

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

**MUNICIPIO DE LAJAS
AUDITORÍA 2011-2012
30 DE JUNIO DE 2012**

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Oficina del Comisionado
de Asuntos Municipales



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS**

***BASIC FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITOR'S REPORT
(WITH ADDITIONAL REPORTS REQUIRED
UNDER OMB CIRCULAR A-133)***

***AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012***



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the
Municipal Assembly
Municipality of Lajas, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Lajas, Puerto Rico**, as of and for the year ended June 30, 2012, which collectively comprise the Municipality of Lajas, Puerto Rico's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality of Lajas, Puerto Rico's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to obtain a discussion or evaluation from the Municipality's management nor its outside legal counsel of pending or threatened litigation as described in Note Q. We were unable to obtain sufficient appropriate audit evidence by performing other auditing procedures. The financial statements do not reflect any contingency or possible losses related to any existing pending threatened litigation.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Municipality and its external legal counsel provided a discussion or evaluation pending or threatened litigation, the financial statements referred to previously present fairly, in all material respects, financial position of the governmental activities, each mayor fund, and the aggregate remaining fund information, and general fund of the Municipality of Lajas, Puerto Rico, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

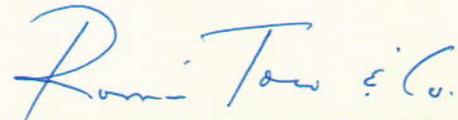
In accordance with Government Auditing Standards, we also issued our report dated March 11, 2013, on our consideration of the Municipality of Lajas, Puerto Rico's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT

(CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 58 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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


ROMAN TORO & CO., CPA, C.S.P.
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
March 11, 2013

Stamp #E46231 was affixed to
the original of this report



MANAGEMENT'S DISCUSSION AND ANALYSIS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

The following Management's Discussion and Analysis is a required supplement to the Municipality's financial statements. It describes and analyses the financial position of the Municipality, providing an overview of the Municipality's activities for the year ended June 30, 2012. We encourage readers to consider this information in conjunction with the basic financial statements and notes to obtain a better understanding of the financial position and the results of operations of the Municipality. Our analysis follows this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

The government-wide financial statements use the economic resources measuring focus and the accrual basis of accounting to report information about the Municipality as a whole:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2012 by \$9,505,898 (net assets).
- Revenues decreased by 2% while expenses increased by 8% when compared with fiscal year 2011.
- Net change in net assets amounted to a negative change of \$1,477,322, a decrease with respect to the prior year's positive net change of \$12,808.

Highlights for Fund Financial Statements

Detailed information about the Municipality's most significant funds is found in the funds financial statements, which use the current financial resources measurement focus and modified accrual basis of accounting:

- A negative net change in the fund balances of the Municipality's governmental funds of \$3,449,768 in the fiscal year 2012 resulted in reported ending fund balances of \$2,133,545. It resulted in an unrestricted unassigned fund deficit of \$2,266,239.
- For the fiscal year 2012, the General Fund reported a decrease in fund balances of \$28,475. The unassigned fund balance deficit amounts to \$1,992,819 an increase of 37% with respect to prior year.

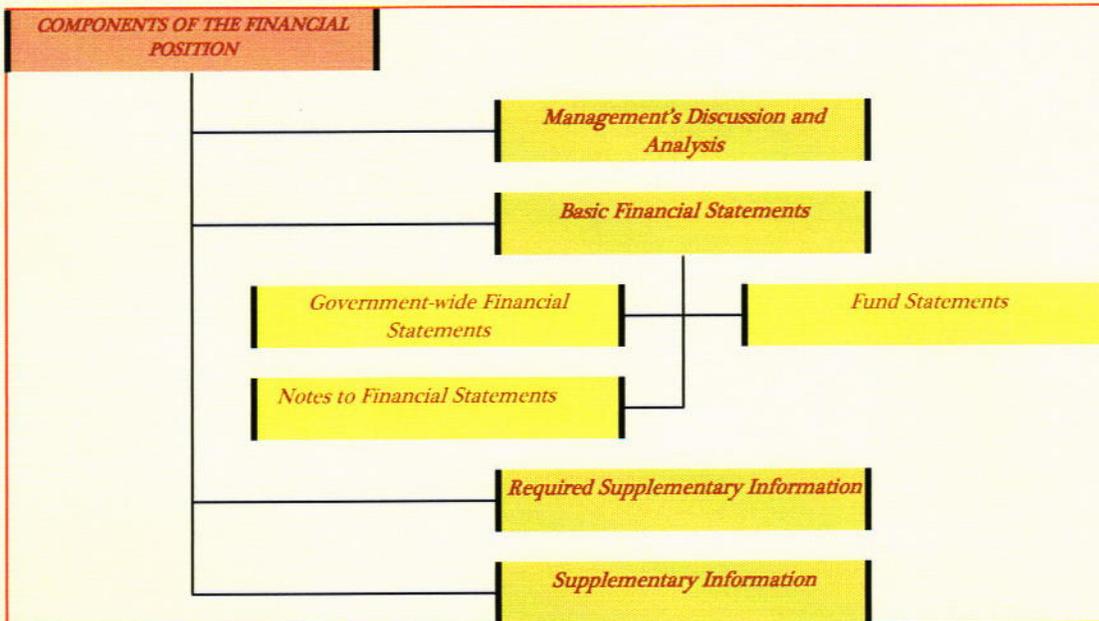
General Financial Highlights

- The investment in capital assets as of June 30, 2012 was \$22,324,653 (net of depreciation).
- Long-term debt increased to \$17,081,417, or approximately a 4% increase with respect to the prior year.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$1,107,331.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components: (1) management's discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

- **Government-Wide Financial Statements**

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the statement of net assets – presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement – the statement of activities – presents information showing how the net assets changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

The government-wide statements report as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, health, welfare and community development, and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well as by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of expendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that comply with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Supplementary information

The required supplementary information is followed by a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

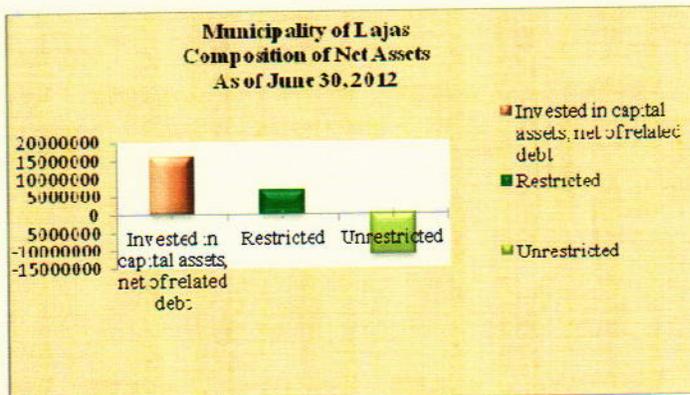
Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2012 and 2011:

TABLE 1

Summary Statement of Net Assets As of June 30,		
	Governmental Activities	
	2012	2011 (as restated)
Assets		
Current and other assets	\$ 7,859,408	\$ 10,717,738
Capital assets	22,324,653	20,306,256
Total assets	\$ 30,184,061	\$ 31,023,994
Liabilities		
Current and other liabilities	\$ 3,596,746	\$ 5,871,871
Long-term liabilities	17,081,417	14,168,903
Total liabilities	20,678,163	20,040,774
Net assets		
Invested in capital assets, net of related debt	16,100,081	15,999,627
Restricted	4,154,500	6,356,340
Unrestricted (deficit)	(10,748,683)	(11,372,747)
Total net assets	\$ 9,505,898	\$ 10,983,220

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. At June 30, 2012, assets exceeded its liabilities by \$9,505,898, representing a net decrease of 13% with respect to year 2011 caused basically due to a significant net increase in the unrestricted deficit.



The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

As of June 30 2012, the Municipality presented an unrestricted net assets deficit. This deficit primarily arises from long-term obligations such as compensated absences, landfill closure and post closure costs, as well as payment plans to finance debts with Commonwealth agencies such as General Services Administration and Employee's Retirement System. For compensated absences debt, the Municipality did not provide funding in previous budgets since historically such obligation have been budgeted on a "pay as you go" basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as invested in capital assets, net of related debt. Therefore, they are reported as part of the unrestricted net assets section.

Changes in net assets

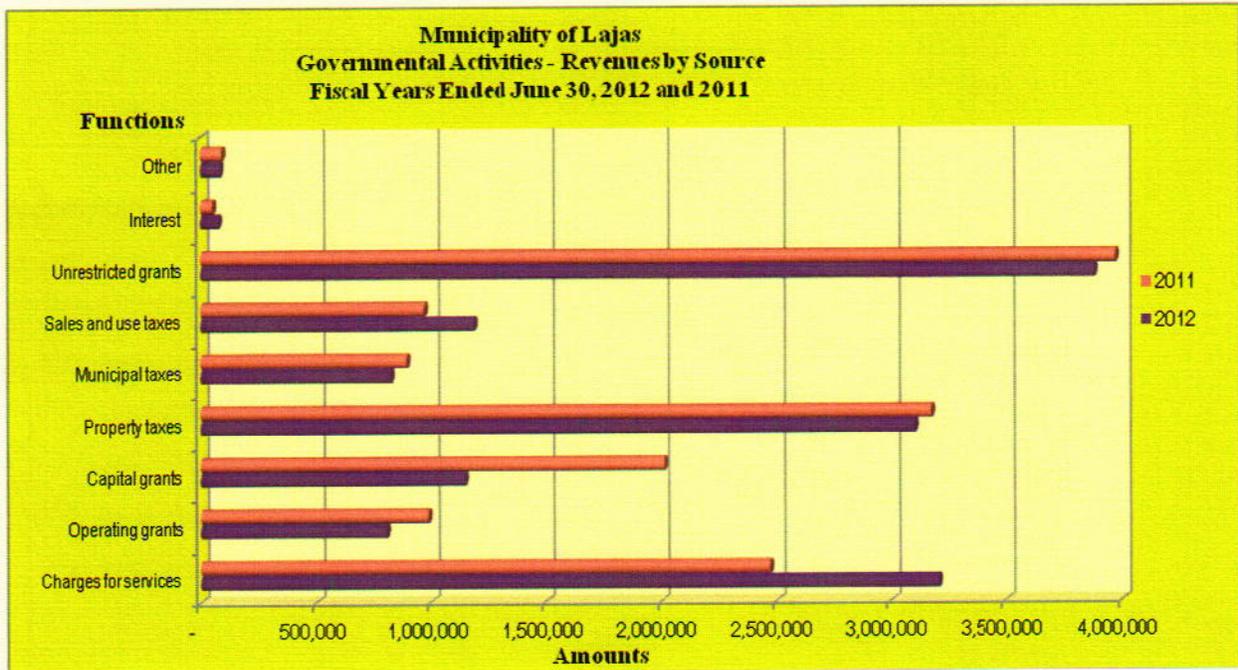
The following table summarizes the changes in net assets for the fiscal years ended 2012 and 2011:

TABLE 2

Summary Changes in Net Assets As of June 30,		
	Governmental Activities	
	2012	2011 (as restated)
Program revenues:		
Fees, fines and charges for services	\$ 3,201,389	\$ 2,468,741
Operating grants and contributions	806,337	986,584
Capital grants and contributions	1,142,323	2,012,953
General revenues:		
Property taxes	3,098,375	3,170,257
Municipal license taxes	825,575	893,621
Sales and use taxes	1,183,080	969,931
Grants and contributions not restricted to specific programs	3,877,031	3,968,675
Interest	76,733	51,489
Other	84,208	92,644
Total revenues	14,295,051	14,614,895
Expenses:		
General government	7,023,261	6,403,519
Public works and sanitation	4,289,164	3,902,303
Public safety	754,646	768,178
Culture and recreation	1,193,770	1,136,060
Health	389,754	390,218
Welfare and community development	1,723,085	1,678,189
Education	54,375	10,104
Interest on long term debt	344,318	295,516
Total expenses	15,772,373	14,602,087
Change in net assets	(1,477,322)	12,808
Net assets-beginning of year	10,983,220	10,970,412
Net assets-end of year	\$ 9,505,898	\$ 10,983,220

