplementary information consisting of a budgetary comparison schedule – general fund and the notes to the budgetary comparison schedule – general fund, which have been subjected to the auditing procedures applied in the audit of the accompanying basic financial statements as of and for the fiscal year ended June 30, 2013.

***b) Financial Reporting Entity***

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance, as prescribed by Act No. 81.

The accompanying basic financial statements include the financial statements of Villas del Parque (FmHA Project No. 63-033-0690660049), an operational unit and a business-type activity (proprietary fund) of the Municipality which single audit report reflect total assets, liabilities, net position, revenues and expenses of \$1,187,862, \$1,230,891, (\$43,029), \$450,730 and \$502,161 (including depreciation expenses of \$122586), respectively, as of and for the fiscal year ended June 30, 2013. The financial position, results of operations and cash flows of Villas del Parque as of and for the fiscal year ended June 30, 2013 are reported in the accompanying statement of net position – proprietary fund, the statement of revenues, expenses and changes in fund net position – proprietary fund, and the statement of cash flows – proprietary fund, respectively.

Villas del Parque is a housing development project consisting of eighty-four (84) dwelling units located in Juana Díaz. The project is owned by the Municipality, but its operations are carried out by a private management agent unrelated to the Municipality. The housing development project of Villas del Parque has been designed to assist various segments of the general public in obtaining adequate and reasonable priced rental housing. The project operates under financing through the Section 8 New Construction and Substantial Rehabilitation Program of the U.S. Department of Housing and Urban Development and the Section 515 Rural Rental Housing Loans Program of the U.S. Department of Agriculture. The purpose of Villas del Parque is to provide adequate housing to low-income residents of the Municipality. Separate audited financial statements of Villas del Parque can be obtained directly from the management agent's offices at Professional Center Building, Suite 302, San Juan, Puerto Rico 00927.

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality of Juana Díaz. In accordance with GASB No. 14 and GASB No. 61, the criteria used to determine

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whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow:

- The organization is legally separate entity;
- The Municipality appoints a voting majority of the organization's board;
- 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:

- The organization's governing body is substantively the same as the Municipality's governing body and (1) there is a financial benefit or burden relationship between the Municipality and the organization, or (2) management of the Municipality has operational responsibility for the organization;
- 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;
- 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 based on the nature and significance of the organization's relationship with the Municipality.

The Municipality's management has concluded that, based on the aforementioned criteria, 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) Government-Wide Financial Statements***

The accompanying GWFS are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements report information of all governmental and business-type nonfiduciary activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its

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operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net position provides short-term and long-term information about the Municipality's financial position by presenting all of the Municipality's assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference between these two items reported as "net position". This statement assists management in assessing the level of services that can be provided by the Municipality in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets and discloses legal and contractual restrictions on resources.

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

- **Invested in capital assets, net of related debt** – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net position** – This net asset category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net position for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- **Unrestricted net position** – This category consists of the net resources that are neither externally nor legally restricted, neither invested in capital assets. However, assets reported within unrestricted net position often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position 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

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either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

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

**General government:**

- Municipal legislature
- Mayor's office
- Department of finance
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Office of communications
- Office of administrative services
- Department of purchases

**Urban and economic development:**

- Department of public works
- Department of planning and development
- Federal programs office

**Public safety:**

- Department of emergency management – civil defense
- Department of municipal police

**Health and sanitation:**

- Department of recycling services
- Municipal enterprises
- Department of health

**Culture, recreation and education:**

- Department of sports and recreation
- Department of art, culture and tourism
- Head Start program office

**Public housing and welfare:**

- Department of citizen affairs
- Section 8 program 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

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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:
- **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* 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* 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

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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 position 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. On the other hand, the operations of Villas del Parque are reported as business-type activities in the accompanying GWFS. These activities are primarily financed from grants and contributions and charges for services. These business-type activities are also reported in the FFS.

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

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

**d) Fund Financial Statements**

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities 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.

The accompanying FFS are composed of: (1) the balance sheet – governmental funds, (2) the statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds, (3) the statement of net position – proprietary fund, (4) the statement of revenues, expenses and changes in fund net position – proprietary fund, and (5) the statement of cash flows – proprietary fund.

These financial statements report the financial position and results operations of the Municipality's governmental and proprietary funds and fund types by presenting sources, uses and balances of current and non-current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental fund and fund types, as defined below, (2) the fiscal accountability and (3) the individual parts of

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the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying FFS segregate governmental funds, proprietary funds and fund types according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds and fund types is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental and proprietary funds within the following categories:

- **General fund** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities not accounted for and reported in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Debt service fund** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest; for (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2013, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

The outstanding balance of general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as notes payable) are only accounted for in the accompanying statement of net position. The debt service payments of such debts, as applicable, are generally accounted for as debt service – principal and debt service – interest expenditures in the general fund, except for certain notes payable to HUD, which are accounted for in the community development block grant fund.

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

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assigned to expenditure for capital outlays. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds are accounted for also in the capital projects funds.

The use of the capital projects funds has been reserved 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.

- **Proprietary fund** – Proprietary fund is a fund used to report the financial position, results of operation and cash flows of Villas del Parque (FmHA Project No. 63-033-0690660049), which are activities for which the intent of management is to recover, partially through user charges for services (rent) and mostly through federal grants, the cost of low-income housing services to the general public.

The activities of Villas del Parque have been reported as a proprietary fund since GAAP permits the use of enterprise funds to report any activity for which a fee is charged to external users of goods or services, regardless of whether the government intends to fully recover the cost of the goods or services provided. Thus, it is common to use proprietary fund reporting to account for services where the government intends to recover only a portion of its costs through fees or user charges.

As required by GASB No. 34, the proprietary fund of the Municipality applies all pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB) and the Committee on Accounting Procedure, issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict the standards of the Governmental Accounting Standards Board. However, the Municipality has elected to continue following more recent FASB guidance, provided it neither conflicts nor contradicts GASB pronouncements.

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

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

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addition, the same element that meets the 10 percent criterion must be at least 5 percent of the corresponding element total for all governmental and enterprise (proprietary) funds combined. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures\expenses for these purposes mean all expenditures\expenses, including operating and non-operating expenditures\expenses, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying FFS are: (1) the general fund, (2) the debt service fund, (3) the head start fund, (4) the community development block grant fund and (5) the capital improvement bond fund. In addition, Villas del Parque has been reported separately from governmental funds as the only proprietary fund of the Municipality.

The head start fund is a special revenue fund used to account for the receipts and disbursements of the head start program grant administered by the Administration for the Integral Care and Development of Children of the Commonwealth of Puerto Rico, as a pass-through entity of the U.S. Department of Health and Human Services.

The community development block grant fund is a major capital projects fund used to account for financial resources that are assigned by the US Housing and Urban Development Agency and by the PR Office of the Commissioner of Municipal Affairs principally for use in the community development projects.

The capital improvement bond fund is a major capital projects fund used to account for proceeds of general obligation, public improvement or special obligation bonds. These proceeds are used for the acquisition, construction or improvement of major capital facilities and other assets.

The accompanying FFS are accompanied by other statements and schedules required by GAAP: (1) the reconciliation of the balance sheet – governmental funds to the statement of net position, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

*e) Measurement Focus and Basis of Accounting*

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

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

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transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include certain charges for services and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from 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.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses. The major operating revenue of the Municipality's enterprise fund is from rent charges collected principally from a Section 8 New Construction and Substantial Rehabilitation Program housing assistance grant agreement with U.S. Department of Housing and Urban Development.

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 (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to 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

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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 unearned revenues.

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 and the statement of net position – proprietary fund. The measurement focus and the basis of accounting used in the accompanying GWFS and the proprietary fund differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying governmental fund financial statements. Therefore, the accompanying governmental fund financial statements include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the governmental fund financial statements.

**Governmental fund financial statements** – The accompanying governmental fund financial statements are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality considers most revenues to be available if collected generally within 120 days after June 30, 2013, except for property taxes for which the availability period is 60 days.

Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred (earned and unavailable) inflow of resources at June 30, 2013.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying governmental fund financial statements, except for amounts recorded as deferred (earned and unavailable) inflow of resources.

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

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria

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discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

Interest on deposits is recorded when earned only if collected within 120 days after the fiscal year-end since these revenues would be considered both measurable and available.

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

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

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

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- Executory purchase orders and contracts are recorded as assignments of fund balance in the governmental funds FFS.

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

*f) Stewardship, Compliance and Accountability*

**Budgetary Control**

According to Law No. 81, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for each fiscal year commencing on July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than the immediately preceding May 31. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 15.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within six (6) days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to eight (8) days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have three (3) days to sign and approve it.

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

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

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

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

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

**Budgetary Accounting**

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

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

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying budgetary comparison schedule – general fund provide information about the general fund original budget, its amendments, and the actual results of operations of such major governmental fund under the budgetary basis of accounting for the fiscal year ended June 30,

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2013. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2013.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general fund budgetary bases and GAAP actual amounts are presented at the bottom of the budgetary comparison schedule.

***g) Deposits***

The Municipality's deposits are composed of: (1) cash on hand, (2) demand deposits in commercial banks, (3) demand deposits in the Government Development Bank for Puerto Rico (fiscal agent) and (4) cash equivalents in commercial banks.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations. At June 30, 2013, the cash available in the pooled cash account amounted to \$483,016, which has been recorded within major and non-major governmental funds.

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

Cash in fiscal agent in the general fund, amounting to \$7,263 consists principally of unspent proceeds of bonds for payment of the statutory expenditures. Cash in fiscal agent in the debt service fund consists of cash related to property tax and sales and use tax collections amounting to \$3,559,627 which are restricted for the payment of the Municipality's debt service of bonds payable, as required by law. Cash in fiscal agent in the capital improvement bond fund and other governmental funds, amounting to \$1,559,240 and \$144,235, respectively, consists principally of unspent proceeds of bonds and federal public assistance grants funds, which are restricted for the acquisition, construction or improvement of major capital assets.

