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

MUNICIPIO DE LAJAS
AUDITORÍA 2012-2013

30 DE JUNIO DE 2013

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

HON. MARCOS A. IRIZARRY PAGÁN
MAYOR

3/3/14

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

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

FISCAL YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

Pages

PART I – FINANCIAL:

Independent Auditors' Report 1-3

Required Supplementary Information (Part I):
Management's Discussion and Analysis 4-14

BASIC FINANCIAL STATEMENTS:

GOVERNMENTAL WIDE FINANCIAL STATEMENTS:

Statement of Net Position 15

Statement of Activities 16

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS:

Balance Sheet 17

Statement of Revenues, Expenditures and Changes in Fund Balances 18

Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Position 19

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities ... 20

Notes to the Basic Financial Statements 21-55

Required Supplementary Information:

Required Supplementary Information (Part II):
Budgetary Comparison Schedule – General Fund 56

Notes to Budgetary Comparison Schedule – General Fund 57

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

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

FISCAL YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS (CONTINUED)

Pages

PART II – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133:

Schedule of expenditures of federal awards 58-59

Notes to the schedule of expenditures of federal awards 60

INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS

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* 61-62

Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 63-65

FINDINGS AND QUESTIONED COSTS

Schedule of findings and questioned cost 66-83

Summary schedule of prior year audit findings 84-85

PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of **Lajas**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Basis for Qualified Opinion on Governmental Activities

The Municipality did not follow the requirements established by GASB No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*. At June 30, 2013, the accompanying statement of net position presents a liability for closure and post closure care costs of the Municipality's solid waste landfill using an estimate made by the management of the Municipality and not based on a formal study of the actual landfill available and used capacity. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities has not been determined.

In addition, I was unable to obtain a written evaluation, from the Municipality's external lawyers of the pending or threatened litigations as of June 30, 2013.

Qualified Opinion

In my opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Municipality, as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 14 and 56 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 28, 2014, on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.

Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 28, 2014

PEDRO LEDEE
PUERTO RICO

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The management of Municipality of **Lajas**, Puerto Rico (Municipality) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2013. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

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

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

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- The Municipality's assets exceeded its liabilities at June 30, 2013 by $9,740,205, and at June 30, 2012 by $9,505,898;
- The Municipality's total net position increase by $234,207 during fiscal year 2012-2013;
- As of June 30, 2013, the Municipality's governmental funds reported combined ending fund balance of $2,803,704, an increase of $670,159 from the prior year;
- At June 30, 2013, the Statement of Net Position presented an unrestricted deficit of $13,339,006;
- The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2013 were $22,589,134 (net of accumulated depreciation);
- The investment in capital assets for this year was $18,277,047 (net of related debt);
- Loans principal payments were $926,000 and $768,000 in 2013 and 2012, respectively.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION

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

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

STATEMENT OF ACTIVITIES

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

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

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

FUND FINANCIAL STATEMENTS

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

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

GOVERNMENTAL FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

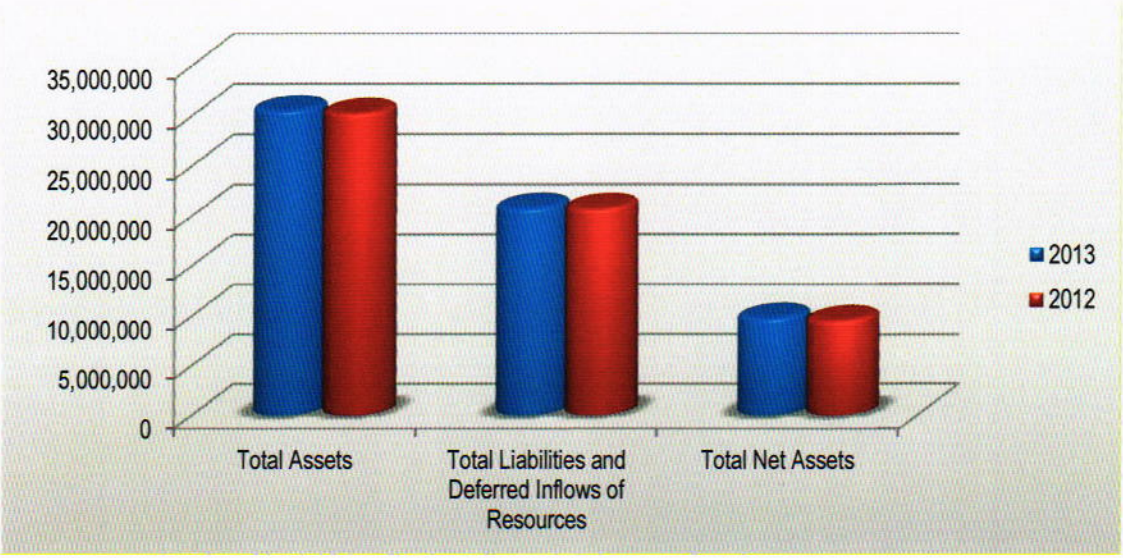
GOVERNMENT-WIDE FINANCIAL ANALYSIS

GOVERNMENTAL NET POSITION

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by $9,740,205 as of June 30, 2013, versus $9,505,898 as of June 30, 2012, as restated. Our analysis below focuses on the net position (**Table 1**) and changes in net position of the Municipality's governmental activities.