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

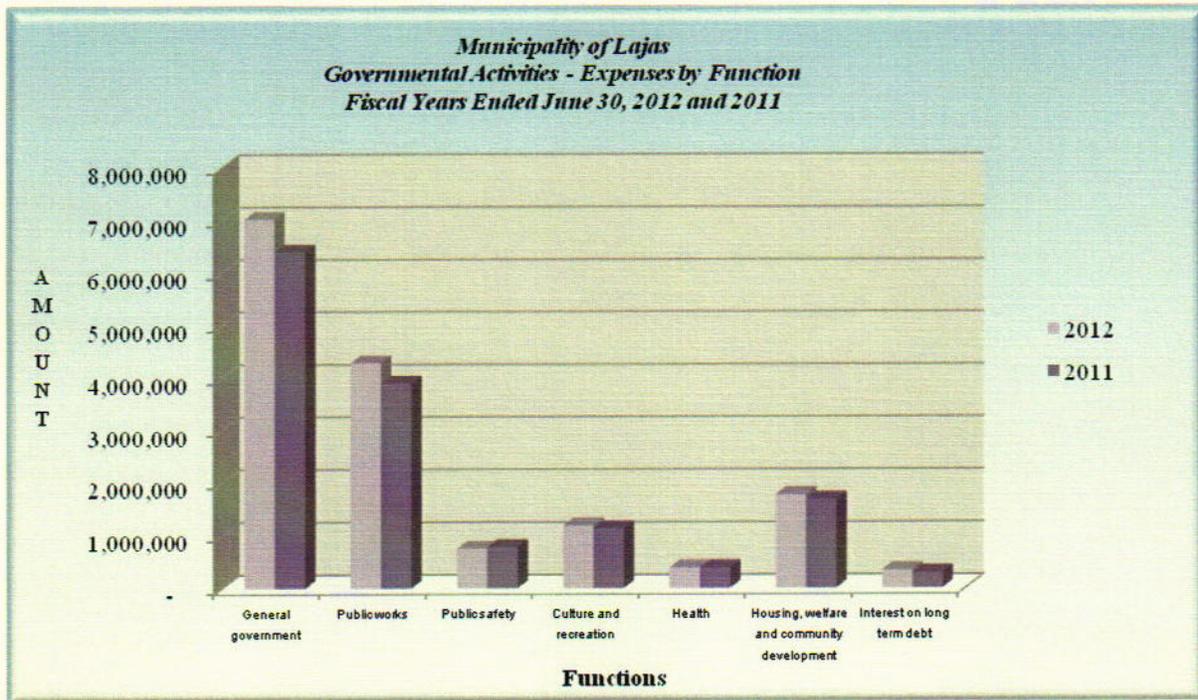
FIGURE 1



Approximately 27% of the Municipality's revenues came from unrestricted grants, 22% from fees, fines and charges from services, 22% from property taxes, and 14% from operating and capital grants. Revenues decreased by 2% in comparison with fiscal year 2011. The most significant changes are a 43% decrease in capital grants and contributions, due mainly to decreases in PINI and DTOP improvement funds received previously. There was also a 18% decrease in operating grants and contributions, due mainly to the cease of public safety funds received in the past and the decrease in other general grants. These decreases were partially offset by a 30% net increase in fees fines and charges for services, due mainly to an increase in the PREPA compensation in lieu of taxes and an increase of 22% in revenues from sales and use taxes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FIGURE 2



The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 45%, public works and sanitation with 27% and welfare and community development with 11%. Program revenues of the Municipality covered 33% of total expenses.

Total expenses increased 8% in comparison with the previous year. This includes a 10% net increase in general government, a 10% net increase in public works and sanitation, a 17% net increase in interest expense and a 5% net increase in culture and recreation, and in housing, welfare and community development expenses. In most cases the increases were caused by an intensive use of grants supporting these activities in the current year. The increase in general government expense was caused by an increase in the electricity expense along with an overall increase in the operational expenses of the Municipality during the year. The increase in public works and sanitation is due mainly to an increase in sanitation costs. The increase in interest on long-term debt was caused due to an increase in long term debt and related payments during the year.

As noted previously the decrease in revenues, combined with the increase in expenses, resulted in a decrease in net assets of \$1,477,322 when compared with the net increase in net assets reported in the fiscal year 2011 statement of activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

The following table focuses on the cost of each of the Municipality's largest programs as well as each program's net cost (total cost less fees generated by the programs and program-specific intergovernmental aid):

TABLE 3

Net Cost of Municipality's Governmental Activities Fiscal years ended June 30,				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2012	2011 (as restated)	2012	2011 (as restated)
General government	\$ 7,023,261	\$ 6,403,519	\$ (3,844,194)	\$ (3,723,469)
Public works and sanitation	4,289,164	3,902,303	(3,152,437)	(2,511,249)
Public safety	754,646	786,178	(754,646)	(697,212)
Culture and recreation	1,193,770	1,136,060	(1,190,396)	(1,127,954)
Health	389,754	390,218	(389,754)	(390,218)
Welfare and community development	1,723,085	1,678,189	(892,204)	(378,087)
Education	54,375	10,104	(54,375)	(10,104)
Interest on long-term debt	344,318	295,516	(344,318)	(295,516)
	<u>\$ 15,772,373</u>	<u>\$ 14,602,087</u>	<u>\$ (10,622,324)</u>	<u>\$ (9,133,809)</u>

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$3,201,389) and other governments and organizations that subsidized certain programs with grants and contributions (\$1,948,660). The (\$10,622,324) net cost of services was mostly covered by other general revenues including property taxes, municipal license taxes, sales and use taxes, and grants and contributions not restricted to specific programs.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

For the fiscal year ended June 30, 2012, the governmental funds reported ending fund balances of \$2,133,545, a net decrease of \$3,449,768 in comparison with the prior year. This decrease was caused primarily by decreases in the General Fund of \$28,475, in the Commonwealth Legislative Resolutions fund of \$889,509, in the Debt Service fund of \$199,363, in the Community Development Block Grant Program of \$152,532, in the \$2,215,000 Loan Issuance fund for \$1,028,564, in the Permanent Capital Improvements fund of \$2,091 and in Other Governmental Funds of \$1,149,234. Of the total fund balances, \$(2,266,239) constitutes unrestricted fund balance deficit, which is comprised of funds committed by the Mayor and the Municipal Legislature, funds assigned by the Mayor or the Finance Director as well as unassigned funds. The remainder of the fund balances is restricted to indicate that it is not available for new spending. Unassigned fund balance deficit is 1.06 times the total net fund balance of all funds combined.

The general fund is the operating fund of the Municipality. The fund balance deficit of the general fund is approximately 93% of the total aggregated ending fund balances. The amount of \$4,651 of the fund balance deficit of the general fund is restricted, which represent cash with fiscal agent (GDB) of \$630,000 bond issuance. Encumbrances amounts included as unassigned fund balance of the general fund are distributed as follows:

- \$168,127 assigned for general public works and sanitation
- \$7,041 assigned for public safety
- \$11,135 assigned for sports, culture and recreation
- \$2,582 assigned for housing, welfare and community development
- \$347,423 assigned for general government and other purposes

The total unassigned fund balance deficit of the general fund \$(1,992,819) is over 1 times of the total net fund balance deficit of the general fund and -17% of total general fund expenditures.

For the year ended June 30, 2012, the fund balance of the general fund decreased by a net change of \$28,475 when compared with the prior year. This negative change is caused primarily by the net effect of an increase in \$628,947 in expenditures partially offset by an increase of only \$285,539 in revenues, when compared to the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal year 2011-2012 presented an increase of .08% with respect to the prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year 2012 actual revenues do not reached budgeted revenues by \$1,140,864 (net). The most significant variances were a negative \$1,157,484 in fees, fines and charges for services, a negative \$383,696 in sales and use taxes revenues, and a negative \$220,493 in municipal license taxes revenues. These variances were partially offset by a positive \$324,964 in intergovernmental revenues, and a positive \$266,325 in other revenues. The Municipality also reported a net positive variance of \$30,447 between revised budgeted appropriations and actual expenditures. There most significant variances were a positive \$125,148 in public works and sanitation, a positive variance of \$9,086 in transfers out, and a negative variance of \$112,370 in general government. Actual expenditures exceeded actual revenues by \$1,107,331.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$22,324,653 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of 10% over the prior year.

TABLE 4

Capital Assets, net As of June 30,		
	Governmental Activities	
	2012	2011 (as restated)
Non-depreciable assets:		
Land	\$ 1,701,334	\$ 1,701,334
Construction in progress	1,599,431	2,109,672
Depreciable assets:		
Land improvements	1,170,062	1,276,108
Buildings and buildings improvements	12,358,205	10,453,692
Infrastructure	3,517,101	2,960,562
Vehicles, machinery and equipment	1,978,520	1,804,888
Total	\$ 22,324,653	\$ 20,306,256

The Municipality's major capital projects that were still in construction as of June 30, 2012 are as follows:

- Improvements to the Municipal Cementery - \$905,581
- Construction of San Blas Apartments #43 - \$193,153
- Construction of Cartagena Lagoon boundaries - \$140,851
- Solid Waste Landfill Mitigation Plan - \$111,400
- Construction of "Campo de Bateo" - \$94,338
- Construction of Baseball Park in Paris ward - \$70,548
- Improvements of the Tennis Court of Urb. El Valle - \$62,500

During the fiscal year 2011-2012 the Municipality finished some significant projects such as the construction of the Liche Lluch Basketball Court (\$388,427), the construction of the Municipal Police building (\$169,450), the improvements of the Fishing Village at La Parguera ward (\$123,400), and the improvements of the Town Entrance of the Municipality (\$99,750). The Municipality also acquired a total of \$531,480 in vehicles and machinery and equipment during the fiscal year 2011-2012, including four heavy equipment units for \$249,050, five vehicles for \$161,011, and three small vehicles for \$54,105 to be used by the Municipal police.

More detailed information about the Municipality's capital assets is presented in Note G to the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

Long-term debt

At year-end, the Municipality had \$11,075,000 in general and special bonds and notes, an increase of 2% with respect to the prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2012 and 2011:

TABLE 5

	<i>Outstanding Long-term Debt</i>	
	<i>Fiscal years ended June 30,</i>	
	Governmental Activities	
	2012	2011
General and special obligation bonds and notes	\$ 11,075,000	\$ 10,858,000
Note payable to CRIM – Law No. 42	294,820	301,826
Note payable to CRIM – LIMS	-	15,524
Note payable to CRIM – financing of delinquent accounts	107,360	112,728
Capital Leases	40,585	57,605
Landfill closure and post-closure care costs	1,228,435	1,095,345
Compensated absences	2,381,155	2,556,213
Christmas bonus payable	263,967	263,332
P.R. Department of Treasury - property taxes	55,109	51,109
Payable to PREPA	578,705	398,085
Note payable to General Service Administration	519,429	277,845
Note payable to P.R. Department of Labor	-	230,785
Note payable to ERS - special laws	24,699	90,056
Note payable to ERS - current year contributions	512,153	44,443
Total	<u>\$ 17,081,417</u>	<u>\$ 16,352,896</u>

The Municipality reported a net increase in the other long-term debts of \$511,521. This increase was mostly affected by increases of \$467,710 and \$241,584 from new debt (payment plans) payable to the P.R. Employee Retirement System and the P.R. General Service Administration respectively. There were also significant increases of \$180,620 and \$133,090 in the payable to PREPA and the estimated debt for Landfill closure and post-closure care costs, respectively. These increases were partially offset by a decrease of \$230,785 in the payment plan debt due to the P.R. Department of Labor and a decrease of \$175,058 in the debt for Compensated Absences. More detailed information about the Municipality's long-term liabilities is presented in Note H of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when establishing the budget for the fiscal year 2011-2012. One of these factors is the economy. Among economic areas considered are the estimates for the growth in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 16.1%, which compares with the Commonwealth rate of 14.9% at June, 2012.