Cash in commercial banks of the head start fund, amounting to \$121,951, represents the balance of a non-interest bearing account restricted to finance the operations of this federal financially assisted program. Cash in commercial banks of the community development block grant fund, amounting to \$281,601, represents the balance of a non-interest bearing account restricted to finance the operations of this federal financially assisted program. Cash in commercial banks for other governmental funds, amounting to \$1,496,740, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain federal, state and local funded programs.

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Cash in commercial banks of Villas del Parque (proprietary fund), amounting to \$208,785, represents the balance of interest and non-interest bearing accounts restricted to finance the project operations. Villas del Parque is required to set amounts for the replacement of property and other project expenditures, as approved by the U.S. Department of Housing and Urban Development. Accordingly, the restricted cash balances of Villas del Parque include a replacement reserve of \$95,263, a cash balance for operations of \$75,740, tenants' security deposits of \$7,632 and a cash balance reserved for taxes and insurance of \$30,150.

***h) Accounts Receivable***

Accounts receivable consist of all revenues earned but not collected at June 30, 2013. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds".

***i) Real Estate Held for Sale***

Real estate's held for sale in the accompanying statement of net position consist of purchased and redeveloped foreclosed and abandoned homes and residential properties with the resources granted by the Neighborhood Stabilization Program (NSP), a component of the Community Development Block Grant (CDBG). This real estate's held for sale is carried at the lower of the estimated fair value or historical cost. Subsequent declines in the value of real estate's available for sale are charged to expense.

***j) Other Current Assets***

Other current assets in the accompanying statement of net position – business-type activities and the statement of net position – proprietary fund consist principally of prepaid costs, which are capitalized rather than charged to operations.

***k) Capital Assets***

Capital assets used in governmental and business-type activities include land and land improvements, buildings, structures and building improvements, machinery and equipment (including equipment held under capital leases), furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position and the statement of net position – proprietary fund. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost basis of \$100 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$100 or with useful lives not exceeding one year, are charged directly to expense in the government-wide

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statement of activities and the statement of revenues, expenses and changes in fund net position – proprietary fund. In the governmental funds, all capital assets are recorded as capital outlays (expenditures), while all assets with individual costs under \$100 are recorded as expenditures in the corresponding function/program identified with the asset.

In the statement of net position and the statement of net position – proprietary fund, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available.

Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

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

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

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50
Motor vehicles	5
Furniture, fixtures, machinery and equipment, excluding those held under capital leases	5 to 20
Office equipment held under capital leases	3 to 5

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

**1) *Unearned Revenues***

In the governmental fund financial statements, unearned revenue arises when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the

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accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying statement of net position).

**m) Deferred Outflow/Inflow of Resources**

In addition to assets, the statement of net position - governmental and business-type activities and, the governmental funds balance sheet and the statement of net position – proprietary fund will sometimes report a separate section for deferred outflows 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 - governmental and business-type activities and, the governmental funds balance sheet and the statement of net position – proprietary fund will sometimes report a separate section for deferred inflows 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. The Municipality has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item “*earned and unavailable revenue*” is reported only in the governmental funds balance sheet. The governmental funds reports unavailable revenues from intergovernmental grants and contributions. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources of major governmental funds are identified below:

	General fund	Total governmental funds	Statement of net position
<i>Measurable and unavailable revenues:</i>			
Intergovernmental grants and contributions	\$ 6,234,091	\$ 6,234,091	\$ -
Total measurable and unavailable revenue	\$ 6,234,091	\$ 6,234,091	\$ -

**n) Compensated Absences**

The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2013 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

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The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per fiscal year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per fiscal year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each fiscal year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each fiscal year, if not consumed.

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

The liability for compensated absences is in the statement of net position. A liability for compensated absences is reported in the governmental fund financial statements only when matured (when payment is due), for example, as a result of employee resignations or retirements.

***o) Long-term Debt***

The long-term liabilities reported in the accompanying statements of net position include the Municipality's bonds payable, notes payable, accrued compensated absences and accrued legal claims and judgments (if any).

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, 2013 have been recorded as governmental fund liabilities in the debt service fund at June 30, 2013, when resources were available. In the governmental fund financial statements, the face amount of debt issued (gross debt proceeds) is reported as other financing sources when issued.

In the governmental activities of the GWFS, and in the GFFS, debt issuance costs, except for any portion related to prepaid insurance costs, are recorded as expenses\expenditures as incurred.

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables*, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net position, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization

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of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses as incurred.

***p) 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.

***q) Risk Management***

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Municipality. The Municipality pays the insurance premiums each fiscal year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronym), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA, by its Spanish acronym), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2013 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation

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insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

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

The Municipality also obtains medical insurance coverage from health insurance companies for its employees. Health insurance coverage and premium options are negotiated each year by the Municipality on behalf of the employees. The current insurance policies have not been cancelled or terminated at June 30, 2013. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

**r) Fund Balances**

On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions No. 54* (GASB No. 54). GASB No. 54, which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied.

Also, this statement establishes fund balance classifications that comprise a hierarchy upon use of the resources reported in governmental funds.

According to GASB No. 54 provisions, 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*** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditor or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ***Committed*** – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.

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- **Assigned** – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- **Unassigned** – Represent the residual classification for the Municipality’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

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

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 unassigned.

**s) Inter-fund Activities**

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

- **Inter-fund loans** – Represent resources (assets) provided by one governmental fund to other governmental fund with a requirement and commitment for repayment (reimbursement), which are recorded as “*due from*” in the lender governmental fund and “*due to*” in the borrower governmental fund. For amounts not expected to be collected, inter-fund receivables/payables are reduced to their estimated realizable (settlement) value, and the portion of the inter-fund loan that is not expected to be repaid is reported as a “*transfer-in*” from the governmental fund that provided the loan.

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- **Inter-fund transfers (transfers-in/(out))** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as “*other financing uses*” in the governmental fund making transfers and as “*other financing sources*” in the governmental fund receiving transfers.
- **Inter-fund reimbursements** – Represent repayments (reimbursements) from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

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

**t) Use of Estimates**

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

**u) New Implementation and/or Future Adoption of Accounting Pronouncements**

The GASB has issued the following standards that requires or encourages early implementation for the fiscal year 2013, or have effective dates after 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 2013.
- GASB Statement No. 65, *Previously Reported as Assets and Liabilities*. The objective of this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. But, the Municipality has implemented earlier this Statement in fiscal year 2013, as encouraged by the Board.
- GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62 (Issued 03/12)*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB*

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and AICPA Pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

- GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25 (Issued 06/12)*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.
- GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (Issued 06/12)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014.
- GASB Statement No. 69 *Government Combinations and Disposals of Government Operations (Issued 01/13)* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees (Issued 04/13)*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged.
- GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 (Issued 11/13)*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

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The impact of Statements requiring future adoption on the Municipality's basic financial statements has not yet been determined.

## 2. Deposits

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

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2013.
- **Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investments portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments to periods of three months or less and (3) keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2013, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low.
- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, amounting to \$5,270,365 at June 30, 2013, are uninsured and uncollateralized. However, no losses related to defaults by GDB

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on deposit transactions have been incurred by the Municipality through June 30, 2013. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2013, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

- **Foreign exchange risk** – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2013.

Cash and cash equivalents at June 30, 2013, are classified in the accompanying balance sheet – governmental funds a follows:

	General fund	Debt service fund	Head start fund	CDBG fund	Capital improvement bond fund	Other governmental funds	Total
Cash in commercial banks	\$ 501	-	121,951	281,601	578	1,496,740	\$ 1,901,371
Cash in GDB, as fiscal agent	7,263	3,559,623	-	-	1,559,240	144,235	5,270,365
Total carrying amount of deposits	\$ 7,764	3,559,623	121,951	281,601	1,559,818	1,640,975	\$ 7,171,736

### 3. Municipal License Taxes

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Juana Díaz. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2013, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed and due five (5) working days after April 15 of each year, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration before the due date ended five (5) working days after April 15 of each year. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (five (5) working days after April 15), a 5 percent discount is granted automatically on the total tax amount due.

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Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded in the liabilities section as unearned revenues in the GWFS and the general fund. Unearned municipal license tax revenues recorded in the accompanying GWFS and the general fund amounted to \$1,664,681 at June 30, 2013. Those unearned municipal license revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2013-2014, therefore, generally cannot be used to pay obligations of the fiscal year 2012-2013.

**4. Sales and Use Taxes**

The Municipality is authorized by Law No. 117 of July 4, 2006, as amended by Law No. 80 of July 29, 2007, to impose and collect sales and uses taxes of one point five (1.5) percent to substantially all products and services sold or provided within the territorial limits of the Municipality. The mentioned Laws establish the applicable tax rate.

At June 30, 2013, the municipal sales and uses tax rate imposed by the Municipality was 1.50, from which the Municipality collect one (1) percent, and the Puerto Rico Secretary of the Treasury collect the remaining point five (.5) percent without including food and food ingredients as defined in Section 2301(a) of the Act No. 107, on behalf of the Municipality.

The point five (.5) percent collected by the Puerto Rico Treasury Department and belonging to the Municipality it is distributed through three separate funds: municipal development fund (up to .2%, at the discretion of the Municipality), municipal redemption fund (from .2% to .4%, at the discretion of the Municipality) and municipal improvements fund (.1%). The Municipality has elected to restrict a portion of the sales tax amounting .4% for the payment of long-term debt and is recorded in the debt service fund. The remaining portion is recorded in the general fund since is available for general operating purposes.

The tax collected by merchants during a given month is due and must be paid accompanied by a sales and use tax return to the Municipality and to the Puerto Rico Treasury Department on or before the 10th day of the following month.

The resources collected by the Municipality due to this tax assessment will be used in local activities like improvements in health services, improvements in the control and management of solid waste disposal and recycling programs, public improvements, improvements of public safety, and maintenance of all public facilities of the Municipality.