Table 1

Statement of Net Position	2013	2012
Current and non-current assets	$ 7,858,964	$ 7,859,408
Capital assets	22,589,134	22,324,653
Total Assets	**30,448,098**	**30,184,061**
Current liabilities	2,195,725	2,977,050
Long-term liabilities	17,887,961	17,081,417
Total Liabilities	**20,083,686**	**20,058,467**
Deferred Inflows of Resources	**624,207**	**619,696**
Net positions:		
Investment in capital assets, net of related debt	18,277,047	16,100,081
Restricted	4,802,164	4,154,500
Deficit	(13,339,006)	(10,748,683)
Total Net Position	**$ 9,740,205**	**$ 9,505,898**



GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

GOVERNMENTAL ACTIVITIES

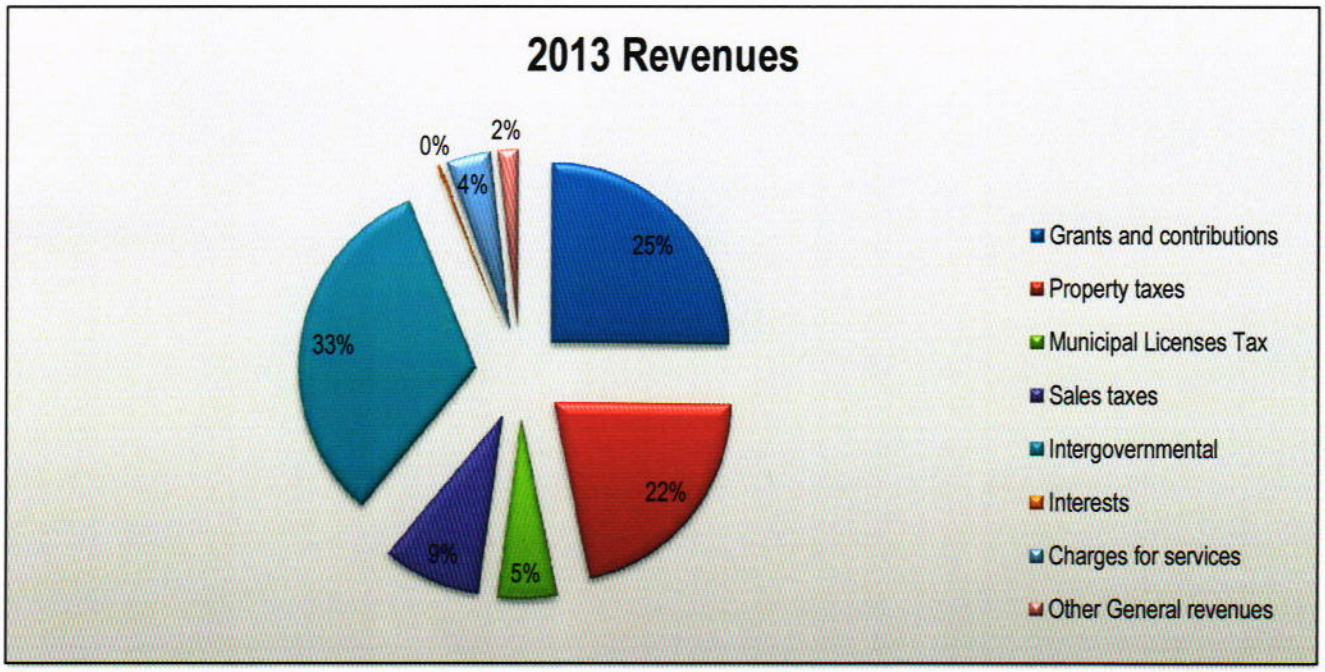
Governmental activities increased the Municipality's net position. Key elements of this increase are as follows: the Municipality's governmental activities had net expenses of $9,893,386. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues exceed net expenses by $234,307.

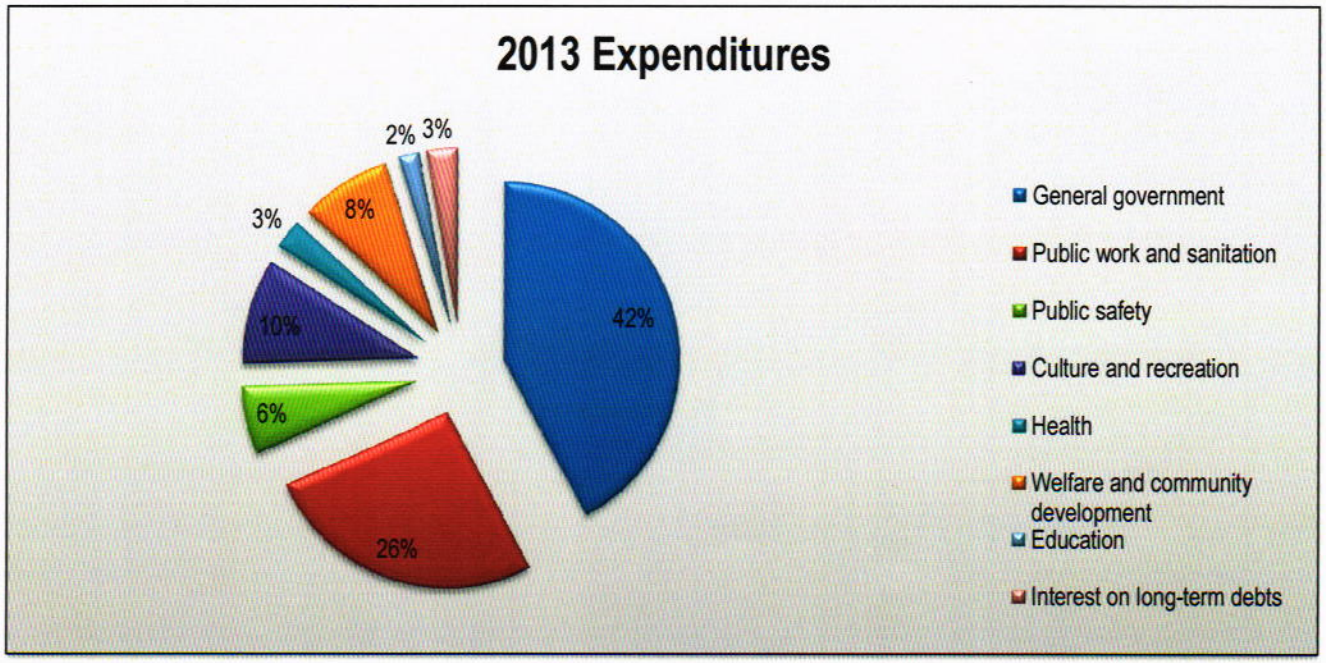
The cost of all governmental activities this year was $14,066,542. **Table 2** presents the cost of each of the Municipality's largest programs.