For year 2012-2013 the Municipality applied an aggressive approach in the development of budget estimates. Amounts available for appropriations in the General Fund are \$12,793,621, representing an increase of 9% with respect to prior year estimates. In addition to the general fund estimated budget the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have any questions about this report or need any additional information contact the Finance Department at the Municipality of Lajas, PO Box 910 Lajas, P.R. 00667.

BASIC FINANCIAL STATEMENTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities
ASSETS	
Receivables, net:	
Municipal license taxes	\$ 2,744
Fees and charges from services	134,148
Due from:	
Commonwealth Government (note C)	1,142,920
Federal Government (note C)	538,114
Restricted assets:	
Cash and cash equivalents	2,229,958
Cash with fiscal agent	3,737,891
Deferred bond issuance costs, net of accumulated amortization of \$70,552	29,312
Other assets (note E)	44,321
Capital assets (note G):	
Land and construction in progress	3,300,765
Other capital assets, net	<u>19,023,888</u>
Total capital assets, net	<u>22,324,653</u>
Total assets	<u>\$ 30,184,061</u>

LIABILITIES	
Accounts payable and accrued liabilities	2,446,391
Interest payable	197,421
Due to:	
Commonwealth Government (note C)	254,922
Deposits payable	
Deferred revenues:	
Municipal License taxes	617,451
Intergovernmental - Commonwealth agencies	2,195
Intergovernmental - Federal grants	78,366
Long term liabilities (note H):	
Due within one year	2,539,515
Due in more than one year	<u>14,541,902</u>
Total liabilities	20,678,163

NET ASSETS	
Invested in capital assets, net of related debt	16,100,081
Restricted for:	
Debt service	1,836,363
Capital Projects	1,742,423
Other specified purposes	575,714
Unrestricted (deficit)	<u>(10,748,683)</u>
Total net assets	<u>\$ 9,505,898</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2012

Functions	Program Revenues				Net (expenses) revenues and changes in net assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 7,023,261	\$ 3,179,067	\$ -	\$ -	\$ (3,844,194)
Public works and sanitation	4,289,164	18,948	27,209	1,090,570	(3,152,437)
Public safety	754,646	-	-	-	(754,646)
Culture and recreation	1,193,770	3,374	-	-	(1,190,396)
Health	389,754	-	-	-	(389,754)
Welfare and community development	1,723,085	-	779,128	51,753	(892,204)
Education	54,375	-	-	-	(54,375)
Interest on long term debt	344,318	-	-	-	(344,318)
Total	\$15,772,373	\$ 3,201,389	\$ 806,337	\$ 1,142,323	\$ (10,622,324)

General revenues :

Taxes:	
Property taxes	3,098,375
Municipal license taxes	825,575
Sales and use taxes	1,183,080
Grants contributions not restricted to specific programs	3,877,031
Interest	76,733
Other	84,208
Total general revenues:	<u>9,145,002</u>

Change in net assets	(1,477,322)
Net assets – beginning as restated	<u>10,983,220</u>
Net assets - ending	<u>\$ 9,505,898</u>

The accompanying notes are an integral part of these financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	Major Funds							Total Governmental Funds
	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	\$2,215,000 Loan Issuance	Permanent Capital Improvements	Other Governmental Funds	
Assets								
Receivables, net:								
License taxes	\$ 2,744	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,744
Fees and charges from services	73,432	-	-	-	-	-	24,422	97,854
Due from:								
Commonwealth Government	948,393	-	139,903	-	-	-	54,624	1,142,920
Federal Government	-	-	-	465,243	-	-	72,871	538,114
Other funds (note D)	176,886	-	-	-	-	-	54,013	230,899
Advances to other funds	-	12,690	-	-	-	-	-	12,690
Other assets	44,321	-	-	-	-	-	-	44,321
Restricted assets:								
Cash and cash equivalents	-	505,851	-	12,551	-	1,169,937	541,619	2,229,958
Cash with fiscal agent	4,651	-	1,884,966	-	791,318	-	1,056,956	3,737,891
Total assets	\$1,250,427	\$518,541	\$ 2,024,869	\$477,794	\$791,318	\$1,169,937	\$ 1,804,505	\$8,037,391

Liabilities and Fund Balances (deficit)

Liabilities:								
Accounts payable and accrued liabilities	1,312,380	136,879	-	400,645	261,430	8,135	326,922	2,446,391
Matured bonds and interest payable	-	-	1,025,852	-	-	-	-	1,025,852
Matured long term debt payable	77,308	-	-	-	-	-	-	77,308
Due to:								
Commonwealth Government	254,922	-	-	-	-	-	-	254,922
Other funds	54,013	-	-	77,149	-	-	99,737	230,899
Advances from other funds	12,690	-	-	-	-	-	-	12,690
Deferred revenues (notes E and K):								
Municipal License taxes	617,451	-	-	-	-	-	-	617,451
Intergovernmental-Commonwealth Government	909,831	-	11,767	-	-	-	21,365	942,963
Intergovernmental-Federal grants	-	-	-	217,004	-	-	78,366	295,370
Total liabilities	3,238,595	136,879	1,037,619	694,798	261,430	8,135	526,390	5,903,846

Continued

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	Major Funds							Total Governmental Funds
	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	\$2,215,000 Loan Issuance	Permanent Capital Improvements	Other Governmental Funds	
Nonspendable	-	12,690	-	-	-	-	-	12,690
Restricted	4,651	368,972	987,250	-	529,888	1,161,802	1,334,531	4,387,094
Unassigned	(1,992,819)	-	-	(217,004)	-	-	(56,416)	(2,266,239)
Total fund balances (deficit)	(1,988,168)	381,662	987,250	(217,004)	529,888	1,161,802	1,278,115	2,133,545
Total liabilities and fund balances (deficit)	\$ 1,250,427	\$518,541	\$2,024,869	\$477,794	\$791,318	\$1,169,937	\$1,804,505	\$8,037,391

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total fund balances- governmental funds	\$ 2,133,545
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet:	22,324,653
Other assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds:	
Deferred charges - bond issuance costs	29,312
Other assets are not available to pay current-period expenditures and, therefore, are deferred in the funds:	
Due from Commonwealth Government:	
Christmas bonus reimbursement	\$ 131,983
Property taxes- General Fund	199,143
Property taxes- Debt Service Fund	11,767
P.R. Electric Power Authority (PREPA)	578,705
Urban Business Impact Program	<u>19,170</u>
Due from Federal Government:	
Federal Grant - Child Care Food Program	36,294
Federal grant – CDBG	<u>217,004</u>
	940,768
	253,298
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds:	(22,654)
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
General obligation bonds and notes	(10,215,000)
Note payable to CRIM-Law No. 42	(294,820)
Note payable to CRIM-financing of delinquent accounts	(107,360)
Municipal landfill closure and post closure	(1,228,435)
Payable to CRIM-excess of property tax advances	(55,109)
Compensated absences	(2,381,155)
Christmas Bonus	(263,967)
Obligations under capital leases	(34,785)
Note payable to P.R. General Services Administration	(477,903)
Debt payable to P.R. Electric Power Authority (PREPA)	(578,705)
Debt payable to ERS - special laws	(24,699)
Debt payable to ERS - current year contributions	<u>(491,086)</u>
	<u>(16,153,024)</u>
Net assets of governmental activities:	<u>\$ 9,505,898</u>

The accompanying notes are an integral part of these financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) -
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2012

	Major Funds							Total Governmental Funds
	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	\$2,215,000 Loan Issuance	Permanent Capital Improvements	Other Governmental Funds	
Revenues:								
Taxes:								
Property taxes (note J)	\$2,317,104	\$ -	\$702,199	\$ -	\$ -	\$ -	\$ -	\$3,019,303
Municipal license taxes (note K)	825,575	-	-	-	-	-	-	825,575
Sales and use taxes (note L)	501,368	-	681,712	-	-	-	-	1,183,080
Intergovernmental:								
Commonwealth Government (note M)	5,765,372	300,000	-	-	-	-	386,500	6,451,872
Federal Government	-	-	-	383,057	-	-	973,036	1,356,093
Fees, fines and charges for services	643,315	-	-	-	-	-	46,914	690,229
Interest	26,392	-	1,540	-	19,700	14	25,831	73,477
Other	49,399	-	-	-	-	-	40,146	89,545
Total revenues	10,128,525	300,000	1,385,451	383,057	19,700	14	1,472,427	13,689,174
Expenditures:								
Current:								
General government	5,795,250	-	-	143,310	-	-	386,766	6,325,326
Public works and sanitation	3,260,087	324,670	-	-	34,303	2,105	219,790	3,840,955
Public Safety	670,636	-	-	-	-	-	12,523	683,159
Culture and recreation	1,039,832	-	-	-	-	-	710	1,040,542
Health	359,472	-	-	-	-	-	-	359,472
Welfare and community development	439,847	-	-	311,200	-	-	847,600	1,598,647
Education	48,527	-	-	-	-	-	5,009	53,536
Capital outlays	9,060	864,839	-	163,590	994,261	-	943,414	2,975,164
Debt Service:								
Principal	-	-	923,000	-	-	-	-	923,000
Interest	-	-	344,940	-	-	-	-	344,940
Bond issuance costs	3,336	-	-	-	-	-	1,755	5,091
Total expenditures	11,626,047	1,189,509	1,267,940	618,100	1,028,564	2,105	2,417,567	18,149,832
Excess (deficiency) of revenues over expenditures	(1,497,522)	(889,509)	117,511	(235,043)	(1,008,864)	(2,091)	(945,140)	(4,460,658)

Continued

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2012

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) -

	Major Funds							Total Governmental Funds
	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	\$2,215,000 Loan Issuance	Permanent Capital Improvements	Other Governmental Funds	
Other financing sources (uses):								
General long term debt issuance	630,000	-	-	-	-	-	355,000	985,000
Note payable issuance – General Service Adm.	544,127	-	-	-	-	-	-	544,127
Note payable issuance – Retirement System	567,073	-	-	-	-	-	-	567,073
Note payable issuance – Ret. System, Special Laws	74,099	-	-	-	-	-	-	74,099
Discount on note payable	(58,655)	-	-	-	-	-	-	(58,655)
Payment of long-term debt - PREPA	(508,523)	-	-	-	-	-	-	(508,523)
Payment of long-term debt – Department of Labor Payment Plan	(230,785)	-	-	-	-	-	-	(230,785)
Payment of long-term debt – Retirement System Payment Plan	(225,929)	-	-	-	-	-	-	(225,929)
Payment of long-term debt – General Service Administration Payment Plan	(135,517)	-	-	-	-	-	-	(135,517)
Transfers in	1,037,032	-	141,363	82,511	-	-	-	1,260,906
Transfers (out)	(223,875)	-	(458,237)	-	(19,700)	-	(559,094)	(1,260,906)
Total other financing resources (uses)	1,469,047	-	(316,874)	82,511	(19,700)	-	(204,094)	1,010,890
Net change in fund balances (deficit)	(28,475)	(889,509)	(199,363)	(152,532)	(1,028,564)	(2,091)	(1,149,234)	(3,449,768)
Fund balances (deficit) at beginning of year	(1,959,693)	1,271,171	1,186,613	(64,472)	1,558,452	1,163,893	2,427,349	5,583,313
Fund balances (deficit) at end of year	\$(1,988,168)	\$ 381,662	\$ 987,250	\$(217,004)	\$ 529,888	\$1,161,802	\$1,278,115	\$2,133,545