The sales and use tax receivable is recognized as revenue when it becomes measurable and available base on actual collection during the 30 days following the fiscal year-end related to sales and use tax returns due before year end.

Sales and use tax receivable in the general and debt service funds at June 30, 2013, of \$150,147 and \$65,684, respectively, represent actual collection during the 30 days following the fiscal year-end related to sales and use tax returns due before year end.

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**5. Property Taxes**

The Municipality is authorized by Law No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of \$15,000 (at 1957 estimated market prices).

The Municipal Revenue Collection Center (CRIM, by its Spanish acronym) is a governmental entity not related to the Municipality which is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality and all other municipalities in the Commonwealth of Puerto Rico. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds (estimated collections) to the Municipality based on the initial estimated (forecasted) collection amounts for the fiscal year. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year. This settlement has to be completed on a final basis not later than December 31 following the fiscal year end. If in any given fiscal year, CRIM remits to the Municipality property tax advances that are less than the property taxes actually collected by CRIM on behalf of the Municipality, then CRIM will increase the amount of the monthly property tax advances during for the next fiscal year. However, if advances exceed the amount actually collected by CRIM, then CRIM will reduce the amount of the monthly property tax advances during the next fiscal year.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2013 was 8.53 percent (of which taxpayers pay 8.33 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2013 was 9.53 percent (of which 9.33 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively), except for property assessed for less than \$3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

According to Law No. 81, included within the total personal and real property tax rates of 8.53 percent and 9.53 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth of Puerto Rico but is collected by CRIM. Collections of this special tax

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are directly remitted by CRIM to the debt service fund of the Commonwealth of Puerto Rico, for the payment of the general long-term debt of the state government.

In addition, included within the total personal and real property tax rates of 8.53 percent and 9.53 percent, respectively, there is a portion of the tax rate in the amount of 2.00 percent that is restricted for the Municipality's debt service requirements of bonds. Such amounts are recorded in the Municipality's debt service fund.

The portion of the property taxes recorded in the general fund is used to finance the operating activities of the Municipality, including the payment of: (1) the insurance premiums acquired through negotiations with private insurances companies, (2) the Workers' compensation insurance premiums provided by the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth, (3) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM's operating expenses and, (4) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens. The 0.20 percent of unrestricted personal and real property taxes paid by the Puerto Rico Department of Treasury as a subsidy is recorded in the Municipality's general fund.

The Additional Lottery System of the Commonwealth of Puerto Rico (the Additional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth of Puerto Rico's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth of Puerto Rico, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth of Puerto Rico. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

At June 30, 2013, property taxes receivable recorded in the debt service fund amounted to \$16,516.

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**6. Intergovernmental Receivables and Payables**

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

	<u>Major governmental funds</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>	<u>Statement of net position</u>
<i>Intergovernmental receivables:</i>				
Grants and contributions:				
U.S. Department of Housing and Urban Development	\$ 137,801	-	137,801	\$ 137,801
U.S. Department of Energy		40,415	40,415	40,415
Puerto Rico Department of Labor	-	128,813	128,813	128,813
Puerto Rico Transit Safety Commission	-	53,874	53,874	53,874
Puerto Rico Department of Education	-	33,262	33,262	33,262
Municipal Revenue Collection Center	6,146,038		6,146,038	6,146,038
Puerto Rico Treasury Department – general fund	88,053	-	88,053	88,053
Puerto Rico Emergency Management Agency	-	92,745	92,745	92,745
Puerto Rico Administration for Integral Care and Development of Children	-	127,866	127,866	127,866
Puerto Rico Special Communities Office	-	18,945	18,945	18,945
Total intergovernmental receivables	<u>\$ 6,371,892</u>	<u>495,920</u>	<u>6,867,812</u>	<u>\$ 6,867,812</u>
<i>Intergovernmental payables:</i>				
Payroll withholdings (general fund):				
U.S. Department of Treasury - Internal Revenue Service	\$ 106,074		106,074	\$ 106,074
Puerto Rico Treasury Department	33,908	-	33,908	33,908
Puerto Rico Child Support Agency	3,995	-	3,995	3,995
Employees Association of the Government of the Commonwealth of Puerto Rico	18,300		18,300	18,300
Employees Retirement System of the Government of the Commonwealth of Puerto Rico	86,109	-	86,109	86,109
Utilities (general fund):				
Puerto Rico Aqueduct and Sewer Authority	216,781	-	216,781	216,781
Puerto Rico Electric Power Authority	32,229	-	32,229	32,229
Miscellaneous (general fund):				
Puerto Rico Department of Labor	44,857		44,857	44,857
General Services Administration	225,175	-	225,175	225,175
Total intergovernmental payables	<u>\$ 767,428</u>	<u>-</u>	<u>767,428</u>	<u>\$ 767,428</u>

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

At June 30, 2013, the earned and unavailable intergovernmental grant and contributions reported in the deferred inflow of resources section in the accompanying balance sheet-general fund, amounted to \$6,234,091.

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**7. Inter-fund Transactions**

The composition of inter-fund balances at June 30, 2013 and for the fiscal year then ended is as follows:

<u>Due to:</u>	<u>Due from:</u>		
	<u>General fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Major governmental funds:			
General fund	\$ -	320	\$ 320
Debt service fund	732,289	-	732,289
CDBG fund	16,600	-	16,600
Capital improvement bond fund	17,702	-	17,702
Head Start fund	26,711	-	26,711
Non-major governmental funds:	793,041	153,826	946,867
Total	<u>\$ 1,586,343</u>	<u>154,146</u>	<u>\$ 1,740,489</u>

  

<u>Transfer to:</u>	<u>Debt service fund</u>	<u>Total governmental funds</u>
Major governmental funds:		
General fund	\$ 732,289	\$ 732,289
Total	<u>\$ 732,289</u>	<u>\$ 732,289</u>

The principal purposes of inter-fund receivables and payables are:

- Recognize in the general fund the outstanding balance of the loans granted to CDBG fund (\$16,600), head start fund (\$26,711), capital improvement bond fund (\$17,702), and non-major funds (\$793,041) to temporarily cover the payroll and other operating costs of several federally and state funded programs.
- Recognize in the general fund the amount due from the debt service fund (\$732,289) for unrestricted cash surplus requested to be transferred to the general fund from the debt service fund.
- Recognize in the non-major funds the amounts due from general fund (\$320), due from and due to non-major funds (\$153,826) mostly for errors in the disbursements and deposits process.

The principal purpose of inter-fund transfer is to:

- Make a non-routine transfer of unrestricted cash surplus from debt service fund, amounting to \$732,289, to the general fund.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers, which are considered by management to be fully realizable at June 30, 2013.

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**8. Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2013:

**a) Governmental Activities**

	<b>Cost basis at beginning of fiscal year</b>	<b>Additions</b>	<b>Reductions/ Reclassifications</b>	<b>Cost basis at end of fiscal year</b>
<i>Cost basis:</i>				
Capital assets, not being depreciated:				
Land	\$ 2,453,035	-	-	\$ 2,453,035
Construction in progress	3,581,762	-	(3,150,000)	431,762
Total capital assets, not being depreciated	<u>6,034,797</u>	<u>-</u>	<u>(3,150,000)</u>	<u>2,884,797</u>
Capital assets, being depreciated:				
Buildings, structures, and improvements	72,683,237	2,243,676	2,500,000	77,426,913
Infrastructure	7,112,974	508,004	650,000	8,270,978
Machinery and equipment, and furniture and fixtures	6,643,586	267,627	-	6,911,213
Licensed vehicles	6,873,658	47,836	-	6,921,494
Total capital assets, being depreciated	<u>93,313,455</u>	<u>3,067,143</u>	<u>3,150,000</u>	<u>99,530,598</u>
Total cost basis of capital assets	<u>\$ 99,348,252</u>	<u>3,067,143</u>	<u>-</u>	<u>\$ 102,415,395</u>
	<b>Accumulated Depreciation at end of fiscal year</b>	<b>Additions</b>	<b>Reductions/ Reclassifications</b>	<b>Accumulated Depreciation at end of fiscal year</b>
<i>Accumulated depreciation:</i>				
Buildings, structures, and improvements	\$ 16,739,271	2,375,997	-	\$ 19,115,268
Infrastructure	2,954,043	410,881	-	3,364,924
Machinery and equipment, and furniture and fixtures	5,353,255	538,668	-	5,891,923
Licensed vehicles	5,891,738	339,171	-	6,230,909
Total accumulated depreciation	<u>30,938,307</u>	<u>3,664,717</u>	<u>-</u>	<u>34,603,024</u>
Net capital assets, governmental activities	<u>\$ 68,409,945</u>	<u>(597,574)</u>	<u>-</u>	<u>\$ 67,812,371</u>

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2013.

The infrastructure assets recorded in the accompanying statement of net position for \$4,906,054 (net of accumulated depreciation of \$3,364,924) do not include a substantial portion of the Municipality's general infrastructure assets that were constructed or acquired by the Municipality from 1980 through June 30, 2013.

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Several real property assets, including buildings, structures, land and land improvements have not been recorded in the accompanying statement of net position at June 30, 2013.