Table 2
Statement of Activities

	2013	2012
Revenues		
Grants and contributions	$ 3,596,746	$ 1,948,660
General revenues:		
Property taxes	3,083,364	3,098,375
Sales taxes	1,280,197	1,183,080
Municipal licenses taxes	774,645	825,575
Intergovernmental	4,680,187	3,877,031
Interests	44,250	76,733
Charges for services	576,410	3,201,389
Other General revenues	265,050	84,208
Total revenues	14,300,849	14,295,051
Expenses		
General government	5,928,234	7,023,261
Public work and sanitation	3,669,772	4,289,164
Public safety	884,427	754,646
Culture and recreation	1,343,845	1,193,770
Health	380,894	389,754
Welfare and community development	1,171,210	1,723,085
Education	273,160	54,375
Interest on long-term debts	415,000	344,318
Total expenses	14,066,542	15,772,373
Changes in net positions	234,307	(1,477,322)
Net positions – beginning	9,505,898	10,983,220
Net positions – ending	**$ 9,740,205**	**$ 9,505,898**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)





GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Approximately twenty five percent (25%) of the Municipality's governmental activities total revenue came from grants and contributions, and thirty three percent (33%) came from state contributions not restricted for specific purposes. Federal grants represent nineteen percent (19%) of the Municipality's grants and contributions revenues. Also, approximately fifty six percent (56%) of total revenues come from property, volume of business and sales taxes.

The Municipality's governmental activities expenses included items such as general government, public safety, public works and sanitation, culture and recreation, health, welfare and community development, education and interest on long term debts. Approximately ten percent (10%) of total expenses resulted from culture and recreation, forty two percent (42%) from general administration and twenty six percent (26%) from public works and sanitation.

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GOVERNMENT FUND FINANCIAL ANALYSIS

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

Table 3
Balance Sheet

	2013	2012
Assets:		
Total assets – Major Funds	$ 5,933,115	$ 6,232,886
Total assets – Other Funds	2,885,367	1,804,505
Combined total assets	**$ 8,818,482**	**$ 8,037,391**
Liabilities:		
Total liabilities – Major Funds	4,561,346	4,760,005
Total liabilities – Other Funds	573,441	526,390
Combined total liabilities	5,134,787	5,286,395
Deferred Inflows of Resources:		
Total inflows – Major Funds	872,814	617,451
Total Inflows – Other Funds	7,177	-
Combined total deferred inflows of resources	879,991	617,451
Fund Balances (as restated):		
Restricted, Committed or Assigned – Major Funds	2,511,223	3,065,253
Restricted, Committed or Assigned – Other Funds	2,304,749	1,334,531
Unassigned	(2,012,268)	(2,266,239)
Combined total fund balances	2,803,704	2,133,545
Total liabilities and fund balances	**$ 8,818,482**	**$ 8,037,391**