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The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (DEFICIT) - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds: \$ (3,449,768)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds reports capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for capital assets	\$ 2,975,165	
Less: current year depreciation	<u>(891,734)</u>	2,083,431

Governmental funds report the effect of bond issuance costs as expenditure when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:

Bond issuance costs	5,091	
Amortization of bond issuance costs	<u>(8,422)</u>	(3,331)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Christmas bonus reimbursement	131,983	
Property Taxes-General Fund	199,143	
Property Taxes-Debt Service Fund	11,767	
P.R. Electric Power Authority (PREPA)	459,429	
Federal Grant - CDBG	217,004	
Urban Business Program	19,170	
Child Care	<u>36,294</u>	1,074,790

Revenues reported in funds which are not reported as revenues in the Statement of Activities:

Christmas bonus reimbursement-prior year	(131,666)	
Federal Grant - CDBG	(64,472)	
Property Taxes-General Fund	(112,017)	
Property Taxes-Debt Service Fund	(23,821)	
Law no. 52 Grant	(5,164)	
School improvements Office	(2,941)	
Child Care Alimentos	(3,494)	
PINI Fund	(10,059)	
P.R. Electric Power Authority (PREPA)	<u>(119,279)</u>	(472,913)

Proceeds from long term debts are other financing sources in the governmental funds, but increase long-term liabilities in the Statement of Net Assets:

(2,111,644)

Continued

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (DEFICIT) - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2012**

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset:		(65,034)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds principal payments (net change)		194,000
Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets:		
General obligation bonds and notes	768,000	
Other long term liabilities	1,745,840	2,513,840
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Compensated absences	(155,978)	
Christmas bonus	(263,967)	
Debt payment to P.R. Electric Power Authority	(689,143)	
Municipal Landfill	(133,090)	
Accrued interest payable (net change) and others	1,485	(1,240,693)
Change in net assets of governmental activities:		\$(1,477,322)

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Lajas** ("the Municipality") was founded on July 1, 1883. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen (14) members of the Municipal Legislature. The Municipality engages in comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

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

1. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the **Municipality of Lajas** (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and,
 - 1) The primary government can impose its will on the potential component unit and/or,
 - 2) A financial benefit/ burden exist between the primary government and the potential component unit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if all of the following criteria are met:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

Based on the above criteria there are no potential component units which should be included as part of the financial statements.

Basis of presentation, measurement focus and basis of accounting

The financial report of the Municipality consists of the Management's Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

Management's Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

Basic financial statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long-lived) assets and receivables as well as long-term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed non-exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

Fund Statements

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users (for Community Development Block Grant Program Fund).

The Municipality reports the following major governmental funds:

General Fund: This is the operating fund of the Municipality and is used to account for and report all financial resources not accounted for and reported in another fund.

Commonwealth Legislature Resolutions Fund: This fund is used to account for and report revenue sources from grants provided by the Commonwealth's Legislature for specific purposes which include, among others, acquisition, development and improvements of capital assets.

Debt Service Fund: This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Community Development Block Grant Program Fund (CDBG): CDBG fund (including CDBG – ARRA) is used to account for and report revenue sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

\$2,215,000 Loan Issuance Fund: This fund is used to account for and report the proceeds from the \$2,215,000 special obligation note issuance by the Governmental Development Bank of P.R. (GDB) for specific purposes that is, financing of capital improvements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Permanent Capital Improvements Fund: The Permanent Capital Improvement fund is used to account for and report the moneys received from the \$575,000,000 in 2006 Series A Public Improvement Bonds issued by Commonwealth Government for specific purposes that is, financing of capital improvements.

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 90 days of the end of the current fiscal period except for property taxes for which the availability period is 60 days.

Revenues susceptible to accrual include property taxes, recognized as revenues in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

The Municipality reports in the governmental fund financial statements deferred revenues which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met. (In case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long-term portions of debt must be included). Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

2. Deposits and investments

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the Governmental Development Bank for Puerto Rico ("GDB").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Restricted assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law. Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

4. Receivables and due from governmental entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

5. Interfund receivables and payables

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances among funds are reported as "due from/to other funds".

6. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Assets, as management believes is not significant.

7. Capital assets

Capital assets reported in the governmental activities in the Statements of Net Assets include property, plant, equipment and infrastructure, (e.g., roads, bridges, sidewalks, and similar items). The Municipality defines capital assets (except for infrastructure assets) as assets that have an individual cost of \$500 or more and have a useful life of one or more years. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Land improvements	20
Buildings and building improvements	30-50
Infrastructure	20-50
Vehicles, machinery and equipment	5-20

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

8. Long-term obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consist of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

9. Deferred bond issuance costs

Bond issuance costs are reported as deferred charges and amortized as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

10. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

11. Fund balances and Net Assets

During the year 2011 the Municipality implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54"). This statement establishes accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. As a result of the implementation a special fund was reclassified from the general fund to other governmental funds. The classifications are as follows:

- | | |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Nonspendable: | Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. |
| Restricted: | Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation. |
| Committed: | Amounts that can be used only for the specific purposes imposed through formal action (ordinance or resolution) by consent of both the Mayor and the Municipal Legislature, the highest level of decision-making authority for the Municipality. Those committed amounts cannot be used for any other purposes unless the highest level of decision-making authority for the Municipality removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Assigned: Amounts intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent can be expressed by the Mayor or the Finance Director, the official to which the Mayor has also delegated the authority to assign amounts. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.
- Unassigned: Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

The Municipality applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

In the government-wide statements net assets are segregated into three categories:

- Invested in capital assets, net of related debt: Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- Restricted net assets: Represent net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation.
- Unrestricted net assets: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

12. Interfund transactions

The Municipality reports certain transactions as transfers, which are legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Risk financing

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of LAJAS consists of professional, public responsibility, property and theft, auto and fidelity bond coverage.

Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is monthly deducted from advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by the CRIM. Settled cases have not exceeded insurance coverage for any of the past three years.

14. Use of estimates

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

15. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

Statement	To be adopted in fiscal year ended,
60 Accounting and Financial Reporting for Service Concession Arrangements	June 30, 2013
61 The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34	June 30, 2013
62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	June 30, 2013
63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	June 30, 2013
65 Items Previously Reported as Assets and Liabilities	June 30, 2014
66 Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62	June 30, 2014

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Statement	To be adopted in fiscal year ended,
67 Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25	June 30, 2014
68 Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27	June 30, 2015

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

NOTE B - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name.

At year-end the Municipality's bank balance of deposits in commercial banks amounting to \$1,066,817 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year-end the Municipality's bank balance in governmental banks amounts to \$3,769,139.

NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2012 follows:

	Commonwealth Government	Federal Government
Major fund - General fund:		
P.R. Electric Power Authority (PREPA)	\$ 578,705	\$ -
Municipal Revenue Collection Center (CRIM) - property taxes	199,143	-
P.R. Department of Treasury - Christmas bonus reimbursement	131,983	-
P.R. Department of Treasury - sales and use taxes-1%	38,562	-
Major fund - Debt service fund:		
Municipal Revenue Collection Center (CRIM) - property taxes	73,890	-
P.R. Department of Treasury - sales and use taxes-Municipal Redemption Fund	66,013	-

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES - Continued

	<u>Commonwealth Government</u>	<u>Federal Government</u>
Major fund – CDBG fund:		
Office of Commissioner of Municipal Affairs – CDBG, and NSP1	-	465,243
Other governmental funds:		
P.R. Department of Labor – Law 52	35,454	-
P.R. Office of the Ombudsman for the Elderly (OPEA)	-	30,413
P.R. Department of Education – Child and Adult Care Food Program	-	5,882
P.R. Department of Family – Child Care	-	36,294
Others	19,170	282
	<u>\$ 1,142,920</u>	<u>\$ 538,114</u>

Certain amounts are recorded as deferred revenue in the governmental funds statements since they are not available as required by current standards. See related note E.

2. Amounts of current year debt payable to governmental entities as of June 30, 2012 follows:

	<u>Commonwealth Government</u>
General Services Administration	\$ 100,264
P.R. Aqueduct and Sewer Authority	145,252
Other	9,406
	<u>\$ 254,922</u>

NOTE D- INTERFUND TRANSACTIONS

1. Due from/to other funds:

Amounts due/from to other funds in the general fund represent advances to other funds to finance payroll, payroll taxes and other expenditures, as follows:

<u>Receivable Fund</u>	<u>Payable Funds</u>	<u>Amount</u>
Major Fund:	Major Fund:	
General Fund	CDBG	\$ 77,149
	Other Governmental Funds:	
	Child Care	36,294
	Child Care Food Program	3,148
	Law No.52	35,838
	Commercial Impact	19,170
	Homeland Security OPSG	3,817
	"PINI" Funds	1,470
Other Governmental Funds:	Major Fund:	
Section 8	General Fund	54,013
		<u>\$ 230,899</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE D- INTERFUND TRANSACTIONS - Continued

2. Transfers in (out):

Transfers among individual funds include the following:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Concept</u>	<u>Amount</u>
<u>Major Fund:</u> General fund	<u>Major Fund:</u> Debt service	Principal and interest payments of long-term debt	\$ 141,363
	CDBG	Assumed program expenditures	82,511
			<u>\$ 223,874</u>
 <u>Major Fund:</u> Debt service	 <u>Major Fund:</u> General fund	Excess cash balances in sinking funds ("CAE" and redemption fund) and interest earned	458,237
\$2,215,000 Loan Issuance	General fund	Interest earned	19,700
 <u>Other Governmental Funds:</u> \$1,735,000 Loan Issuance	 <u>Major Fund:</u> General fund	Financing of General fund debts and interest earned	460,673
Public Order Code	General fund	Reimbursement of expenditures	72,590
Other Loan Issuance Funds	General fund	Interest earned	25,832
			<u>\$ 1,037,032</u>

NOTE E - DEFERRED REVENUES – GOVERNMENTAL FUNDS

Deferred revenues - Intergovernmental Commonwealth Government represent revenues not available as required by current standards and for Federal Grants represent resources received before allowable expenditures are incurred or resources not available as required by current standards. A detail of these balances follows:

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<u>Major fund - General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 578,705	\$ -
P.R. Department of Treasury - Christmas bonus reimbursement	131,983	-
Municipal Revenue Collection Center (CRIM) - property taxes	199,143	-
<u>Major fund - Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) - property taxes	11,767	-

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE E - DEFERRED REVENUES – GOVERNMENTAL FUNDS - Continued

	Commonwealth Government	Federal Government
<u>Major fund - CDBG:</u>		
Office of Commissioner of Municipal Affairs – CDBG	-	217,004
<u>Other governmental funds:</u>		
Child Care	-	69,017
FTA Rural Development		9,213
Commercial Impact Program	19,170	
Others	2,195	136
	\$ 942,963	\$ 295,370

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE F- FUND BALANCE

1. Fund balance classifications

The governmental fund balance classifications and amounts at June 30, 2012 are shown in the following table:

	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	\$2,215,000 Loan Issuance	Permanent Capital Improvements	Other Governmental Funds	Total
Nonspendable:								
Advances to other funds	\$ -	\$ 2,690	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,690
	-	2,690	-	-	-	-	-	2,690
Restricted:								
General public works and sanitation	-	-	-	-	-	-	104,637	104,637
Public safety	-	-	-	-	-	-	2,793	2,793
Sports, culture and recreation	-	-	-	-	-	-	15,661	15,661
Housing, welfare and community development	-	-	-	-	-	-	316,480	316,480
Debt service	-	-	987,250	-	-	-	-	987,250
Education	-	-	-	-	-	-	32,334	32,334
Capital outlays	-	368,972	-	-	529,888	1,161,802	831,622	2,892,284
General government and other purposes	4,651	-	-	-	-	-	21,004	25,655
	4,651	368,972	987,250	-	529,888	1,161,802	1,334,531	4,387,094
	(1,992,819)	-	-	(217,004)	-	-	(56,416)	(2,266,239)
Unassigned	\$ (1,988,168)	\$ 381,662	\$ 987,250	\$ (217,004)	\$ 529,888	\$ 1,161,802	\$ 1,278,115	\$ 2,133,545

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE F- FUND BALANCE - Continued

2. Fund balance deficits

Certain special funds included in the fund statements disclosed fund balance deficits as follows:

<u>Funds</u>	<u>Fund balance - unassigned amount</u>
Major Funds:	
Community Development Block Grant Program	<u>\$ 217,004</u>
Other Governmental Funds:	
Child Care Program	\$ 35,467
Commercial Impact Program	19,170
Homeless Prevention Program	1,339
Others	440
Total	<u>\$ 56,416</u>

The deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

NOTE G - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2012 is as follows:

	<u>Balance July 1, 2011 (as restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,701,334	\$ -	\$ -	\$ 1,701,334
Construction in progress	<u>2,109,672</u>	<u>347,808</u>	<u>858,049</u>	<u>1,599,431</u>
Total capital assets not being depreciated:	3,811,006	347,808	858,049	3,300,765
Capital assets, being depreciated:				
Land improvements	3,828,936	-	-	3,828,936
Buildings and building improvements	12,881,974	2,161,668	-	15,043,642
Infrastructure	32,353,695	727,224	-	33,080,919
Vehicles, machinery and equipment	<u>6,125,741</u>	<u>531,480</u>	-	<u>6,657,221</u>
Total capital assets being depreciated	55,190,346	3,420,372	-	58,610,718

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE G - CAPITAL ASSETS - Continued

	Balance July 1, 2011 (as restated)	Increases	Decreases	Balance June 30, 2012
Less accumulated depreciation for:				
Land improvements	2,552,828	106,046	-	2,658,874
Buildings and building improvements	2,428,281	257,156	-	2,685,437
Infrastructure	29,393,133	170,685	-	29,563,818
Vehicles, machinery and equipment	4,320,854	357,847	-	4,678,701
Total accumulated depreciation	38,695,096	891,734	-	39,586,830
Total capital assets being depreciated, net	16,495,250	2,528,638	-	19,023,888
Governmental activities capital assets, net	\$ 20,306,256	\$ 2,876,446	\$ 858,049	\$ 22,324,653

Depreciation expense was charged to functions/programs of the Municipality as follows:

Governmental activities:

General government	\$ 196,336
Public works and sanitation	315,120
Public safety	71,487
Culture and recreation	153,231
Welfare and community development	124,439
Health	30,282
Education	839
Total depreciation expense, governmental activities	\$ 891,734

NOTE H- LONG-TERM DEBT

1. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2012:

	Balance at July 1, 2011	Increases	Decreases	Balance at June 30, 2012	Due within one year
General, Special Obligation Bonds and Notes	\$ 10,858,000	\$ 985,000	\$ 768,000	\$ 11,075,000	\$ 926,000
Note payable to CRIM- Law No. 42	301,826	-	7,006	294,820	7,446
Note payable to CRIM- LIMS	15,524	-	15,524	-	-
Note payable to CRIM- financing of delinquent accounts	112,728	-	5,368	107,360	5,368
Capital Leases	57,605	-	17,020	40,585	24,948

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE H- LONG-TERM DEBT - Continued

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2012:

	<u>Balance at July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2012</u>	<u>Due within one year</u>
Landfill closure and post-closure care costs	1,095,345	133,090	-	1,228,435	-
Compensated absences	2,556,213	155,978	331,036	2,381,155	303,427
Christmas Bonus	263,332	263,967	263,332	263,967	263,967
Note Payable to CRIM-Property Taxes	51,109	4,000	-	55,109	55,109
Payable to PREPA	398,085	689,143	508,523	578,705	348,991
Note payable to General Service Administration	277,845	560,955	319,371	519,429	297,317
Note payable to P.R. Department of Labor	230,785	-	230,785	-	-
Note payable to ERS – special laws	90,056	74,099	139,456	24,699	24,699
Note payable to ERS – current year debt	44,443	533,116	65,406	512,153	282,243
	<u>\$ 16,352,896</u>	<u>\$ 3,399,348</u>	<u>\$ 2,670,827</u>	<u>\$ 17,081,417</u>	<u>\$ 2,539,515</u>

2. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2012 amount to \$11,075,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by law. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of certain long-term debt issued for operational purposes (special obligation bonds of \$945,000) are made through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM).

Principal and interest payments of general obligation notes of \$995,000, special obligation notes of \$2,215,000, \$265,000 and \$630,000 and special obligation bond of \$1,735,000 are made through the "Municipal Redemption Fund".

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE H- LONG-TERM DEBT - Continued

A detail of the general and special obligation bonds and notes as of June 30, 2012 follows:

	Outstanding Amount
1996 general obligation bonds of \$415,000 due in annual installments of \$10,000 to \$40,000 through July 1, 2013; bearing interest at rates ranging from 4.70% to 6.58% (6.28% at June 30, 2012)	\$ 80,000
1996 general obligation bonds of \$1,000,000 due in annual installments of \$24,000 to \$66,000 through January 1, 2021; bearing interest at 4.50%	501,000
2001 general obligation bonds of \$770,000 due in annual installments of \$20,000 to \$75,000 through July 1, 2020; bearing interest at rates ranging from 2.70% to 5.29% (4.50% at June 30, 2012)	505,000
2002 general obligation bonds of \$563,000 due in annual installments of \$13,000 to \$37,000 through January 1, 2029; bearing interest at 4.50%	445,000
2004 general obligation bonds of \$630,000 due in annual installments of \$45,000 to \$80,000 through July 1, 2014; bearing interest at rates ranging from 1.53% to 6.62% (1.63% at June 30, 2012)	225,000
2005 general obligation bonds of \$665,000 due in annual installments of \$55,000 to \$80,000 through July 1, 2014; bearing interest at rates ranging from 1.53% to 6.62% (1.63% at June 30, 2012)	235,000
2005 general obligation bonds of \$945,000 due in annual installments of \$95,000 to \$145,000 through July 1, 2015; bearing interest at rates ranging from 1.53% to 6.62% (1.63% at June 30, 2012)	530,000
2006 general obligation bonds of \$2,015,000 due in annual installments of \$30,000 to \$155,000 through July 1, 2030; bearing interest at rates ranging from 1.53% to 6.62% (1.63% at June 30, 2012)	1,785,000
2006 general obligation bonds of \$63,000 due in annual installments of \$1,000 to \$4,000 through January 1, 2031; bearing interest at rates ranging from 4.37% to 4.50% (4.50% at June 30, 2012)	54,000
2007 general obligation bonds of \$260,000 due in annual installments of \$15,000 to \$35,000 through July 1, 2017; bearing interest at rates ranging from 1.53% to 7.50% (1.63% at June 30, 2012)	180,000
2007 general obligation notes of \$995,000 due in annual installments of \$115,000 to \$340,000 through July 1, 2014; bearing interest at rates ranging from 1.53% to 7.50% (1.63% at June 30, 2012)	630,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE H- LONG-TERM DEBT - Continued

	Outstanding Amount
2008 special obligation notes of \$2,215,000 due in annual installments of \$30,000 to \$190,000 through July 1, 2032; bearing interest at rates ranging from 1.53% to 7.50% (1.63% at June 30, 2012)	2,110,000
2008 general obligation bonds of \$440,000 due in annual installments of \$30,000 to \$60,000 through July 1, 2018; bearing interest at rates ranging from 1.53% to 7.25% (1.63% at June 30, 2012)	340,000
2008 general obligation notes of \$255,000 due in annual installments of \$30,000 to \$45,000 through July 1, 2015; bearing interest at rates ranging from 1.53% to 7.50% (1.63% at June 30, 2012)	160,000
2008 general obligation bonds of \$370,000 due in annual installments of \$15,000 to \$40,000 through July 1, 2025; bearing interest at rates ranging from 4.75% to 5.75% (4.75% at June 30, 2012)	340,000
2010 special obligation notes of \$265,000 due in annual installments of \$30,000 to \$50,000 through July 1, 2017; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2012)	235,000
2011 general obligation notes of \$30,000 due in annual installments of \$5,000 through July 1, 2016; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2012)	25,000
2011 special obligation bonds of \$1,735,000 due in annual installments of \$25,000 to \$150,000 through July 1, 2035; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2012)	1,710,000
2011 general obligation notes of \$355,000 due in annual installments of \$40,000 to \$60,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2012)	355,000
2012 special obligation notes of \$630,000 due in annual installments of \$70,000 to \$110,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2012)	630,000
	\$ 11,075,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE H- LONG-TERM DEBT - Continued

The debt services requirement to amortize general and special obligation bonds and notes as of June 30, 2012 follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 926,000	\$ 559,264
2014	1,000,000	613,361
2015	1,188,000	552,315
2016	751,000	502,962
2017	603,000	463,422
2018-2022	2,322,000	1,773,198
2023-2027	1,687,000	1,175,647
2028-2032	1,878,000	530,200
2033-2036	720,000	64,125
Totals	\$ 11,075,000	\$ 6,234,494

3. Other long-term liabilities

Outstanding
Amount

Note payable to CRIM (Law No. 42) – Law No. 42 of January 26, 2000 (as amended by Law No. 146 of October 11, 2001 and Law No. 172 of August 11, 2002) was enacted to authorize the CRIM to obtain a special loan in the form of a line of credit from the Governmental Development Bank of Puerto Rico (GDB) to finance a debt the municipalities of Puerto Rico owe to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the CRIM. Law No.42 was amended by Law no. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. On November 26, 2002 the Municipality entered into the financing agreement with the CRIM for a total amount of \$346,906, bearing interest at 6.18% and due on July 1, 2032. Debt service requirements in future years are as follows:

\$ 294,820

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE H- LONG-TERM DEBT - Continued

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 7,447	\$ 18,128
2014	7,915	17,661
2015	8,412	17,163
2016	8,940	16,634
2017	9,502	16,074
2018-2022	57,252	70,623
2023-2027	77,645	50,230
2028-2032	105,303	22,573
2033	12,404	384
Totals	<u>\$ 294,820</u>	<u>\$ 229,470</u>

**Outstanding
Amount**

Note payable to CRIM (Financing of delinquent accounts)– On March 27, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of \$186,364 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non-revolving line of credit bearing interest of 6.5% for the first five years and variable for the next twenty-five years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years any collection from those delinquent accounts was credited to the loan principal. After the five-year period the loan outstanding balance of \$134,200 was restructured for a twenty-five years period. Debt service requirements in future years are as follows:

107,360

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE H- LONG-TERM DEBT - Continued

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 5,368	\$ 6,678
2014	5,368	6,344
2015	5,368	6,010
2016	5,368	5,676
2017	5,368	5,342
2018-2022	26,840	21,703
2023-2027	26,840	12,080
2028-2032	26,840	5,008
Totals	\$ 107,360	\$ 68,841

Outstanding
Amount

Obligation under capital lease – The Municipality is obligated under three capital lease agreements with third parties that expire on June 1, 2013, June 30, 2014 and November 1, 2015. As of JUNE 30, 2012 the capitalized cost of capital leased equipment (photocopiers) amount to \$90,997 and are being paid in monthly installments of \$1,683, including interest at 3.693%, 5.02% and 5.00% respectively. The present value of future minimum lease payments of the lease agreements as of June 30, 2012 follows:

40,585

<u>Year ending June 30,</u>	<u>Amount</u>
2013	\$ 39,344
2014	7,476
2015	3,816
2016	1,590
Less: Amount representing interest	(11,641)
Present value of minimum lease payments	\$ 40,585

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE H- LONG-TERM DEBT - Continued

Landfill obligation - represent the outstanding balance of the estimated liability for landfill closure and post-closure care costs, based on 70.5% usage of the landfill. The total estimate for these costs amounts to \$1,753,700 as of June 30, 2012. (See related note I)	1,228,435
Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. The amount is paid with unrestricted funds	2,381,155
Christmas Bonus - represent the accrued portion corresponding to fiscal year 2012 of the Christmas bonus to be paid in December 2012.	263,967
Payable to CRIM, property tax advances - represent amount reported by CRIM on preliminary settlement of excess of advances over actual collections of property taxes applicable to fiscal year 2011. (See related note J)	55,109
Payable to PREPA - As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority ("PREPA") should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax ("CELL") based on certain requirements as specified by the mentioned Act. The amount of CELL obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2010-2011 the Municipality's annual energy charges amounts to \$1,291,307 but the CELL obligation amounted to \$602,164. The excess amount of \$689,143 was recorded as a payable and a receivable for the same amount and will be amortized over a three-year period. As of June 30, 2012 the outstanding amount of \$578,705 includes a balance of \$119,277 from fiscal year 2010 and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:	578,705

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE H- LONG-TERM DEBT - Continued

<u>June 30</u>	<u>Principal</u>
2013	\$ 348,991
2014	229,714
Totals	<u>\$ 578,705</u>

**Outstanding
Amount**

Note payable to P. R. General Services Administration –

On March 31, 2012 the Municipality entered into a financing agreement with the Puerto Rico General Services Administration to refinance on a long term basis a \$544,126 debt for goods and services provided by this Agency to the Municipality in current and prior years. This agreement is in the form of a non-interest bearing note (imputed interest of 4.50%) due on June , 2014 and was recorded at its present value of \$519,429 net of an unamortized discount of \$24,697. The note is payable in monthly installments of \$22,672 and is being paid from unrestricted funds.

519,429

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 297,317	\$ 20,091
2014	222,112	4,607
Totals	<u>\$ 519,429</u>	<u>\$ 24,698</u>

Note payable to P. R. Employees Retirement System –

On November 8, 2011 the Municipality entered into a financing agreement with the Puerto Rico Employees Retirement System to refinance the Municipality's contribution \$74,099 debt balance for "Special Laws" for the fiscal year 2011-2012 after a down payment for the amount of \$6,736. The note, which is due on July 2013, was recorded at its present value of \$74,099 and is payable in monthly installments of \$8,233. During the year 2011-2012 the note was being paid with unrestricted funds through withholdings from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM.

24,699

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE H- LONG-TERM DEBT – Continued

	<u>Outstanding Amount</u>
Note payable to P. R. Employees Retirement System – On April 23, 2012 the Municipality entered into a financing agreement with the Puerto Rico Employees Retirement System to refinance the Municipality's contribution debt for the months from November, 2011 to June, 2012. The note, which is due on May 2014, was recorded at its present value of \$533,116 and is payable in monthly installments of \$23,628. During the year 2011-2012 the note was paid with unrestricted funds through withholdings from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM..	512,153

NOTE I – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS

Commonwealth and Federal laws and regulations require the Municipality to place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations. As a result of this study, the Municipality has recognized an estimated liability for future closure and post-closure care costs. The recognition of this liability is based on the amount of the landfill used during the year.

The estimated liability for landfill closure and post-closure care costs has an outstanding balance of \$1,228,435 as of June 30, 2012, which is based on a 70.5% usage of the landfill. It is estimated that an additional \$525,265 will be recognized as closure and post-closure care expenditures between the balance sheet date and the year the landfill is expected to be filled to capacity (2016).

The estimated total current costs of the landfill closure and post-closure care (\$1,753,700) is based on the amount that would be paid if all the equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of June 30, 2012. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. As of June 30, 2012, the Municipality has not made contributions to finance closure and post-closure care costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE J – PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2012 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	<u>2.00%</u>	<u>2.00%</u>
Total tax rate:	7.03%	9.03%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	<u>(.20%)</u>	<u>(.20%)</u>
Total percent to be paid by taxpayers:	<u>6.83%</u>	<u>8.83%</u>

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The 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 amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end.

If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The Municipality has a net payable of \$55,109 resulting from the final settlement 2010-2011 which is recorded as long term debt.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE J – PROPERTY TAXES – Continued

On June 16, 2011 the Commonwealth's Legislature approved Act No. 94 which established an incentive plan (amnesty) for the payment of property tax debts. The Act, applicable to tax years 2010-2011 and before, provided participants a 100% waiver on interest and penalties and a 50% waiver over principal debt in excess of 10 years. Funds will be collected by the CRIM and remitted to the Municipalities. During the year 2011-2012 amnesty collections of \$108,017 and \$34,931 were recorded as revenue in the general and debt service funds respectively.

NOTE K – MUNICIPAL LICENSE TAXES

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15.

During the fiscal year ended June 30, 2012, the tax rates were as follows:

Financial business – 1.50% of gross revenues

Other organizations - .50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$617,451 is recorded as deferred revenues.

NOTE L – SALES AND USE TAXES

On July 4, 2006 the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax. Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The municipal sales and use tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The municipal sales and use tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within Municipal limits. The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE L – SALES AND USE TAXES – Continued

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Of the amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by the Act and,
- c. .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on the tax collected in the preceding month. A total \$38,562 sales and use tax receivable from PRDT represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality by the PRDT on or before July 10, net of uncollectible accounts (1%); \$66,013 represents amounts of "Municipal Redemption Fund" collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30.

NOTE M – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the General Fund are comprised of the following:

	Amount
Amount of municipal equalization fund and subsidy sent by CRIM	\$ 3,604,032
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,986,305
Reimbursement from Commonwealth Government - Christmas Bonus expenditures	175,035
	\$ 5,765,372

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE N – RETIREMENT PLAN

1. Plan description

Regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of 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 plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act. No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions have not been granted under the new program.

The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE N – RETIREMENT PLAN – Continued

The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

2. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 10.275% of gross salary.

The Municipality's actual contribution for the current fiscal year, which is equal to the required contribution, follows:

Fiscal year ended:	Law No. 447	System 2000
2012	\$ 171,971	\$ 250,947
2011	\$ 144,364	\$ 207,646
2010	\$ 162,125	\$ 230,294

NOTE O – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note N, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year 2012, costs related to these post employment benefits amounted to \$105,194. These benefits are recorded as expenditures in the general fund.

NOTE P – COMMITMENTS

1. Operating leases

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to \$183,446. Management believes that the summary of the future minimum rental commitments under non-cancelable operating leases with terms exceeding one year is not significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE P – COMMITMENTS – Continued

2. Construction

As of June 30, 2012 the Municipality has commitments of \$1,305,279 for design, construction, improvements or renovation of certain municipal facilities.

3. Encumbrances

As of June 30, 2012 the Municipality has encumbrances outstanding totaling \$536,308 which represent the estimated amount of expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. As required by current standards, outstanding encumbrances as of June 30, 2012 are reported as unassigned amounts in the general fund. Purpose classification follows:

Purpose	General Fund- unassigned fund balance
General public works and sanitation	\$ 168,128
Public safety	7,042
Sports, culture and recreation	11,135
Housing, welfare and community development	2,582
General government and other purposes	347,421
	\$ 536,308

Fund balance of major and other governmental funds (special revenue, capital project and debt service funds) is classified as restricted, some or all of which may be encumbered. Encumbrances of restricted fund balance are not reported separately from this classification because the encumbrance does not further restrict the purpose for which the resources may be used.

NOTE Q – CONTINGENCIES

1. Federal and Commonwealth Grants

Projects financed by the Federal and Commonwealth Grants are subject to audits by grantors and other governmental agencies in order to determine that the expenditures comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

2. Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance but actual legal counsel has advised the Municipal Management that based in his limited knowledge of cases status he cannot offer an opinion as the probable outcome of them. Because the Municipality cannot estimate the outcome of these events, no provision for any estimated loss is reflected in the accompanying financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE R – FUND BALANCE RESTATEMENTS

The following table disclosed the net change in net assets at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

Description	Amount
Net assets, at beginning of year, as previously reported	\$ 10,901,810
Correction of an error, understatement of capital assets additions in construction in progress	<u>81,410</u>
Net assets, at beginning of year, as restated	<u>\$ 10,983,220</u>

NOTE S – SUBSEQUENT EVENTS

On December, 2012 the Municipality's Management used \$1,000,000 of the Permanent Capital Improvements Fund for payment of current wages and Christmas bonuses owed to employees. As described in Note A, these funds were restricted for financing capital improvements by the Commonwealth's Legislature and any other use may be considered questioned.

On February 13, 2013 the Municipality issued Ordinance No. 18 Series 2012-2013 to increase property tax rates to 8.33% for personal property and 10.33% for real property. This tax increase will provide the Municipality with sufficient "payment capacity" to incur in additional general obligation debt in the future mainly the acquisition or construction of capital assets.

Currently the Municipality is evaluating the issuance of a future general obligation note with the Government Development Bank for Puerto Rico of \$3,073,862 for the payment of debts with several central government agencies, suppliers and employees liquidations. This note will be considered an operational loan payable through budgeted transfers out from the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property taxes	\$ 2,308,565	\$ 2,308,565	\$ 2,317,104	\$ 8,539
Municipal license taxes	1,046,068	1,046,068	825,575	(220,493)
Sales and use taxes	892,116	892,116	508,420	(383,696)
Intergovernmental	4,931,885	4,931,885	5,256,849	324,964
Fees, fines and charges for services	1,814,130	1,814,130	656,646	(1,157,484)
Interest	55,000	55,000	75,981	20,981
Other	50,510	50,510	316,835	266,325
Total revenues	11,098,274	11,098,274	9,957,410	(1,140,864)
EXPENDITURES:				
Current:				
General government	5,390,294	5,649,043	5,761,413	(112,370)
Public works and sanitation	2,935,596	3,395,670	3,270,522	125,148
Public safety	701,086	676,421	673,586	2,835
Culture and recreation	1,068,709	1,050,652	1,044,515	6,137
Health	394,330	364,330	359,472	4,858
Welfare and community development	453,809	441,708	437,869	3,839
Total expenditures	10,943,824	11,577,824	11,547,377	30,447
Excess (deficiency) of revenues over expenditures	154,450	(479,550)	(1,589,967)	(1,110,417)
Other financing sources (uses):				
Proceeds from long term debt issuance	-	630,000	624,000	(6,000)
Transfers out	150,450	(150,450)	(141,364)	9,086
Total other financing sources (uses)	150,450	479,550	482,636	3,086
Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)	\$ -	\$ -	\$ (1,107,331)	\$ (1,107,331)

The accompanying notes are an integral part of this required supplementary information.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
JUNE 30, 2012

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1991, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis encumbrances outstanding at year-end are reported in the governmental funds statements as assigned fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

NOTE B - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
June 30, 2012**

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Deficiency of revenues and other financing sources over expenditures and other financing (uses) (budgetary basis): \$ (1,107,331)

Budget to GAAP differences:

Entity differences:

Non-budgeted funds recorded as revenues for financial reporting purposes	85
Non-budgeted funds recorded as expenditures for financial reporting	(4,906)
Non-budgeted transfers out	(85)

Basis of accounting differences:

Revenues recorded for financial reporting purposes but not in budgetary basis	2,974,335
Revenues recorded in budgetary basis purposes but not in financial reporting	(682,945)
Expenditures recorded in budgetary basis but not for financial reporting purposes	102,024
Expenditures recorded for financial reporting purposes but not in budgetary basis	(1,492,166)