Depreciation and amortization expense of governmental activities for the fiscal year ended June 30, 2013 was charged to functions/programs in the accompanying statement of activities as follows:

General government	\$	135,803
Public safety		103,680
Economic and urban development		1,111,938
Health and sanitation		14,303
Culture, recreation, and education		2,298,993
		2,298,993
Total depreciation and amortization expense	\$	3,664,717

**b) Business-type Activities**

	Cost basis at beginning of fiscal year	Increase	Decrease	Cost basis at end of fiscal year
<i>Business-type activities:</i>				
<i>Cost basis:</i>				
Capital assets, not being depreciated - land	\$ 96,229	-	-	\$ 96,229
Total capital assets, not being depreciated	96,229	-	-	96,229
Capital assets, being depreciated:				
Buildings, structures, and improvements	3,489,117	-	-	3,489,117
Machinery and equipment, and furniture and fixtures	315,059	12,166	-	327,226
Total capital assets, being depreciated	3,804,176	12,166	-	3,816,342
Total cost basis of capital assets	\$ 3,900,405	12,166	-	\$ 3,912,571
Accumulated depreciation and amortization:				
	Accumulated depreciation at beginning of fiscal year	Increase	Decrease	Accumulated Depreciation at end of fiscal year
Buildings, structures, and improvements	\$ 2,558,498	116,292	-	\$ 2,674,790
Machinery and equipment, and furniture and fixtures	271,094	6,294	-	277,388
Total accumulated depreciation	2,829,592	122,586	-	2,952,178
Net capital assets, business-type activities	\$ 1,070,813	(110,420)	-	\$ 960,393

Depreciation and amortization expense of business-type activities, amounting to \$122,586 for the fiscal year ended June 30, 2013, was charged to the public housing and welfare function in the accompanying statement of activities.

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**9. Unearned Revenues**

At June 30, 2013, unearned revenues recorded in the liabilities section of the GWFS and the governmental fund financial statements are as follows:

	<u>General fund</u>	<u>Head start fund</u>	<u>CDBG fund</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>	<u>Statement of net position</u>
<i>Unearned revenues:</i>						
Municipal licenses	\$ 1,664,681	-	-	-	1,664,681	\$ 1,664,681
Intergovernmental grants and contributions	-	42,762	273,564	242,337	558,663	558,663
Total unearned revenues	<u>\$ 1,664,681</u>	<u>42,762</u>	<u>273,564</u>	<u>242,337</u>	<u>2,223,344</u>	<u>\$ 2,223,344</u>

**10. Long-Term Obligations**

The general long-term debt activity for the fiscal year ended June 30, 2013 is as follows:

	<u>Balance at beginning of fiscal year, as restated</u>	<u>Borrowings Or Additions</u>	<u>Payments And deductions</u>	<u>Balance at end of fiscal year</u>	<u>Balance due within one year</u>
<b><u>Governmental activities:</u></b>					
<b>Bonds payable:</b>					
General obligation serial bonds	\$ 20,830,000	685,000	922,000	\$ 20,593,000	\$ 1,029,000
Public improvement serial bonds	1,175,000	-	196,000	979,000	206,000
<b>Notes payable:</b>					
Section 108 loan guarantee notes – series 2004-A	5,200,000	-	100,000	5,100,000	150,000
Municipal Revenue Collection Center: Law No. 146 of October 11, 2001	196,979	-	2,537	194,442	2,537
Settlement Statement 2010-2011	445,386	-	445,386	-	-
<b>Claims and judgements</b>	-	1,097,156	-	1,097,156	1,097,156
<b>Compensated absences</b>	2,343,384	328,582	443,905	2,228,061	450,000
Totals for governmental activities	<u>\$ 30,190,749</u>	<u>2,110,738</u>	<u>2,109,828</u>	<u>\$ 30,191,659</u>	<u>\$ 2,934,693</u>
<b><u>Business-type activities:</u></b>					
<b>Mortgage notes payable:</b>					
Section 515 loan no. 001	\$ 1,108,929	-	30,313	\$ 1,078,616	\$ 32,313
Section 515 loan no. 002	118,464	-	2,632	115,832	5,594
Totals for business-type activities	<u>\$ 1,227,393</u>	<u>-</u>	<u>32,945</u>	<u>\$ 1,194,448</u>	<u>\$ 37,907</u>

Historically, the general fund has been used to liquidate the notes payable to CRIM, the Puerto Rico Health Services Administration and the Puerto Rico Department of Treasury, claims and judgments, compensated absences, and any other long-term liabilities other than bonds.

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**a) Debt Limitation**

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

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

**b) Bonds Payable**

The Municipality issues general obligation and public improvement serial bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

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

As more fully described in Note 5, the Municipality levies an annual additional special property tax of 1.75 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at the Government Development Bank for Puerto Rico, fiscal agent, whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual and semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

As more fully described in Note 4, the Municipality impose and collect sales and uses taxes of one point five (1.5) percent, of which the Municipality has elected to restrict a portion amounting .4% for the payment of long-term bonds. The collections of this sales and use tax are recorded in the Municipality's debt service fund.

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For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2013:

	<b><u>Outstanding balance</u></b>
<b><u>General Obligation Bonds:</u></b>	
1996 serial bonds (face amount of \$1,180,000) due in annual principal installments ranging from \$25,000 to \$110,000; plus interests due in semiannual installments at variable rates (6.58% at June 30, 2013) through July, 1, 2016.	\$ 400,000
1999 serial bonds (face amount of \$2,270,000) due in annual principal installments ranging from \$45,000 to \$215,000; plus interests due in semiannual installments at variable rates (6.11% at June 30, 2013) through July, 1, 2019.	1,185,000
1999 serial bonds (face amount \$1,025,000) due in annual principal installments ranging from \$40,000 to \$115,000; plus interests due in semiannual installments at variable rates (4.61% at June 30, 2013) through July, 1, 2014.	215,000
2003 serial bonds (face amount \$900,000) due in annual principal installments ranging from \$15,000 to \$75,000; plus interests due in semiannual installments at variable rates (4.61% at June 30, 2013) through July 1, 2026.	675,000
2003 serial bonds (face amount of \$215,000) due in annual principal installments ranging from \$5,000 to \$15,000; plus interests due in semiannual installments at variable rates (4.61% at June 30, 2013) through July 1, 2026.	160,000
2003 serial bonds (face amount of \$1,510,000) due in annual principal installments ranging from \$25,000 to \$120,000; plus interests due in semiannual installments at variable rates (4.36% at June 30, 2013) through July 1, 2027.	1,170,000
2004 serial bonds (face amount of \$785,000) due in annual principal installments ranging from \$15,000 to \$65,000; plus interests due in semiannual installments at variable rates (4.36% at June 30, 2013) through July 1, 2027.	605,000
2005 serial bonds (face amount of \$875,000) due in annual principal installments ranging from \$10,000 to \$65,000; plus interests due in semiannual installments at variable rates (4.36% at June 30, 2013) through July 1, 2028.	695,000

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	<b><u>Outstanding balance</u></b>
2007 serial bonds (face amount of \$2,180,000) due in annual principal installments ranging from \$30,000 to \$185,000; plus interests due in semiannual installments at variable rates (1.53% at June 30, 2013) through July 1, 2031.	1,950,000
2007 serial bonds (face amount of \$1,910,000) due in annual principal installments ranging from \$25,000 to \$160,000; plus interests due in semiannual installments at variable rates (1.53% at June 30, 2013) through July 1, 2031.	1,710,000
2008 serial bonds (face amount of \$255,000) due in annual principal installments ranging from \$5,000 to \$20,000; plus interests due in semiannual installments at variable rates (1.53% at June 30, 2013) through July 1, 2032.	230,000
2008 serial bonds (face amount of \$4,642,000) due in annual principal installments ranging from \$83,000 to \$390,000; plus interests due in semiannual installments at variable rates (1.53% at June 30, 2013) through July 1, 2032.	4,273,000
2010 serial bonds (face amount of \$2,970,000) due in annual principal installments ranging from \$50,000 to \$230,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2013) through July 1, 2034.	2,810,000
2011 serial bonds (face amount of \$835,000) due in annual principal installments ranging from \$10,000 to \$75,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2013) through July 1, 2035.	810,000
2011 serial bonds (face amount of \$1,060,000) due in annual principal installments ranging from \$120,000 to \$185,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2013) through July 1, 2017.	810,000
2011 serial bonds (face amount of \$640,000) due in annual principal installments ranging from \$75,000 to \$110,000; plus interests due in semiannual installments at variable rates (6.00% at June 30, 2013) through July 1, 2035.	485,000
2011 serial bonds (face amount of \$755,000) due in annual principal installments ranging from \$5,000 to \$65,000; plus interests due in semiannual installments at variable rates (6.00% at June 30, 2013) through July 1, 2017.	740,000

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	<b><u>Outstanding balance</u></b>
2011 serial bonds (face amount of \$875,000) due in annual principal installments ranging from \$10,000 to \$75,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2013) through July 1, 2035.	855,000
2012 serial bonds (face amount of \$135,000) due in annual principal installments ranging from \$5,000 to \$10,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2013) through July 1, 2036.	130,000
2013 serial bonds (face amount of \$685,000) due in annual principal installments ranging from \$30,000 to \$80,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2013) through July 1, 2025.	<u>685,000</u>
Total general obligation bonds	<u>20,593,000</u>
<b><u>Public Improvement Bonds:</u></b>	
1995 serial bonds (face amount of \$1,758,000) due in annual principal installments ranging from \$44,000 to \$142,000; plus interests due in annual installments at variable rates (5.62% at June 30, 2013) through January 1, 2016.	402,000
1995 serial bonds (face amount of \$615,000) due in annual principal installments ranging from \$10,000 to \$55,000; plus interests due in semiannual installments at variable rates (7.71% at June 30, 2013) through July 1, 2018.	270,000
1996 serial bonds (face amount of \$835,000) due in annual principal installments ranging from \$18,000 to \$58,000; plus interests due in annual installments at fixed rate of 4.50% through January 1, 2019.	307,000
Total public improvement bonds	<u>979,000</u>
Total bonds payable	<u>\$ 21,572,000</u>

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code.