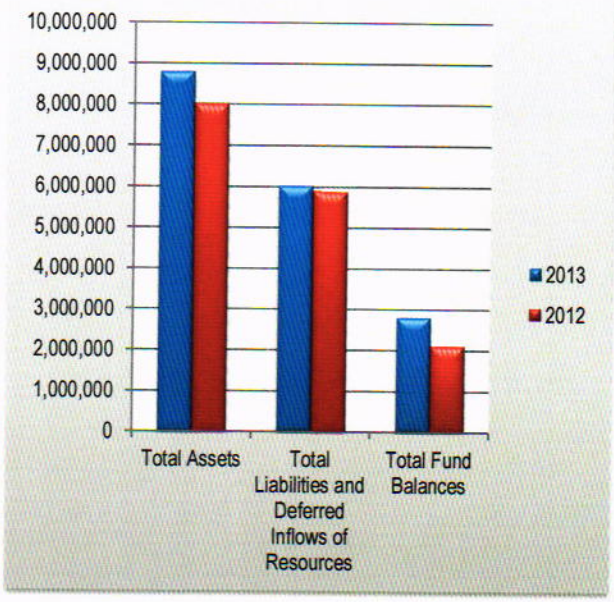
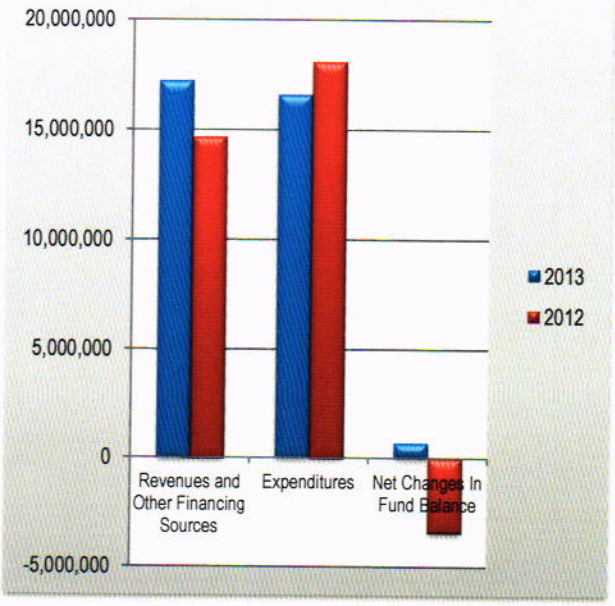


Table 4
Changes in Fund Balances

	2013	2012
Revenues:		
Total revenues – Major Funds	$ 13,460,834	$ 12,216,747
Total revenues – Other Funds	1,772,334	1,472,427
Combined total revenues	15,233,168	13,689,174
Expenditures:		
Total expenditures – Major Funds	14,354,653	15,732,265
Total expenditures – Other Funds	2,219,521	2,417,567
Combined total expenditures	16,574,174	18,149,832
Other financing sources:		
Other financing sources – Major Funds	1,448,908	1,214,984
Other financing sources – Other Funds	562,257	(204,094)
Combined other financing sources, net	2,011,165	1,010,890
Net changes in fund balance	670,159	(3,449,768)
Fund Balance – beginning	2,133,545	5,583,313
Fund Balance – ending	**$ 2,803,704**	**$ 2,133,545**



GOVERNMENTAL FUNDS

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2013, the Municipality's governmental funds reported combined ending fund balances of $2,803,704, an increase of $670,159 from the prior year.

BUDGETARY HIGHLIGHTS

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

Table 5	Final Budget	Actual Amounts	Variance
Total revenues	$ 12,646,867	$ 8,356,754	$ (4,290,113)
Total expenditures, encumbrances and other financing uses	12,646,867	9,742,948	2,903,919
Excess or (deficiency)	**$ -**	**$ (1,386,194)**	**$ (1,386,194)**

The original and the final budget of the General Fund for the fiscal year ended June 30, 2013 amounted to $12,646,867. Over the course of the fiscal year, no revisions to the General Fund's budget were made in order to include increases or decreases in revenues. The laws and regulations of the Commonwealth mandate a balanced budget.

The total actual revenues (budgetary basis) of the General fund for the fiscal year ended June 30, 2013 were $8,356,754, which is $4,290,113 less than the budgeted revenues. In addition, the total actual expenditures, encumbrances and other financing uses (budgetary basis) of the General Fund for the fiscal year ended June 30, 2013 were $9,742,948, which is $2,903,919 less than the budgeted expenditures.

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CAPITAL ASSETS AND DEBT ADMINISTRATION

INVESTMENT IN CAPITAL ASSETS

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2013 amounted to $22,589,134 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure and license vehicles. The total increase in the Municipality's investment in capital assets for the current fiscal year was $2,176,966. Additions during the fiscal year were for land improvement, infrastructure, buildings, license vehicles, and machinery and equipment. **Table 6** present the major classes of capital assets (net of accumulated depreciation):

Table 6

Capital Assets	Amount
Construction in progress	$ 1,444,332
Land	1,570,654
Land improvement	1,892,867
Buildings	12,436,891
Infrastructure	3,400,071
Machinery and equipment	813,534
License vehicles	1,030,785
Total Assets	**$ 22,589,134**

LONG-TERM DEBT

At June 30, 2013, the Municipality had total of $17,887,961 in general obligations and others outstanding debts, as shown in **Table 7**. Of this amount, $13,239,000 comprises debt backed by the full faith and credit of the government and $4,648,961 is other obligations.

Table 7

Long Term Debts	Amount
General obligations bonds and notes	$ 13,239,000
Others	4,648,961
Total Long Term Debts	**$ 17,887,961**

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

REAL ESTATE HELD FOR SALE

The Municipality participated in a construcction of nine (9) units in a project named "*Apartamentos San Blas*", for low and very low income families, financed with the Neighborhood Stabilization Program (NSP). At June 30, 2013, real estate held for sale presented in the governmental wide statement of net position, related to these constructions, amounted $1,049,544.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

All of these factors were considered in preparing the Municipality's budget for the 2013 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at (787) 899-1450.