Timing differences:

Current year encumbrances recorded as expenditures for budgetary reporting purposes	229,565
Prior year encumbrances recorded as expenditures for financial reporting purposes	(47,051)

Net change in fund balance (deficit) (GAAP basis): \$ (28,475)

SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET
JUNE 30, 2012

Line Item No.	Description	14.871
		Housing Choice Vouchers
Balance Sheet		
111	Cash – unrestricted	\$ -
113	Cash-other restricted	\$ 64,101
100	Total cash	\$ 64,101
121	Accounts receivable - PHA projects	\$ 27,018
122	Accounts receivable - HUD other projects	\$ 282
124	Accounts receivable - Other Governments	\$ 76,312
125	Accounts receivable - miscellaneous	\$ 25
126.2	Allowance for doubtful accounts - other	\$ -
120	Total receivables, net of allowance for doubtful accounts	\$ 103,637
150	Total Current Assets	\$ 167,738
164	Furniture, equipment and machinery - administration	\$ 9,315
166	Accumulated depreciation	\$ (7,561)
160	Total capital assets, net of accumulated depreciation	\$ 1,754
180	Total Non-current Assets	\$ 1,754
190	Total Assets	\$ 169,492
312	Accounts payable <= 90 days	\$ 39
313	Accounts payable > 90 days past due	\$ 263
322	Accrued compensated absences – current portion	\$ 4,149
331 - 030	Accounts payable - HUD PHA programs - Other	\$ -
332	Accounts Payable - PHA Projects	\$ 24,156
333	Accounts payable - other government	\$ 23,644
341	Tenant security deposits	\$ -
342	Deferred revenue	\$ -
345	Other current liabilities	\$ 1,143
310	Total Current Liabilities	\$ 53,394
353	Non-current liabilities - other	\$ 6,216
354	Accrued compensated absences - non current	\$ 1,283
350	Total Non-current Liabilities	\$ 7,499
300	Total Liabilities	\$ 60,893
508.1	Invested in Capital Assets, Net of Related Debt	\$ 1,754
511.1	Restricted Net Assets	\$ 109,764
512.1	Unrestricted Net Assets	\$ (2,919)
513	Total Equity/Net Assets	\$ 108,599
600	Total Liabilities and Equity/Net Assets	\$ 169,492

Continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2012

Line Item No.	Description	14.871
		Housing Choice Vouchers
Income Statement		
70600-010	Housing assistance payments	\$ 289,977
70600-020	Ongoing administrative fees earned	\$ 41,342
70600-070	Admin fee calculation description	
70600	HUD PHA operating grants	\$ 331,319
71100-010	Housing Assistance Payment	\$ -
71100-020	Administrative Fee	\$ -
71100	Investment income - unrestricted	\$ -
71400-010	Housing Assistance Payment	\$ -
71400-020	Administrative Fee	\$ -
71400	Fraud recovery	\$ -
71500	Other revenue	\$ 34,809
71600	Gain or loss on the sale of capital assets	\$ -
72000-010	Housing Assistance Payment	
72000-020	Administrative Fee	\$ -
72000	Investment income - restricted	\$ -
700	Total Revenue	\$ 366,128
91100	Administrative salaries	\$ 46,740
91500	Employee benefit contributions- administrative	\$ 13,341
91600	Office expenses	\$ 2,443
91800	Travel	\$ -
91000	Total Operating - Administrative	\$ 62,524
96200	Other general expenses	\$ 426
96210	Compensated absences	\$ -
96000	Total Other General Expenses	\$ 426
96900	Total Operating Expenses	\$ 62,950
97000	Excess Revenue Over Operating Expenses	\$ 303,178
97300-050	All Other	\$ 279,374
97300	Housing assistance payments	\$ 279,374
97350	HAP Portability-in	\$ 20,072
97400	Depreciation expense	\$ 1,863
900	Total Expenses	\$ 364,259
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ 1,869

Continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2012

Line Item No.	Description	14.871
		Housing Choice Vouchers
Income Statement		
11030	Beginning equity	\$ 106,730
11770-001	Administrative Fee Equity - Beginning Balance	\$ 7,569
11170-010	Administrative Fee Revenue	\$ 41,342
11170-020	Hard to House Fee Revenue	\$ -
11170-021	FSS Coordinator Grant	\$ -
11170-030	Audit Costs	\$ -
11170-040	Investment Income	\$ -
11170-045	Fraud Recovery Revenue	\$ -
11170-050	Other Revenue	\$ 34,809
		This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$2,617) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 11-12 (\$20,072) plus excess administrative costs over administrative fee to be reimbursed by the general fund of the Municipality (\$12,120)
11170-051	Comment For Other Revenue	(\$12,120)
11170-060	Total Admin Fee Revenues	\$ 76,151
11170-080	Total Operating Expenses	\$ 62,950
11170-090	Depreciation	\$ 1,863
11170-095	Housing Assistance Portability In	\$ 20,072
11170-100	Other Expenses	
11170-101	Comment For Other Expense	
11170-110	Total Expenses	\$ 84,885
11170-002	Net Administrative Fee	\$ (8,734)
11170-003	Administrative Fee Equity - Ending Balance	\$ 1,165
11170	Administrative Fee Equity	\$ 1,165
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ 99,161
11180-010	Housing Assistance Payments Revenues	\$ 289,977
11180-015	Fraud Recovery Revenue	\$ -
11180-020	Other Revenue	
11180-021	Comment For Other Revenue	
11180-025	Investment Income	\$
11180-030	Total HAP Revenues	\$ 289,977
11180-080	Housing Assistance Payments	\$ 279,374
11180-100	Total Housing Assistance Payments Expenses	\$ 279,374
11180-002	Net Housing Assistance Payments	\$ 10,603
11180-003	Housing Assistance Payments Equity - Ending Balance	\$ 109,764
11180	Housing Assistance Payments Equity	\$ 109,764

Continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2012

		14.871
Line Item No.	Description	Housing Choice Vouchers
	Income Statement	
11190-210	Total ACC HCV Units	828
11190	Unit Months Available	828
11210	Unit Months Leased	724

The accompanying notes are an integral part of this schedule

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
June 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Entity Identifying Number (note B)	Federal Expenditures (notes A and B)
<u>U.S. Department of Agriculture</u>			
Passed-through program from:			
<u>P.R. Department of Education</u>			
Child and Adult Care Food Program	10.558	CCC-137	\$ 31,060
<u>U.S. Department of Housing and Urban Development</u>			
Direct program:			
Section 8 Housing Choice Vouchers Program	14.871	N/A	331,319
Passed-through program from:			
<u>Office of Commissioner of Municipal Affairs:</u>			
Community Development Block Grant / State's Program (State-Administered Small Cities Program)	14.228	FD-53, AB-53, NSP1	618,100
<u>P.R. Department of Family:</u>			
ARRA - Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262	N/AV	98,100
Subtotal U.S. Department of Housing and Urban Development			1,047,519
<u>U.S. Department of Health and Human Services</u>			
Passed-through programs from:			
<u>P. R. Office of the Ombudsman for the Elderly:</u>			
Special Programs for the Aging_Tittle III Part D_ Disease Prevention and Health Promotion Services	93.043	110293R2, 120293R2	8,280
Aging Cluster:			
Special Programs for the Aging_Tittle III, Part C_Nutrition Services	93.045	110293R2, 120293R2	79,574
Nutrition Services Incentive Program	93.053	110293R2, 120293R2	44,580
Total Aging Cluster:			124,154
<u>P.R. Department of Family - Families and Children Administration:</u>			
Child Care and Development Block Grant	93.575	2010-000133	252,516
Subtotal U.S. Department of Health and Human Services			384,950
<u>U.S. Department of Homeland Security</u>			
Passed-through programs from:			
<u>P.R. Governor's Office - Office of Public Safety Affairs:</u>			
Homeland Security Grant Program (HSGP)	97.067	OPSG 2009-SJ-T9-0015	134,091
Total Expenditures of Federal Awards			\$ 1,597,620

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though 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 the identifying number assigned by the pass-through entity for the federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

NOTE C – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Community Development Block Grant Fund	Other Governmental Funds
10.558	\$ -	\$ 31,060
14.871	-	331,319
14.228	618,100	-
ARRA - 14.262	-	98,100
93.043	-	8,280
93.045	-	79,574
93.053	-	44,580
93.575	-	252,516
97.067	-	134,091
Total federal awards expenditures:	618,100	979,520
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program	-	31,586
Total non-federal awards expenditures:	-	1,406,461
Total expenditures, fund statements:	\$ 618,100	\$ 2,417,567

**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**

Honorable Mayor and Members of the
Municipal Assembly
Municipality of Lajas, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Lajas, Puerto Rico**, as of and for the year ended June 30, 2012, which collectively comprise the Municipality of Lajas, Puerto Rico's basic financial statements and have issued our report thereon dated March 11, 2013. The report on governmental activities and governmental funds was qualified because we were unable to obtain a discussion or evaluation from the Municipality's management or legal counsel of pending or threatened litigation. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 a 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.

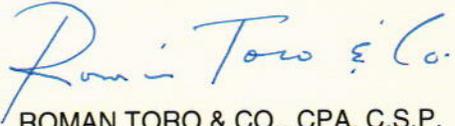
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Lajas, Puerto Rico's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which are described in the accompanying schedule of findings and questioned costs as items 2012-II-1 and 2012-III-1 through 2012-III-4.

The Municipality of Lajas, Puerto Rico was unable to provide comments to the findings identified in our audit as described in the accompanying schedule of findings and questioned costs within a reasonable period of time, and have informed us that they will submit comments and corrective action descriptions at a date subsequent to the issuance of this report.

This report is intended solely for the information and use of management, Municipal Assembly, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


ROMAN TORO & CO., CPA, C.S.P.
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
March 11, 2013

Stamp #E46232 was affixed to
the original of this report



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members of the
Municipal Assembly
Municipality of Lajas, Puerto Rico

Compliance

We have audited the compliance of **Municipality of Lajas, Puerto Rico** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. Municipality of Lajas, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality of Lajas, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of Lajas, Puerto Rico's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Lajas, Puerto Rico's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Municipality of Lajas, Puerto Rico's compliance with those requirements.

As described in item 2012-III-1 in the accompanying schedule of findings and questioned costs, Municipality of Lajas, Puerto Rico did not comply with requirements regarding allowable costs and cost principles that are applicable to its Section 8 Housing Choice Voucher Program CFDA Number 14.871. Compliance with such requirements is necessary, in our opinion, for Municipality of Lajas, Puerto Rico, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Lajas, Puerto Rico complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questions costs as items 2012-III-2 through 2012-III-4.

Internal Control Over Compliance

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

Internal Control Over Compliance, continued

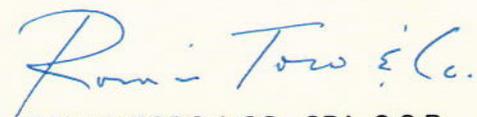
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-III-1 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention to those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-III-2 through 2012-III-4 to be significant deficiencies.

The Municipality of Lajas, Puerto Rico was unable to provide comments to the findings identified in our audit as described in the accompanying schedule of findings and questioned costs within a reasonable period of time, and have informed us that they will submit comments and corrective action descriptions at a date subsequent to the issuance of this report.

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



ROMAN TORO & CO., CPA, C.S.P.
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
March 11, 2013

Stamp #E46233 was affixed to
the original of this report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

- Significant control deficiency identified? Yes None reported
 - Material weakness (es) identified? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Significant control deficiency identified? Yes None reported
- Material weakness (es) identified? Yes No

Type of auditor's report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant – State Grant
14.871	Section 8 Housing Choice Vouchers

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

Auditee qualified as low-risk auditee? Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION II – FINANCIAL STATEMENTS FINDINGS

2012-II-1

Type of finding: Financial statement.
Situation: Compliance with local regulations.
Prior-Year(s) Audit Finding(s): None.
Questioned Costs: None.