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Interest expense on bonds payable amounted to \$900,047 for the fiscal year ended June 30, 2013. Annual debt service requirements of maturity for bonds payable are as follows:

<b>Fiscal year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>
2014	\$ 1,235,000	\$ 1,091,228
2015	1,328,000	1,199,284
2016	1,299,000	1,227,940
2017	1,232,000	1,137,821
2018	1,200,000	1,017,829
2019-2023	4,353,000	4,385,054
2024-2028	5,145,000	2,862,156
2029-2033	4,715,000	1,046,062
2034-2038	1,065,000	56,579
<b>Totals</b>	<b>\$ 21,572,000</b>	<b>\$ 14,023,953</b>

**c) Section 108 Loan Guarantee Notes Payable - Series 2004-A**

On June 30, 2004, the Municipality entered into a loan guarantee commitment of \$5,500,000 with the U.S. Department of Housing and Urban Development (HUD) pursuant to an application under Section 108 of the Housing and Community Development Act of 1974 (Section 108). Section 108 commitments are required to be supported by a credit subsidy appropriation pursuant to the Federal Credit Reform Act of 1990 (Credit Reform Act) and implementing guidance issued by the U.S. Office of Management and Budget (OMB). Therefore, in connection with its guarantee of these notes, HUD obligated appropriated funds to cover the credit subsidy cost of the loan guarantee, as required under the Credit Reform Act. Under the Credit Reform Act procedures, such funds are disbursed into a financing account as loan proceeds are disbursed by the lender (a commercial bank). The financing account is in some respects equivalent to an internal loss reserve for the federal government. Each disbursement into the financing account is equal to the loan advance times the credit subsidy rate, which is part of HUD's budget approved by OMB and the Congress.

The proceeds of \$5,500,000 of the loan guarantee commitment are used by the Municipality to finance the construction of the Fine Arts Center and to provide low-income communities with another source of financing for the economic development, housing rehabilitation, public facilities and large-scale physical development projects. The notes on the loan guarantee commitment bear interest at various rates ranging from 3.50 percent to 6.70 percent. The proceeds and uses of the loan guarantee commitment are accounted for in the Section 108 loan guarantee, a non-major capital projects fund. The loan guarantee commitment is repaid with grant awards received from the Community Development Block Grants – Entitlement Grants Program (CDBG), administered by HUD. Principal and interest on these notes are accounted for in the Section 108 loan guarantee fund, a non-major capital projects fund. At June 30, 2013, the outstanding principal balance of the loan guarantee commitment amounted to \$5,100,000.

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Interest expense on the Section 108 loan guarantee notes payable amounted to \$296,365 for the fiscal year ended June 30, 2013. The principal and interest maturities on the Section 108 loan guarantee commitment are as follows:

<b>Fiscal year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>
2014	\$ 150,000	\$ 290,075
2015	150,000	282,372
2016	200,000	273,120
2017	300,000	259,540
2018	400,000	240,140
2019-2023	2,700,000	681,320
2024-2028	1,200,000	72,000
Totals	<u>\$ 5,100,000</u>	<u>\$ 2,098,567</u>

**d) Notes Payable to Municipal Revenue Collection Center**

The Municipality had the following notes payables to Municipal Revenue Collection Center (CRIM, by its Spanish acronym) at June 30, 2013:

- **Law No. 146** – On September 24, 2002, 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, as amended (Law No. 146). The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by Public Finance Corporation (PFC), a subsidiary of the Government Development Bank for Puerto Rico, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse.

The original face amount of the note allocated by CRIM to the Municipality was \$736,727, for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years. During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest, except for property tax receivables collections related to the transaction explained in the above paragraph, which will be applied as principal payment to reduce the debt balance.

At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. Interest payments on this financing agreement are accounted for in the general fund. The outstanding principal of the note payable to CRIM amounted to \$194,442, at June 30, 2013. Interest expense on these notes amounted to \$12,291 for the fiscal year ended June 30, 2013.

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**a) *Claims and judgments***

At June 30, 2013, the government-wide statement of net position – governmental activities includes a liability amounting \$1,097,156, related to a lawsuit Case #JDP2002-008, as determined by the Puerto Rico Court of First Instance, as partially revoked by the Puerto Rico Appeals Court.

**b) *Compensated Absences***

At June 30, 2013, the government-wide statement of net position – governmental activities includes a liability amounting \$2,228,061, of which \$1,451,976 represents accrued sick leave benefits, and \$776,085 represents accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**c) *Mortgage Notes Payable - Section 515 (business-type activities)***

The long-term debt of Villas del Parque (FmHA Project No. 63-033-0690660049) consist of two mortgages notes, collateralized with land and buildings, payable to the U.S. Department of Agriculture Rural Development in monthly installments of \$8,880 and \$1,094, respectively, including interest at an annual rate of 8.00% and 10.00%, respectively, (reduced to 7.00% and 9.00%, respectively) through December 2031.

At June 30, 2013, the outstanding principal balance of the two mortgage notes amounted to \$1,078,616 and \$115,832, respectively. The mortgages notes are subject to various positive, negative and restrictive covenants that the Municipality has complied with at June 30, 2013.

Accrued interest payable on these notes amounted to \$9,348 at June 30, 2013 which is recorded as part of business-type activities in the accompanying statement of net position and the statement of net position – proprietary fund. Interest expense on these notes amounted to \$86,754 for the fiscal year ended June 30, 2013, which is recorded in the accompanying statement of activities and the statement of revenues, expenses and changes in fund net position – proprietary fund.

**11. Employees' Retirement Systems**

**d) *Plan Description***

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

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

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- ***Retirement Annuity***

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

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

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

- ***Merit Annuity***

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

- ***Deferred Retirement Annuity***

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

- ***Coordinated Plan***

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

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

- ***Non-Coordinated Plan***

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

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- ***Reversionary Annuity***

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

- ***Occupational Disability Annuity***

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

- ***Nonoccupational Disability Annuity***

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

- ***Death Benefits***

***Occupational:***

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

***Nonoccupational:***

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

***Post-retirement:***

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

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- ***Refunds***

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

- ***Cost of Living Adjustment for Pension Benefits***

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

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

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

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

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

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

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

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

• ***Amendments to Act No. 447***

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

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

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

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

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

***e) Funding Policy***

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

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

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Supplementation plan: 8.28 percent of gross salary. This is the only choice available to policemen, firemen and mayors

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

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

**f) Actual Contributions**

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

<u>Fiscal year ended June 30,</u>	<u>Act No. 447</u>	<u>System 2000</u>	<u>Total</u>
2013	\$ 379,674	394,008	\$ 773,682
2012	449,502	366,307	815,809
2011	409,234	366,557	775,791
Totals	<u>\$ 1,238,410</u>	<u>1,126,872</u>	<u>\$ 2,365,282</u>

During the fiscal years ended June 30, 2013, 2012, and 2011, the Municipality and the participating employees contributed at least 100 percent of the required contributions to ERS and System 2000. The authority under which obligations to contribute to ERS and System 2000 by the plans' members, employers and other contributing entities (i.e., state or municipal contributions) are established or may be amended by law by the House of Representatives, the Senate and the Governor of the Commonwealth of Puerto Rico.

Readers can obtain copies of the audited basic financial statements (GAAP basis) of ERS and System 2000 by writing to Mr. Francisco Del Castillo Orozco, Executive Director of the Retirement Systems Administration of the Commonwealth of Puerto Rico (the entity that administers ERS and System 2000) at PO Box 42004, Minillas Station, Santurce, Puerto Rico 00940.

**12. Landfill Closure and Postclosure Care Costs Obligations**

The Municipality owns a municipal solid waste landfill. However, the Municipality has not adopted the required provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environment Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. According to these standard and regulations, the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring

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functions at the site for 30 years after closure. The Municipality has not performed an independent study of the activities that need to be implemented at the Municipality's solid waste landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations and, accordingly, the accompanying statement of net position does not include the required liability for closure and postclosure care costs of the solid waste landfill using current costs allocated based on the actual landfill capacity used at June 30, 2013.

### **13. Commitments, Contingencies and Uncertainties**

#### **Claims and Judgments**

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations, including allegations of improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities. Under Act No. 104 of June 25, 1955, as amended, persons are allowed to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

One of such cases is a lawsuit Case #JDP2002-008, in which the Puerto Rico Court of First Instance failed against the Municipality, ordering a payment of \$1,097,156 (including interests by \$20,561). This decision was vigorously appealed in the Puerto Rico Appeals Court, who revoke partially the Puerto Rico Court of First Instance. The Municipality intended vigorously pursues available appeals up to the Puerto Rico Supreme Court, but the case appellation was not considered. Therefore, at June 30, 2013, the government-wide statement of net position – governmental activities includes such amount as a liability amounting.

With respects to another pending or threatened litigation, the Municipality has reported no liabilities as of June 30, 2013. Management believes, 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.

#### **Construction Commitments**

The Municipality had commitments at June 30, 2013 by approximately \$500,000 for the construction, improvements, or renovation of several buildings and infrastructure capital assets.

#### **Encumbrances**

The Municipality has recorded, outstanding encumbrances amounting to \$209,970 in the general fund at June 30, 2013. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

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**Federal Financially Assisted Programs**

The Municipality receives financial assistance from the federal government in the form of grants and entitlements. Receipts of grants are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal law and regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133). Disallowance as a result of these audits may become liabilities of the Municipality

**Management Agreement of Villas del Parque (FmHA Project No. 63-033-0690660049)**

The Municipality maintains entered into a management agreement with GR Management Corp., for the administration of Villas del Parque (FmHA Project No. 63-033-0690660049). Management fees amounted to \$46,368 for the fiscal year ended June 30, 2013 and consist of a monthly fixed payment established in the Administrative Notice PR AN No. 125 (Inst. 1930-C).