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COMMONTHWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities
Assets	
Current Assets:	
Cash and cash equivalents	$ 784,489
Receivables, net:	
Property taxes	170,529
Sales and use taxes	105,589
Fees and charges from services	56,929
Due from:	
Commonwealth government	228,014
Federal government	851,894
Restricted assets:	
Cash and cash equivalents	1,018,173
Cash with fiscal agent	3,569,381
Real estate held for sale	1,049,544
Other assets	24,422
Total Current Assets	7,858,964
Noncurrent Assets:	
Capital assets	
Land and construction in progress	3,014,986
Other capital assets, net	19,574,148
Total Noncurrent Assets	22,589,134
Total Assets	**30,448,098**
Liabilities	
Accounts payable and accrued liabilities	1,297,902
Interest payable	147,413
Intergovernmental payable	427,927
Contingencies	274,727
Unearned revenues	47,756
Long term liabilities:	
Due within one year	2,578,688
Due in more than one year	15,309,273
Total Liablilities	**20,083,686**
Deferred Inflows of Resources	
Unavailable revenues:	
State grants	7,177
Volume of business tax	617,030
Total Deferred Inflows of Resources	624,207
Net Position	
Invested in capital assets, net of related debt	18,277,047
Restricted for:	
Debt service	1,123,227
Other specified purposes	3,678,937
Unrestricted (deficit)	(13,339,006)
Total Net Position	**$ 9,740,205**

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, 2013

Functions	Expenses	Program Revenues: Fees, Fines and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (expenses) revenues and changes in net position
Governmental Activities:					
General government	$ 5,928,234	$ 571,242	$ 428,216	$ -	$ (4,928,776)
Public works and sanitation	3,669,772	-	26,441	1,429,012	(2,214,319)
Public safety	884,427	-	-	140,248	(744,179)
Culture and recreation	1,343,845	5,168	-	-	(1,338,677)
Health	380,894	-	-	-	(380,894)
Welfare and community development	1,171,210	-	1,572,829	-	401,619
Education	273,160	-	-	-	(273,160)
Interest on long term debt	415,000	-	-	-	(415,000)
Total	$ 14,066,542	$ 576,410	$ 2,027,486	$ 1,569,260	(9,893,386)

General revenues :	
Taxes:	
Property taxes	3,083,364
Municipal license taxes	774,645
Sales and use taxes	1,280,197
Grants contributions not restricted to specific programs	4,680,187
Interest	44,250
Other	265,050
Total general revenues:	10,127,693
Change in net position	234,307
Net position - beginning	9,505,898
Net position - ending	**$ 9,740,205**

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	Major Funds					
	General Fund	Debt Service Fund	CDBG Grants Fund	Permanent Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 784,489	$ -	$ -	$ -	$ -	$ 784,489
Receivables, net:						
Property Taxes	159,188	11,341	-	-	-	170,529
Sales and use tax	39,568	66,021	-	-	-	105,589
Fees and charges from services	56,929	-	-	-	-	56,929
Due from:						
Commonwealth government	96,596	-	-	-	131,418	228,014
Federal government	-	-	752,011	-	99,883	851,894
Other funds	434,897	-	-	1,000,000	574,165	2,009,062
Other assets	-	-	-	-	24,422	24,422
Restricted assets:						
Cash and cash equivalents	-	-	20,801	159,788	837,584	1,018,173
Cash with fiscal agent	228,208	2,123,278	-	-	1,217,895	3,569,381
Total Assets	**$ 1,799,875**	**$ 2,200,640**	**$ 772,812**	**$ 1,159,788**	**$ 2,885,367**	**$ 8,818,482**
Liabilities, Deferred Inflows of Resources and Fund Balances (deficit)						
Liabilities						
Accounts payable and accrued liabilities	$ 440,640	$ -	$ 647,678	$ -	$ 209,584	$ 1,297,902
Interest payable	-	147,413	-	-	-	147,413
Matured bonds payable	-	930,000	-	-	-	930,000
Due to:						
Commonwealth government	423,211	-	-	-	4,716	427,927
Other funds	1,572,543	-	125,134	-	311,385	2,009,062
Contingencies	274,727	-	-	-	-	274,727
Unearned revenues	-	-	-	-	47,756	47,756
Total liabilities	2,711,121	1,077,413	772,812	-	573,441	5,134,787
Deferred Inflows of Resources						
Unavailable revenues:						
Intergovernmental revenues	255,784	-	-	-	7,177	262,961
Volume of business tax	617,030	-	-	-	-	617,030
Total Deferred Inflows of Resources	872,814	-	-	-	7,177	879,991
Fund Balances (deficit)						
Restricted	228,208	1,123,227	-	1,159,788	2,304,749	4,815,972
Unassigned	(2,012,268)	-	-	-	-	(2,012,268)
Total fund balances (deficit)	(1,784,060)	1,123,227	-	1,159,788	2,304,749	2,803,704
Total Liabilities, Deferred Inflows of Resources and Fund Balances (deficit)	**$ 1,799,875**	**$ 2,200,640**	**$ 772,812**	**$ 1,159,788**	**$ 2,885,367**	**$ 8,818,482**