Condition:

The Municipality's General Fund changed the use of restricted resources from state funds without first obtaining authorization from the State.

Context:

In 2011 the Municipality reprogrammed \$1.6 million in cash resources from various state assignments, grants, and contributions, and in 2012 used at least \$920,425 of such resources for uses other than those originally granted for, and could not provide us with written authorization from the State Legislature for such changes. Such grant and contribution funds are restricted by Joint Resolutions of both the State House of Representatives and Senate.

Criteria:

Each state assignment, grant, and contribution is individually restricted to their use by the Resolution passed by the State Legislature, and any other use not previously included in the Resolution requires strict and expressive consent by the State Legislature, as per Chapter III, Section 2 of the Municipal Administration Manual as issued by the Puerto Rico Commissioner's Office for Municipal Affairs.

Cause:

The Municipality's General Fund cash resources have been decreasing significantly over the course of several years due to excess expenditures over revenues, and has created serious liquidity problems to meet its current obligations and services, and has sought to obtain resources from various sources.

Effect:

The Municipality's funds were left without sufficient resources to comply with the activities for which such appropriations were obtained and restricted. In order to continue providing services, the Municipality reprogrammed the use of state restricted funds without authorization, thereby limiting the services originally intended for use by the state government.

Auditor's Recommendation:

The Municipality's General Fund should either reimburse all resources obtained from such funds as immediate as resources become available, or obtain subsequent authorization from the state government for the reprogramming of funds. The Municipality should revise its controls to assure that its operations do not infringe on the resources and appropriations of other funds whose use are restricted.

Views of responsible officials and corrective actions:

The Municipality of Lajas is working on an initiative to the State Legislature to correct all the errors that have been made and notify the new use of funds.

Audit finding status:

Unresolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-III-1

Type of finding: Federal Award.
Situation: Material weakness in internal control, compliance with federal regulations.
Federal Program: Section 8 Housing Choice Voucher Program (CFDA 14.871)
Compliance Requirements: Allowable Cost/Cost Principle.
Prior-Year(s) Audit Finding(s): None.
Questioned Costs: \$64,192.

Condition:

In fiscal year 2011, the Municipality's Section 8 program used HAP/NRA reserves in the amount of \$64,192 to cover administrative costs. Despite signing an agreement to return the funds to the HAP/NRA reserve, in fiscal year 2012 no funds had yet been returned.

Context:

The Municipality's Section 8 program increased its monthly administrative expenses to the point where they exceeded the assigned monthly administrative fees, and the depletion of the reserve for admin fees was not detected in time. Because the Municipality had both HAP/NRA and Admin Fee/UNA reserves deposited in the same account, the program tapped in to the HAP/NRA reserves to cover all program expenses, including administration costs, and did not act to stop this practice and reduce administrative expenses until a significant portion of HAP/NRA reserves were used.

On February 28, 2012, the Municipality signed an agreement with HUD to return \$39,566 by March 1, 2017, requiring 60 monthly installments of \$659 to be deposited in the reserves. However, as of June 30, 2012 and as of the date of our audit, no funds had been returned to the HAP/NRA reserves.

Criteria:

HAP funding can only be used to support the payment of HAP expenses. Transfers of HAP to administrative expenses, even temporarily, are not allowed, and could be considered a breach of HUD's Annual Contribution Contract with the Municipality, and may result in civil penalties or sanctions as per 24 CFR section 985.109.

Cause:

The program's management did not monitor administrative expenditure levels of the program to determine whether they were sustainable with current income levels. The Municipality is also experiencing significant liquidity difficulties across all its financial operations, and has not been able to meet its obligations, including this agreement.

Effect:

The Program's HAP/NRA reserve was significantly reduced, depriving it the resources necessary to provide the intended services required by law.

Auditor's Recommendation:

The Municipality must reconstitute the full amount of the questioned costs to the Section 8 program's HAP/NRA reserve immediately, and maintain administrative costs of the program on sustainable levels. The program should also evaluate its mechanism and supervision of the budget and projected use of program administration fees, to assure it does not exceed its revenues.

Views of responsible officials and corrective actions:

The Municipality is working on a loan through the Governmental Development Bank and the correspondent adjustments will be made.

Audit finding status:

Unresolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2012-III-2

Type of finding: Federal Award.

Situation: Significant deficiency, compliance with federal regulations.

Federal Program: Community Development Block Grant – State Grant (CFDA 14.228)

Compliance Requirements: Reporting.

Prior-Year(s) Audit Finding(s): 01-09; 2010-III-1; 2011-III-2

Questioned Costs: None.

Condition:

The Municipality did not submit certain reports and did not include necessary financial data within submitted reports required for the CDBG program. This is a repeat finding from prior years.

Context:

The following reports required by the CDBG program were not prepared or submitted to the awarding agency, the Commissioner's Office for Municipal Affairs (OCAM):

1. Program Income Report to be submitted quarterly and the estimated program income report that is due on July 31 of each year. The Municipality submitted on December 15, 2012 the Program Income for the months of July 2011 through June 2012.
2. Section 3 summary report.

Even though the performance and evaluation report for program year 2009 was prepared there was no evidence that the same had been submitted to OCAM. The reports for the other open program years, which are from 2005 thru 2008, were not prepared as reported in prior year single audit reports.

Criteria:

According to 24 CFR, section 91.520 (a) and (c), the Performance and Evaluation report is due 90 days after the close of its program year, and should include a description of the use of funds during the program year and an assessment of the grantee's use for the priorities and objectives identified in its plan. HUD 60002 Section 3 summary report is required for each grant over \$200,000 that involves housing rehabilitation, housing construction or other public construction, according to 24 CFR sections 135.3 (a), 135.90 and 570.487 (d).

The program is required by OCAM to report any and all program income generated by the program after every three month period, as per OCAM Circular Letter 2008-11 of March 25, 2008.

Cause:

The Municipality did not thoroughly review the HUD and OCAM guidelines regarding the requirements of submission of reports.

Effect:

The Municipality did not report required information to the awarding agency.

Auditor's Recommendation:

The Municipality should deliver instructions to its staff regarding these HUD and OCAM guidelines, and to constantly review authoritative guidance in order to assure that all required reports are prepared and timely submitted.

Views of responsible officials and corrective actions:

The Municipality will submit evidence of the partial correction of this finding. The Municipality will submit evidence that this Program Income Report has been submitted and the Municipality will be assigning personnel to submit the Performance Evaluation Report.

Audit finding status:

Unresolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2012-III-3

Type of finding: Federal Award.

Situation: Significant deficiency, compliance with federal regulations.

Federal Program: Community Development Block Grant – State Grant (CFDA 14.228) and
Section 8 Housing Choice Voucher Program (CFDA 14.871)

Compliance Requirements: Equipment and Real Property Management (E)

Prior-Year(s) Audit Finding(s): 2010-III-2; 2011-III-3.

Questioned Costs: Not determined

Condition:

The Municipality does not maintain an adequate inventory of federally-funded equipment, because equipment purchased with CDBG and Section 8 programs funds were not identified separately from each other. Additionally, the Municipality did not perform the required inventory of either program's equipment within the 1-year timeframe required by State's policies and procedures as prescribed by the PR Commissioner's Office for Municipal Affairs.

Context:

During our audit, we inquired about the Municipality's annual equipment inventory process, as required by state regulations. We found that the Municipality had performed an annual inventory on all departments and offices, but could not provide evidence that it was performed to the federal programs office which administers Section 8 and CDBG programs. Additionally, the subsidiary ledger maintained by the Municipality had identified all equipment in those offices by as part of the office, and not to a particular program.

Criteria:

PR Commissioner's Office for Municipal Affairs Municipal Administration Manual requires that the Municipality perform an annual inventory of all property and equipment in the custody and ownership of the Municipality, including its federal programs (Ch. VII, sec. 23).

Cause:

The Municipality did not apply federal and state policies and procedures regarding inventories because of a misunderstanding of overlapping regulations.

Effect:

The Municipality could not ascertain it maintained proper accounting and safeguarding controls over its federally funded equipment.

Auditor's Recommendation:

The Municipality should include federally funded equipment separated by program within its inventory, and should perform annual inventories as required by state regulations in order to minimize the risk of loss or theft.

Views of responsible officials and corrective actions:

The Municipality corrected this finding according to the proper inventory procedures.

Audit finding status:

Unresolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2012-III-4

Type of finding: Federal Award.

Situation: Significant deficiency, compliance with federal regulations.

Federal Program: Community Development Block Grant – State Grant (CFDA 14.228)

Compliance Requirements: Procurement and Suspension and Debarment (I)

Prior-Year(s) Audit Finding(s): 2011-III-4.

Questioned Costs: Not determined

Condition:

The Municipality does not verify that third-parties who provide goods and services, including construction contracts, to the CDBG program are not included in the OMB Suspended and Debarred List.

Context:

When interviewing personnel and observing selected procurement and disbursement actions, we found that the Municipality's CDBG staff does not verify and document that third parties contracted for goods and services with program funds are not included in the OMB Excluded Parties List. However, our tests did not reveal any excluded parties currently being contracted by the Municipality.

Criteria:

2 CFR part 180, which implements Executive Orders 12549 and 12689, and the OMB A-102 Common Rule (1)(d) require all federal agencies, their grantees and sub-grantees to avoid procuring goods and services using federal program funds from third parties who are suspended or debarred from doing so by the U.S. Office of Management and Budget (OMB).

The award contract between the Municipality and the PR Commissioner's Office for Municipal Affairs (pass-through grantor) requires, in one of its contract clauses, that the Municipality document in its contract files all procedures that were performed to verify that the contracted party is not suspended or debarred from participating in federally-funded activities.

Cause:

The Municipality did not thoroughly review the HUD guidelines regarding the requirements of procurement, suspension and debarment.

Effect:

The Municipality was exposed to the risk of disbursing federal funds to third parties who would be ineligible for receipt of such funds, entering noncompliance circumstances.

Auditor's Recommendation:

The Municipality must review all procurement actions for compliance with Suspension and Debarment requirements in order to avoid possible questioned costs and unallowed expenditures.

Views of responsible officials and corrective actions:

The Municipality will be notifying to the employees responsible of the disbursements to include the OMB Suspended and Debarred List.

Audit finding status:

Unresolved.

END OF SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Year	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
(1) Prior Audit Findings, fully corrected or not noted during our audit:					
2011	2011-III-5	The Municipality did not annually review its schedule of utility allowance as required by program regulations	14.871	None.	The Schedule was reviewed during the year.
(2) Prior Audit Findings, not corrected or partially corrected:					
2011	2011-III-1	The Municipality's section 8 program used HAP/NRA reserves in the amount of \$64,192 to cover administrative costs.	14.871	\$64,192	See 2012-III-1 for details.
2009, 2010	01-09:2010-III-1; 2011-III-2	The Municipality did not submit certain required reports.	14.228	None.	See 2012-III-2 for details.
2010, 2011	2010-III-2; 2011-III-3	The Municipality does not maintain an adequate inventory of federally-funded equipment.	14.228; 14.871	None.	See 2012-III-3 for details.
2010, 2011	2010-III-3; 2011-III-4	The Municipality does not verify third-parties who provide goods and services, including construction contracts, to the CDBG program are not included in the OMB Suspended and Debarred List.	14.228	None.	See 2011-III-4 for details.
(3) Corrective action taken is significantly different from corrective action previously reported:					
None.					
(4) Audit findings are no longer valid:					
None.					

END OF SCHEDULE