**14. Fund Balance (Deficit)**

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

Fund balances (deficit)	General Fund	Debt Service Fund	Head Start Fund	CDBG Funds	Capital Improvement Bond Fund	Other nonmajor funds	Total
<i>Restricted for:</i>							
General government	\$ 7,263	-	-	-	-	8,057	\$ 15,320
Urban and economic development	-	-	-	-	-	46,104	46,104
Public housing and welfare	-	-	-	-	-	83,550	83,550
Culture and recreation and education	-	-	-	-	-	202,733	202,733
Capital outlays	-	-	-	-	1,519,102	31,023	1,550,125
Debt service	-	1,413,441	-	-	-	-	1,413,441
<i>Committed to:</i>							
General government	-	-	-	-	-	64,613	64,613
Urban and economic development	-	-	-	-	-	165,142	165,142
Health and sanitation	-	-	-	-	-	80,162	80,162
Culture and recreation and education	-	-	-	-	-	193,861	193,861
<i>Unassigned</i>	(1,671,273)	-	-	-	-	-	(1,671,273)
Total fund balances (deficit)	\$(1,664,010)	1,413,441	-	-	1,519,102	875,245	\$ 2,143,778

**15. Prior-Period Adjustments and Restatements**

During the current fiscal year, the Municipality revised its government-wide financial statements, which resulted in the correction of balance of long term debt balance reported in the prior year government wide financial statements. This correction consists principally in the effect of recording a long-term liability payable to Municipal Revenue Collection Center by \$225,591, by an incorrect Fiscal Year 2011-2012 Final Settlement issued by this Governmental Entity.

Also, during the current fiscal year, the Municipality revised its government-wide financial statements, in order to reflect the effect of a new accounting principle (GASB Statement No. 65, *Previously Reported as Assets and Liabilities*). This Statement state that debt issuance cost should be recognized as an expense in the period incurred. Therefore, the effect consist principally in the elimination of deferred charges previously reports as noncurrent assets in the government-wide financial statements.

**MUNICIPALITY OF JUANA DÍAZ,  
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Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2013

**a) Government-Wide Financial Statements**

The following schedule reconciles the total net asset balance at June 30, 2011, as previously reported by the Municipality, to the beginning net assets, as restated in the accompanying GWFS:

	Net assets – governmental activities	Net assets – business-type activities	Total net assets
As previously reported in the audited financial statements at June 30, 2012	\$ 45,479,358	8,402	\$ 45,487,760
Add/(deduct): prior-period adjustments	119,915	-	119,915
Total net assets at June 30, 2012, as restated	<u>\$ 45,599,273</u>	<u>8,402</u>	<u>\$ 45,607,675</u>

**16. Subsequent Events**

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.

**MUNICIPALITY OF JUANA DÍAZ,  
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Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2013

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.

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.

***End of Notes to Basic Financial statements***

**Required Supplementary Information  
Budgetary Comparison Schedule – General Fund  
Fiscal Year Ended June 30, 2013**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF JUANA DIAZ**  
 Budgetary Comparison Schedule - General Fund  
 Fiscal Year Ended June 30, 2013

	Budgeted amounts		Actual amounts	Variance with
	Original	Final	(budgetary basis)	final budget – over (under)
<b>Revenues:</b>				
Property taxes	\$ 3,415,973	\$ 3,415,973	\$ 3,415,973	\$ -
Municipal license taxes	2,032,648	2,032,648	2,093,775	61,127
Sales taxes	1,799,744	1,799,744	1,791,273	(8,471)
Construction excise taxes	2,252,000	2,252,000	588,575	(1,663,425)
Intergovernmental grants and contributions	5,758,681	5,758,681	6,017,528	258,847
Interest on deposits	87,000	87,000	144,111	57,111
Charges for services	550,000	550,000	237,639	(312,361)
Miscellaneous	404,000	404,000	270,881	(133,119)
Total revenues	16,300,046	16,300,046	14,559,755	(1,740,291)
<b>Expenditures:</b>				
General government	5,263,730	5,571,980	5,596,789	(24,809)
Urban and economic development	5,479,081	5,321,165	5,194,376	126,789
Health and sanitation	2,400,254	2,239,766	2,180,214	59,552
Public safety	1,684,171	1,658,639	1,610,083	48,556
Public housing and welfare	248,280	248,272	241,010	7,262
Culture, recreation and education	1,122,630	1,205,080	1,174,661	30,419
Capital outlays	101,900	55,144	42,918	12,226
Total expenditures	16,300,046	16,300,046	16,040,051	259,995
Excess (deficiency) of revenues over expenditures and encumbrances	-	-	(1,480,296)	(1,480,296)
<b>Other financing sources (uses):</b>				
Transfer in from other governmental funds	-	-	-	-
Transfer out to other governmental funds	-	-	-	-
Total other financing sources (uses)	-	-	-	-
<b>Net change in fund balance (deficit)</b>	\$ -	\$ -	\$ (1,480,296)	\$ (1,480,296)

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF JUANA DIAZ**  
 Budgetary Comparison Schedule - General Fund  
 Fiscal Year Ended June 30, 2013

**Reconciliation of differences:**

Sources/inflows of financial resources:

Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	\$ 14,559,755
Differences - budgetary basis to GAAP:	
Differences in bases of accounting:	
GAAP adjustment to revenues	148,103
Non-budgeted transfer	732,289
Total revenues and transfer in from other funds as reported on the revenues, expenditures and changes in fund balances	\$ 15,440,147

Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule (including transfer out to other funds)	\$ 16,040,051
Differences - budgetary basis to GAAP:	
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary purposes	(209,970)
Prior year encumbrances recorded as expenditures for GAAP purposes	118,485
Entity differences:	
Non-budgeted expenditures	219,364
Total expenditures and transfer out to other funds as reported on the statement of revenues, expenditures and changes in fund balances	\$ 16,167,930

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through the Department of Education of the Commonwealth of Puerto Rico:			
Child and Adult Care Food Program	10.558	CC-250	528,526
<b>Total U.S. Department of Agriculture</b>			<b>528,526</b>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Pass-through the Transit Safety Commission of the Commonwealth of Puerto Rico:			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	N/AV	21,727
<b>Total U.S. Department of Transportation</b>			<b>21,727</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Programs:			
Community Development Block Grants/ Entitlement Grants	14.218		1,350,898
Section 8 Housing Choice Vouchers Program	14.871		756,501
Pass-through the Office of the Commissioner of Municipal Affairs of the Commonwealth of Puerto Rico:			
Community Development Block Grants/ State's Program	14.228	NSP	50,468
<b>Total U.S. Department of Housing and Urban Development</b>			<b>2,157,867</b>

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUATION)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE:</b>			
Pass-Through the Administration for Integral Care and Development of Children of the Commonwealth of Puerto Rico:			
Head Start Program	93.600	241-2012-000179	5,867,542
Child Care and Development Block Grant	93.575	014-2012-2013	123,858
Pass-Through the Municipality of Ponce, P.R.			
HIV Emergency Relief Project Grant	93.914	N/AV	<u>157,642</u>
<b>Total U.S. Department of Health and Human Service</b>			<b><u>6,149,042</u></b>
<b>DEPARTMENT OF HOMELAND SECURITY</b>			
Pass-Through the Governor's Office of the Commonwealth of Puerto Rico			
Disaster Grants – Public Assistance	97.036	N/AV	55,700
Pass-Through the Municipality of Ponce, P.R.			
Homeland Security Grant Program	97.067	N/AV	<u>25,969</u>
<b>Total Department of Homeland Security</b>			<b><u>81,669</u></b>
<b>U.S. DEPARTMENT OF ENERGY:</b>			
Pass-Through – Office of the Energy Affairs Administration:			
Energy Efficiency and Conservation Block Grant Program	16.803	2009-SU-AEJUA-01	<u>268,916</u>
<b>Total Department of Energy</b>			<b><u>268,916</u></b>
<b>TOTAL EXPENDITURE OF FEDERAL AWARDS</b>			<b><u>\$ 9,207,747</u></b>

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**NOTE 1 – GENERAL**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Juana Díaz, 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**

The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.

The 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.

Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

**NOTE 3 – FEDERAL CFDA NUMBER**

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

**NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER**

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

**NOTE 5 – MAJOR PROGRAMS**

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

**PEDRO C. ORTIZ LEDEE**

CERTIFIED PUBLIC ACCOUNTANT

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**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 Juana Díaz, 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 **Juana Díaz**, 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 31, 2014. The report on the governmental fund financial statements was unmodified. In addition, I did not express an opinion on the governmental activities of the Municipality because I was unable to obtain competent evidential matter related to the capital assets including the infrastructure and the liability related to the solid waste landfill. My report includes a reference to other auditors who audited the financial statements of Villas del Parque, as described in my report on the Municipality's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**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. Findings 13-II-02 and 13-II-03 and 13-II-04.

**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)**

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 and 13-II-04.

**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-02 and 13-II-03.

**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 31, 2014



**PEDRO C. ORTIZ LEDEE**  
CERTIFIED PUBLIC ACCOUNTANT

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**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 Juana Díaz, Puerto Rico**

**Report on Compliance for Each Major Federal Program**

I have audited Municipality of **Juana Díaz**, 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-05, 13-III-06, 13-III-07, 13-III-08, 13-III-09, 13-III-10, 13-III-11. 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-05, 13-III-06, 13-III-07, 13-III-08, 13-III-09, 13-III-10, 13-III-11 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.