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

	Major Funds					
	General Fund	Debt Service Fund	CDBG Grants Fund	Permanent Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes:						
Property taxes	$ 2,415,690	$ 667,674	$ -	$ -	$ -	$ 3,083,364
Municipal license taxes	774,645	-	-	-	-	774,645
Sales and use taxes	480,433	799,764	-	-	-	1,280,197
Intergovernmental:						
Commonwealth Government	5,587,821	-	-	-	754,320	6,342,141
Federal financial assistance	-	-	1,915,995	-	962,549	2,878,544
Fees, fines and charges for services	571,242	-	-	-	-	571,242
Interest	43,903	-	-	286	62	44,251
Other	203,381	-	-	-	55,403	258,784
Total revenues	10,077,115	1,467,438	1,915,995	286	1,772,334	15,233,168
Expenditures						
Current:						
General government	5,601,228	-	-	-	401,939	6,003,167
Public works and sanitation	2,724,433	-	185,260	2,286	249,304	3,161,283
Public Safety	744,473	-	-	-	56,956	801,429
Culture and recreation	1,155,944	-	-	-	-	1,155,944
Health	359,472	-	-	-	-	359,472
Welfare and community development	469,932	-	120,826	-	454,231	1,044,989
Education	-	-	-	-	272,321	272,321
Capital outlays	6,457	-	1,505,418	-	784,770	2,296,645
Debt Service:						
Principal	67,924	996,000	-	-	-	1,063,924
Interest	42,976	372,024	-	-	-	415,000
Total expenditures	11,172,839	1,368,024	1,811,504	2,286	2,219,521	16,574,174
Excess (deficiency) of revenues over expenditures	(1,095,724)	99,414	104,491	(2,000)	(447,187)	(1,341,006)
Other financing sources (uses):						
General long term debt issuance	3,090,000	-	-	-	-	3,090,000
Payment of long-term notes	(1,078,835)	-	-	-	-	(1,078,835)
Transfers in	121,551	136,563	112,513	-	583,808	954,435
Transfers out	(832,884)	(100,000)	-	-	(21,551)	(954,435)
Total other financing resources (uses)	1,299,832	36,563	112,513		562,257	2,011,165
Net change in fund balances (deficit)	204,108	135,977	217,004	(2,000)	115,070	670,159
Fund balances (deficit) at beginning of year	(1,988,168)	987,250	(217,004)	1,161,788	2,189,679	2,133,545
Fund balances (deficit) at end of year	**$ (1,784,060)**	**$ 1,123,227**	**$ -**	**$ 1,159,788**	**$ 2,304,749**	**$ 2,803,704**

01/04/2014

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balances- governmental funds		**$ 2,803,704**
Amounts reported for governmental activities in the statement of net positions 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:		22,589,134
Investment in Real estate held for sale are not current financial recourses and, therefore, are not reported as an asset in the governmental funds balance sheet:		1,049,544
Assets not available to pay current-period expenditure and, therefore, are deferred inflows of resources in the governmental funds balance sheet.		
Due from Commonwealth Government:		255,784
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in in the funds:		
General obligation bonds and notes	$ (12,309,000)	
Note payable to CRIM-Law No. 42	(287,373)	
Note payable to CRIM-financing of delinquent accounts	(101,992)	
Municipal landfill closure and post closure cost	(1,361,525)	
Compensated absences	(2,628,709)	
Christmas Bonus	(257,131)	
Obligations under capital leases	(12,231)	(16,957,961)
Net position of governmental activities:		**$ 9,740,205**

The accompanying notes are an integral part of these 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, 2013

Net change in fund balances (deficit) - total governmental funds:		**$ 670,159**
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds reports capital assets and real estate held for sale outlays as expenditures. 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 and real estate held for held	$ 2,302,912	
Less: current year depreciation	(988,887)	1,314,025
Some items reported in the statement of activities do not require the use of current financial resources and therefore are no reported as expenditures in governmental funds.		(29,314)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Christmas bonus reimbursement	96,596	
Property Taxes-General Fund	159,188	255,784
Revenues reported in funds which are not reported as revenues in the Statement of Activities:		
Prior Year Christmas bonus reimbursement	(131,983)	
Property Taxes-General Fund	(199,143)	
Property Taxes-Debt Service Fund	(11,767)	
Urban Business Impact Program	(19,170)	
Federal Grant - Child Care Food Program	(36,294)	
Federal Grant - CDBG	(217,004)	
P.R. Electric Power Authority (PREPA)	(578,705)	
Other	(45,737)	(1,239,803)
Proceeds from long term debts are other financing sources in the governmental funds, but increase long-term liabilities in the Statement of Net Position.		(3,090,000)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds principal payments		996,000
Repayment of long term debt and borrowing is reported as an expenditure and other financing uses in governmental funds, but the repayment reduces long-term liabilities on the net position in the current period.		1,152,559
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	(247,554)	
Christmas bonus	6,836	
Debt payment to P.R. Electric Power Authority	578,705	
Municipal landfill closure and post closure	(133,090)	204,897
Change in Net Position of Governmental Activities:		**$ 234,307**

The accompanying notes are an integral part of these statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2013, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

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

The required supplementary information, which consists of a management discussion and analysis (MD&A) and required supplementary information that contains the budgetary comparison schedule for the General Fund. The MD&A is information presented along with, but separate from, the Municipality's basic financial statements, and represent a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2013, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

A. FINANCIAL REPORTING ENTITY

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

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

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

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

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

- Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2013, has been reported only in the government-wide financial statements.
- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due), except for principal and interest due in July 1 of the following fiscal year, which are recorded when resources are available in the debt service fund (generally June 30)
- Obligation under capital leases, amount subject to claims and judgements under litigation and other long-term obligations are recorded only when they mature (when payment is due)
- Accounts payable and accrued liabilities not expected to be liquidated with available and expendable financial resources are recorded in the accompanying statement of net assets but not in the governmental funds.
- Executory purchase orders and contracts are recorded in the GFFS.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED

C. FINANCIAL STATEMENT PRESENTATION

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

- **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- **Restricted Net Position** – These results when constraints are placed on net position use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted Net Position** – These consists of net position which do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) public works

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

and sanitation, (3) public safety, (4) culture and recreation, (5) health, (6) welfare and community development, (7) education. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

- Municipal legislature
- Mayor's office
- Department of finance
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- EDP Department
- Department of planning and development
- Federal programs department
- Purchase department

Public works and sanitation

- Department of public works
- Department of sanitation

Public safety:

- Department of emergency management
- Department of municipal police

Culture and recreation:

- Department of recreation and sports
- Department of tourism
- Department of arts and culture

Welfare and community development

- Department of elderly affairs

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

revenues or (2) the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.

- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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

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

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

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

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

The Municipality classifies the most significant portion of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

be used to support the Municipality's programs or services. These governmental activities are also generally reported in the FFS.

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

The Municipality has no operations and activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; and where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The fund financial statements (the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances) are, in substance, very similar to the financial statements presented in the financial reporting model before the implementation of the GASB No. 34. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

CDBG Grants Fund – This is the fund used to account for revenues derived from the Department of Housing and Urban Development grants, related to Community Development Block Grants. During the current fiscal year the CDBG funds included in this major fund are CDBG States, CDBG ARAA and CDBG Neighborhood Stabilization Program (NSP).

Permanent Capital Improvements Fund – This fund is used to account for all financial resources and transactions from State Assignments, for the purpose of acquisition or construction of major capital facility or equipment.

D. FINANCIAL REPORTING PRESENTATION

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL REPORTING PRESENTATION (CONTINUED)

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

E. FUND BALANCES

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. FUND BALANCES (CONTINUED)

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

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

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

F. BUDGETARY DATA

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

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

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

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message;

2. The budget document is available for public inspection prior to its approval by the Municipal Legislature;

3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law;

4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. BUDGETARY DATA (CONTINUED)

5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;

6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;

7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.

2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.

3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.

4. Certain accrued liabilities and other debts are not included in the budgetary basis.

5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

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

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

G. CASH, CASH EQUIVALENT AND INVESTMENT

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. CASH, CASH EQUIVALENT AND INVESTMENT (CONTINUED)

available were not used for pool investments.

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

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

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

H. RECEIVABLES

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

I. DEFERRED OUTFLOW / INFLOW OF RESOURCES

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

J. INVENTORIES

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

K. REAL ESTATE HELD FOR SALE

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. CAPITAL ASSETS

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

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

Capital Assets	Years
Land improvements	20
Buildings, structures, and improvements	30-50
Infrastructure and infrastructure improvement	20-50
License vehicle and machinery and equipment	5-20

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

M. LONG-TERM OBLIGATIONS

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

N. COMPENSATED ABSENCES

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

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

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. COMPENSATED ABSENCES (CONTINUED)

statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

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

BALANCE JUNE 30 2012	NET INCREASE (DECREASE)	BALANCE JUNE 30 2013	CURRENT PORTION	LONG-TERM PORTION
$ 2,381,155	$ 247,554	$ 2,628,709	$ 1,301,252	$ 1,327,457

O. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy send to the Municipality.

P. INTERFUND TRANSACTIONS

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

- **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.

- **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.

- **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. CLAIMS AND JUDGMENTS

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

R. USE OF ESTIMATES

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

S. ACCOUNTING FOR PENSION COSTS

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

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

T. RISK FINANCING

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

Insurance cost paid by the Municipality during fiscal year 2012-2013 amounted to $188,993. In addition, cost of the workers compensation insurance that covers all municipal employees and is deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2013 amounted $221,601.

U. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

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

- GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This statement is effective for periods beginning after December 15, 2012.
- GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.* This statement is effective for periods beginning after June 15, 2014.
- GASB Statement No. 69 *Government Combinations and Disposals of Government Operations.* The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* This statement is effective for periods beginning after June 15, 2013.
- GASB Statement No. 71 *Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB 68.* This statement is effective for periods beginning after June 15, 2014.

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

V. NEW ACCOUNTING PRONOUNCEMENT

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

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

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

NOTE 2 – CASH AND CASH EQUIVALENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as it's custodial and credit risk policy, the

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

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

According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2013.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2013, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2013, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of $250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013. Therefore, the Municipality's management has concluded that at June 30, 2013 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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

The Municipality's bank balances in commercial banks of $784,489 in the General Fund, $20,801 in CDBG Grants Fund and $159,788 in the Permanent Capital Improvement Fund were fully collateralized at June 30, 2013. In the Other Governmental Funds, there were deposits with commercial banks of $837,584 that were fully collateralized.

The deposits at GDB of $228,208 in the General Fund, $2,123,278 in the Debt Service Fund and the $1,217,895 in Other Governmental Funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3 – RECEIVABLES

A. SALES TAXES RECEIVABLES

As described below in Note 15, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 10th day of each month based on tax collected in the preceding month. Sales taxes receivables of $39,568 in the General Fund represents amounts earned but not collected at June 30, 2013.