*P. C. Ortiz Ledée*

Pedro C. Ortiz Ledée, CPA  
License Number 5200

Guayama, Puerto Rico  
March 31, 2014



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ**

**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:	<b>Disclaimer of opinion on governmental activities</b>	
	<b>Unmodified opinion on governmental funds</b>	
Internal control over financial reporting:		
Material weakness identified?	Yes <b>X</b>	No
Significant deficiencies identified?	Yes <b>X</b>	None reported
Noncompliance material to financial statements noted?	Yes <b>X</b>	No

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes	No <b>X</b>
Significant deficiencies identified?	Yes <b>X</b>	None reported

Type of auditor’s report issued on compliance for major programs:	<b>Unmodified opinion</b>
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <b>X</b>	No
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**Identification of major programs**

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grants - Entitlement Grants
14.871	Section 8 Housing Choice Voucher Program
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
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Auditee qualified as low-risk auditee?	Yes	No <b>X</b>
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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING</b>	<b>13-II-01</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS AND REPORTING SYSTEM</b>
<b>CONDITION</b>	The Municipality did not maintain complete accounting records.
<b>CONTEXT</b>	During my examination of the accounting records, I noted that the Municipality does not summarize the transactions in a formal accounting system in order to properly record and account for the transactions of the general fund and special revenue funds. In addition, during my cash test, I noted that the Municipality does not have effective internal control procedures to ensure the prompt preparation of the bank reconciliations.
<b>CRITERIA</b>	Article 8.010 (c) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, 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.
<b>CAUSE</b>	The Municipality has not established the procedures and adequate internal controls to ensure the adequate recording of all the financial information of the general fund and the special revenue funds.
<b>EFFECT</b>	This condition inhibits the Municipality from having current and reliable financial reports and information necessary for management to take efficient financial actions.
<b>RECOMMENDATION</b>	I recommend management to establish the necessary internal controls and procedures in order to establish a complete accounting system that generate accurate accounting information of all the funds maintain by the Municipality. Also, the Municipality should consider providing additional training to the finance office staff in order to continue improving the accounting records.
<b>MANAGEMENT RESPONSE</b>	The Municipality maintains two set of accounting records; a manual system and a uniform computerized accounting system. Actually, the manual system is the primary source of financial information for financial statements preparation. In addition, our administration implemented new accounting software for the revenues transactions. We are evaluating if it is cost effective acquire this system for all the accounting cycle.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING</b>	<b>13-II-02</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS- CAPITAL ASSETS</b>
<b>CONDITION</b>	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
<b>CONTEXT</b>	During my examination of the property records, I noted that the Municipality does not have adequate internal controls and procedures to ensure that all capital expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality did not have adequate supporting documentation of the cost of the capital assets, including the infrastructure, reported in the statement of net position at June 30, 2013.
<b>CRITERIA</b>	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, stated that Municipality should maintain updated property accounting records.
<b>CAUSE</b>	The Municipality did not maintain an adequate control of the accountability of its capital assets.
<b>EFFECT</b>	The Municipality's government wide financial statements do not present fairly, the financial position of the governmental activities, and the change in net position.
<b>RECOMMENDATION</b>	I recommend management and the Property Division of the Municipality to make an inventory of the capital assets, support it with adequate documentation and reconcile it with the capital assets subsidiary ledger.
<b>MANAGEMENT RESPONSE</b>	We gave instructions to the Property Division to update the capital assets inventory and with the help of our external consultants we are going to reconcile the inventory with the subsidiary ledger and identify possible differences.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING NUMBER</b>	<b>13-II-03</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS</b>
<b>CONDITION</b>	The Municipality did not adjusted in its government wide financial statements, the required liability for closure and post closure care costs based on an adequate study of the activities of the solid waste landfill.
<b>CONTEXT</b>	At June 30, 2013 the Municipality did not realized the required study of the available space and the estimated cost of the closing and post-closing of the Municipality's waste landfill. In addition, the statement of net position did not present the required liability for closure and post-closure care costs of the Municipality's landfill.
<b>CRITERIA</b>	Regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria"; the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. GASB 18 requires the Municipality to perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality must recognize a liability in its statement of net assets at June 30, 2013.
<b>CAUSE</b>	The Municipality failed to realize a study of the operation of the waste landfill, in accordance with the requirements of the EPA, in order to determine the closure and post-closure costs.
<b>EFFECT</b>	The Municipality's government wide financial statements do not present fairly, the financial position of the governmental activities, and the change in net position. Also, the Municipality is not in compliance with GASB 18 and the "Solid Waste Disposal Facility Criteria" issued by the U.S. Environmental Protection Agency.
<b>RECOMMENDATION</b>	I recommend management to perform the study of the activities that need to be implemented at the Municipality's solid waste landfill facilities and determine the amount of the liability that should be reported in the governmental activities.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING NUMBER</b>	<b>13-II-03 (CONTINUATION)</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS</b>
<b>MANAGEMENT RESPONSE</b>	The municipality will request proposals to acquire a professional service, in order to determine the amount of the liability that should be reported in the governmental-wide statement of net position.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**SECTION II – FINANCIAL STATEMENTS FINDINGS**

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<b>FINDING NUMBER</b>	<b>13-II-04</b>
<b>REQUIREMENT</b>	<b>INTERNAL CONTROLS AND PROCEDURES OVER THE DISBURSEMENT CYCLE</b>
<b>CONDITION</b>	During the fiscal year 2012-2013, the Municipality disbursed funds without the appropriate supporting documentation.
<b>CONTEXT</b>	<p>During my examination of the Municipality's disbursement process, I noted the following deficiencies:</p> <ol style="list-style-type: none"><li>1. In twenty-eight (28) disbursements vouchers, the invoices that were paid, were not marked as paid or cancelled;</li><li>2. One (1) disbursement voucher were not approved (signed) by one of the responsible employees;</li><li>3. In two (2) disbursement vouchers the original supplier's invoice was not available for our examination. In addition, in four (4) disbursement vouchers the invoices did not indicated the period in which the services were received;</li><li>4. In thirteen (13) disbursement vouchers, the purchase orders were issued after the invoices and the services or goods were received;</li></ol>
<b>CRITERIA</b>	The Chapter IV of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affair (OCAM), establishes the internal control procedures that the Municipalities should follow during the disbursement cycle.
<b>CAUSE</b>	The Municipality's internal control failed to assure that the disbursement vouchers contains all the documentation required by Law.
<b>EFFECT</b>	The Municipality is not in compliance with the Chapter IV of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affair (OCAM).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING NUMBER</b>	<b>13-II-04 (CONTINUED)</b>
<b>REQUIREMENT</b>	<b>INTERNAL CONTROLS AND PROCEDURES OVER THE DISBURSEMENT CYCLE</b>
<b>RECOMMENDATION</b>	I recommend management to improve the internal control procedures in order to obtain and maintain all the required documentation and supporting documents related to the disbursements process prior to the issuance of the checks.
<b>MANAGEMENT RESPONSE</b>	We will strengthen our internal control system in order assure that all the required documentation and supporting documents related to the disbursements process is obtained prior to the issuance of the checks.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>13-III-05</b>
<b>FEDERAL PROGRAM</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ALLOWABLE ACTIVITIES – HOUSEKEEPING SERVICES</b>
<b>CONDITION</b>	The Program failed to maintained appropriate supporting documentation regarding the housekeeping services in the participant’s files as required by its operational guide.
<b>CONTEXT</b>	<p>As part of my disbursement test, I examined five (5) housekeeping services participant’s files and noted the following conditions:</p> <ul style="list-style-type: none"><li>• In four (4) files, I noted that for continuing participants, the eligibility determination form was not completed by the program coordinator to update the family income, the health condition and other information of the participants;</li><li>• Five (5) files did not include evidence of the family monthly expenses;</li><li>• In one (1) file the Family Department certification was not available for examination;</li><li>• The Program did not assign a control number to any of to the audited files;</li><li>• In three (3) files, the housekeeper did not sign the evaluation form when required.</li></ul>
<b>CRITERIA</b>	Code of Federal Regulations 24, 85.20 (a) (1) states that fiscal control and accounting procedures of subgrantees, must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Also, the Municipality has an operational guide “Manual Operacional Programa Auxiliares del Hogar” that includes all procedures and program’s requirements for housekeeping services.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>13-III-05 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ALLOWABLE ACTIVITIES – HOUSEKEEPING SERVICES</b>
<b>CAUSE</b>	The Program's internal controls procedures relating to the Housekeepers services failed to assure that all required information regarding participants were obtained in accordance with the operational guide.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 24, 85.20 (a) (1) and with the operational guide.
<b>RECOMMENDATION</b>	I recommend management to implement adequate internal controls and procedures in order to assure that the program staff completes all the required forms in accordance with the regulations and the operational guide.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	We will give instructions to the Housing Rehabilitation coordinator to assure that all the required forms are adequately completed and the visits made to the participants are properly documented.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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<b>FINDING</b>	<b>13-III-06</b>
<b>FEDERAL PROGRAMS</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PROGRAM INCOME</b>
<b>CONDITION</b>	The Program did not comply with the Program Income requirement.
<b>CONTEXT</b>	During my program income test, I noted that the Municipality has not determined the portion of the income generated by two projects in which CDBG funds were used. Therefore, the transactions of CDBG's program income are not properly identified and recorded in the accounting records of the Program.
<b>CRITERIA</b>	Code of Federal Regulations 24, Subpart J, Section 570.504 (a), stated that the receipts and expenditures of program income shall be recorded as part of the financial transactions of the grant program.
<b>CAUSE</b>	The Program has not determine the portion of the construction costs applicable to the CDBG funds in order to account the amount of income that corresponds to the Program.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulations 24, Subpart J, Section 570.504 (a) and Code of Federal Regulations 24, Subpart C, Section 85.20 (b) (2).
<b>RECOMMENDATION</b>	I recommend management to implement adequate procedures to ensure that the financial transactions related to the program income are properly recorded in the accounting records of the Program. In addition, we recommend identifying the sources of funding of those projects and made an allocation and determine the portion of program income that corresponds to CDBG.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	We will continue to identify the amount of funds invested in the construction projects were CDBG match funds. Once we determined the amount of program income that corresponds to the Program we will include it in the accounting records.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>13-III-07</b>
<b>FEDERAL PROGRAM</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TEST- REHABILITATION</b>
<b>CONDITION</b>	The Program failed to maintain appropriate supporting documentation regarding the inspections of the rehabilitation work upon its completion, in accordance with the contracts specifications.
<b>CONTEXT</b>	<p>During my special test- rehabilitation, I examined twelve (12) participant's files and noted the following conditions:</p> <ul style="list-style-type: none"><li>• In three (3) participant's files, I did not found evidence that the rehabilitation work was performed. These files did not include photos after rehabilitation, final visit documentation and closing certification. I noted that in one (1) file, the Program required the participant to return the construction materials provided.</li><li>• In one (1) file the rehabilitation work performed, was different to the approved by the Program. I noted that the Program required the participant to returns the construction materials provided.</li><li>• In six (6) files, there was only one follow-up inspections documented in file, at the end of the project. In addition, in these six (6) files, I noted that even though the Program performed various follow-up inspections, the time elapsed between the first inspection and the usage of the materials was between 51 and 125 days.</li></ul>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>13-III-07 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TEST- REHABILITATION</b>
<b>CRITERIA</b>	Code of Federal Regulations 24, Section 570.506 (b) state that at a minimum, the grantee should maintain records demonstrating that each activity undertaken meets one of the three national objectives of the CDBG Program. Also, Code of Federal Regulations 24, Section 570.506 (b) (9) states that when CDBG Entitlement Grant funds are used for residential rehabilitation activity to aid in the prevention or elimination of slums or blight in a slum or blighted area, the grantee must maintain records to support the local definition of “substandard”, must document a pre-rehabilitation inspection report describing the deficiencies in each structure to be rehabilitated, and must document the details in each structure to be rehabilitated, and must document the details and scope of CDBG assisted rehabilitation, by structure.
<b>CAUSE</b>	The Municipality’s internal controls and procedures over the monitoring activities failed to assure that the required unit’s inspections were made constantly, to verify the rehabilitation work upon its completion.
<b>EFFECT</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Section 570.506 (b) and (b) (9).
<b>RECOMMENDATION</b>	I recommend management to follow its procedures in order that the Program’s personnel inspects the rehabilitation works to assure that is carried out in accordance with the Federal regulation. In addition, management should assure that require documentation is obtained and included in the participant’s file.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	We will give instructions to the Program Director to follow up the usage of the material given to the participants through on-site visits and to assure that required documentation is maintained in the participant’s file.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>13-III-08</b>
<b>FEDERAL PROGRAM</b>	<b>HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>CASH MANAGEMENT</b>
<b>CONDITION</b>	The Programs did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.
<b>CONTEXT</b>	During my cash management test, I noted that the Head Start Program maintained an average cash balance of approximately \$126,305 in books. In addition, the Program did not disburse in a timely manner the request of funds advanced by the pass-through entity.
<b>CRITERIA</b>	Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7) states that the Program must maintain procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement made by grantees and sub grantees when advance payment procedures are used.
<b>CAUSE</b>	The Programs did not maintain appropriate cash management procedures in order to disburse the funds requested to the pass-through entity in a timely manner.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7).
<b>RECOMMENDATION</b>	I recommended management to continue strengthening its disbursement procedures to minimize the time between the transfer of funds by the pass through entity and the disbursements made by the Programs.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>13-III-08 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>CASH MANAGEMENT</b>
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Is our opinion that the requisition of funds system established by ACUDEN, the pass-through agency, has been followed by us in compliance with the grant agreement clauses.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>13-III-09</b>
<b>FEDERAL PROGRAM</b>	<b>HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>MATCHING, LEVEL OF EFFORT, EARMARKING</b>
<b>CONDITION</b>	Adequate supporting information regarding the in-kind contributions was not available for examination.
<b>CONTEXT</b>	<p>During my matching test, I noted the following conditions regarding the in-kind contributions supporting documentation:</p> <ul style="list-style-type: none"><li>• For program year 2012-2013, the Program reported the amount of \$31,177 in in-kind contributions related the rent of the centers owned by the Municipality. The Program did not provide to us, an analysis or a detail to support such amount. Also, the Program reported \$294,180 in in-kind contributions, related to the rent of the other centers for which the rent appraisals were not updated;</li><li>• During February 2013, the valuation of volunteers work was not prepared according to the Program's wage rates table. I noted, in my sample of voluntary labor, that the valorization of maintenance work was determined using the assistant teacher rates;</li></ul> <p>In addition, the accounting records used by the Program did not adequately separate the administrative and programmatic costs. This analysis is made by the accountant in electronic worksheets that are not integrated to the accounting records of the Program.</p>
<b>CRITERIA</b>	45 CFR Subpart C, Section 92.24 (b) (6) states that costs and third party in kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost- type contractors. Also, 45 CFR, Section 92.20 (b) (2) states that the grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>13-III-09 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>MATCHING, LEVEL OF EFFORT, EARMARKING</b>
<b>CAUSE</b>	The Municipality did not maintain an adequate control over the in-kind contributions supporting documentation.
<b>EFFECT</b>	The Municipality is not in compliance with 45 CFR, Subpart C, Sections 92.24 (b) (6), 92.20 (b) (2) and 1304.52 (k).
<b>RECOMMENDATION</b>	I recommend management to continue strengthening the internal controls and procedures in order to assure that adequate supporting documentation of the in-kind contributions are maintain. Also, management should consider separating in the accounting records, the administrative and programmatic costs.
<b>MANAGEMENT RESPONSE</b>	We will continue improving our internal controls over the in-kind contributions in order to adequately document all the contributions received in in-kind.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>13-III-10</b>
<b>FEDERAL PROGRAM</b>	<b>HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>REPORTING</b>
<b>CONDITION</b>	The Program's accounting records were not updated and maintained differences with the reports submitted to the pass-through entity.
<b>CONTEXT</b>	During my reporting test, I examined the financial report for month of February 2013, submitted to the pass-through entity and found that the expenditures reported in the closing report for program year 2012-2013 has differences of \$26,502 with the Program's trial balance. Also, at the time of my examination, the trial balance, for the month of April 2013 was not available for my examination.
<b>CRITERIA</b>	Code of Federal Regulation 45, 92.20 (b) (1) states that the grantees and subgrantees financial management system must assure accurate, current, and complete disclosure of the financial results of the financially assisted activities in accordance with the financial reporting requirements of the grant or subgrant. In addition, Section 92.20 (b) (2) states that the grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income.
<b>CAUSE</b>	The Program's internal controls failed to maintain proper accounting records that supports adequately, the financial reports submitted to the pass-through entity.
<b>EFFECT</b>	The program did not maintain its financial management system updated to assure compliance with the financial reporting requirements of the pass through entity.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>13-III-10 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>REPORTING</b>
<b>RECOMMENDATION</b>	The Program should continue strengthening its procedures and controls to ensure that the accounting system information is updated and the financial information submitted to the pass through entity in the reports agrees with the accounting records.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	We will continue improving our accounting system in order to provide accurate and complete accounting information.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>13-III-11</b>
<b>FEDERAL PROGRAM</b>	<b>CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>CASH MANAGEMENT</b>
<b>CONDITION</b>	The Program maintains high level of cash in the bank accounts.
<b>CONTEXT</b>	During my cash management test, I noted that during the fiscal year 2012-2013, the Program maintained an average monthly cash balance of approximately \$66,519 in books.
<b>CRITERIA</b>	Code of Federal Regulations 7, Subpart C, Section 3016.20 (b) (7) states, procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed.
<b>CAUSE</b>	The Program and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to the pass-through only for immediate needs.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulations 7, Subpart C, Section 3016.20 (b) (7).
<b>RECOMMENDATION</b>	I recommend management to strengthen its disbursements procedures to minimize the time between the transfer of funds by the state and disbursement made by the Municipality.
<b>QUESTIONED COSTS</b>	None

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<b>FINDING NUMBER</b>	<b>13-III-11 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>CASH MANAGEMENT</b>
<b>MANAGEMENT RESPONSE</b>	We gave instructions to the Program's Finance Department and the Finance Department of the Municipality to issue the checks in approximately three (3) days once the transfers of funds from the State are received.

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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The following schedule contains the original number and title of each of the findings of federal awards included in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133* and the Schedule of Prior Years' Audit Findings for the Fiscal Year ended June 30, 2013. The following legend indicates the current status of the prior years' audit findings:

ORIGINAL FINDING NUMBER	CFDA NUMBER	TITLE
12-III-03	14.218	<p><b>Allowable Activities-</b> Housekeeping Services</p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-05</p>
12-III-04	14.218	<p><b>Program Income</b></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-06</p>
12-III-05	14.218	<p><b>Special Test- Rehabilitation</b></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-07</p>
12-III-06	93.600 93.708	<p><b>Cash Management</b></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-08</p>
12-III-07	93.600 93.708	<p><b>Procurement, Suspension and Debarment</b></p> <p>Fully corrective action was taken.</p>

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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

ORIGINAL FINDING NUMBER	CFDA NUMBER	TITLE
12-III-08	10.558	<p><b>Cash Management</b></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-11</p>
12-III-09	10.558	<p><b>Procurement, Suspension and Debarment</b></p> <p>Fully corrective action was taken.</p>
12-III-10	14.228	<p><b>Allowable Costs / Costs Principles</b></p> <p>The auditor did not identify a similar situation.</p>
12-III-11	14.228	<p><b>Davis Bacon Act</b></p> <p>The auditor did not identify a similar situation.</p>
12-III-12	14.228	<p><b>Procurement, Suspension and Debarment</b></p> <p>The auditor did not identify a similar situation.</p>
11-III-04	14.218	<p><b>Allowable Activities- Housekeeping Services</b></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-05</p>
11-III-05	14.218	<p><b>Program Income</b></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-06</p>

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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

ORIGINAL FINDING NUMBER	CFDA NUMBER	TITLE
11-III-06	14.218	<p><b>Special Test- Rehabilitation</b></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-07</p>
11-III-08	93.600 93.708	<p><b>Cash Management</b></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-08</p>
11-III-11	93.600 93.708	<p><b>Procurement, Suspension and Debarment</b></p> <p>Fully corrective action was taken.</p>
11-III-13	10.558	<p><b>Cash Management</b></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-11</p>
11-III-14	10.558	<p><b>Procurement, Suspension and Debarment</b></p> <p>Fully corrective action was taken.</p>
10-III-06	14.218	<p><b>Allowable Activities- Housekeeping Services</b></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

ORIGINAL FINDING NUMBER	CFDA NUMBER	TITLE
10-III-08	14.218	<b>Special Test- Rehabilitation</b>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-III-10	93.600	<b>Cash Management</b>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-III-13	93.600	<b>Procurement, Suspension and Debarment</b>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-III-17	10.558	<b>Cash Management</b>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-III-18	10.558	<b>Procurement, Suspension and Debarment</b>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.