Also, sales taxes receivable of $66,021 in the Debt Service Fund represents the amount due at June 30, 2013 for the Municipal Redemption Fund.

B. PROPERTY TAXES RECEIVABLES

Property taxes receivable of $159,188 in the General Fund represents excess of revenues over advances received from the CRIM during fiscal year 2012-2013, according final settlement statement. Also, property taxes receivable of $11,341 in the Debt Service Fund represents the amount due at June 30, 2013 for the Municipal Redemption Fund.

C. STATE GOVERNMENT RECEIVABLES

At June 30, 2013, the Municipality maintained accounts receivable from the state government that represent expenditures incurred, not yet reimbursed or earned revenue unpaid by the state agencies. Following is a detail of the state government receivable:

Description		Amount
State Department of Treasury- Christmas bonus reimbursement	$	96,596
Law 52		131,418
Total	**$**	**228,014**

D. FEDERAL GRANTS RECEIVABLE

Federal grants receivable of $752,011 in the CDBG Grants Funds and in the Other Governmental Funds represent expenditures incurred, not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the federal grants receivable in the Other Governmental Funds:

Description		Amount
Child Care and Development Block Grant	$	99,601
Others		282
Total	**$**	**99,883**

NOTE 4 – DUE FROM / TO OTHER FUNDS

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

	Due from:					
	Major Funds					
Due to:	General Fund	Debt Service Fund	CDBG Grants Fund	Permanent Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Major funds:						
General fund	$ -	$ -	$ -	$ 1,000,000	$ 572,543	$ 1,572,543
Debt service fund	-	-	-	-	-	-
CDBG Grants Fund	125,134	-	-	-	-	125,134
Permanent Capital Improvement Fund	-	-	-	-	-	-
Nonmajor funds:						
Other governmental fund	309,763	-	-	-	1,622	311,385
Total	$ 434,897	$ -	$ -	$ 1,000,000	$ 574,165	$ 2,009,062

NOTE 5 – CAPITAL ASSETS AND REAL ESTATE HELD FOR SALE

REAL ESTATE HELD FOR SALE

The Municipality participated in a construcction of nine (9) units in a project named "*Apartamentos San Blas*", for low and moderate income families, financed with the Neighborhood Stabilization Program (NSP). At June 30, 2013, real estate held for sale presented in the governmental wide statement of net position, related to these constructions, amounted $1,049,544.

CAPITAL ASSETS

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

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

CAPITAL ASSETS CONTINUED)

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

A summary of capital assets and changes occurring during fiscal year 2012-2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

	Balance at beginning of fiscal year	Adjustment	Adjusted Balance at beginning of fiscal year	Increases	Decreases and Transfers	Balance at end of fiscal year
Governmental activities						
Cost basis:						
Capital assets, not being depreciated/amortized:						
Land	$ 1,701,334	$ -	$ 1,701,334	$ -	$ (130,680)	$ 1,570,654
Construction in progress	1,599,431	-	1,599,431	202,940	(358,039)	1,444,332
Total capital assets, not being depreciated/amortized	3,300,765	-	3,300,765	202,940	(488,719)	3,014,986
Capital assets, being depreciated/amortized:						
Land improvements	3,828,936	-	3,828,936	825,850	-	4,654,786
Buildings, structures, and improvements	15,043,642	-	15,043,642	378,736	-	15,422,378
Infrastructure and infraestructure improvements	33,080,919	-	33,080,919	72,397	-	33,153,316
Machinery and equipment	2,718,192	-	2,718,192	223,471	-	2,941,663
Licensed vehicles	3,939,029	-	3,939,029	38,693	-	3,977,722
Total capital assets, being depreciated/amortized	58,610,718	-	58,610,718	1,539,147	-	60,149,865
Total cost basis of capital assets	61,911,483	-	61,911,483	1,742,087	(488,719)	63,164,851
Less: accumulated depreciation and amortization:						
Land improvements	(2,658,874)	-	(2,658,874)	(103,045)	-	(2,761,919)
Buildings, structures, and improvements	(2,685,437)	-	(2,685,437)	(300,050)	-	(2,985,487)
Infrastructure and infraestructure improvements	(29,563,818)	-	(29,563,818)	(189,427)	-	(29,753,245)
Machinery and equipment	(1,939,012)	-	(1,939,012)	(189,117)	-	(2,128,129)
Licensed vehicles	(2,739,689)	-	(2,739,689)	(207,248)	-	(2,946,937)
Total accumulated depreciation and amortization	(39,586,830)	-	(39,586,830)	(988,887)	-	(40,575,717)
Net capital assets	$ 22,324,653	$ -	$ 22,324,653	$ 753,200	$ (488,719)	$ 22,589,134

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

CAPITAL ASSETS (CONTINUED)

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

Govermental activities		
General government	$	194,107
Public Works and sanitation		375,400
Public safety		82,997
Culture and recreation		187,901
Health		21,421
Welfare and community development		126,221
Education		840
Total depreciation and amortizaiton expense	$	988,887

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	$278,594	$162,046	$440,640
CDBG Grants Fund	647,678	-	647,678
Other Governmental Funds	209,584	-	209,584
Total	**$1,135,856**	**$162,046**	**$1,297,902**

NOTE 7 – BONDS AND NOTES PAYABLE

As described below in Note 10, the Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. At June 30, 2013, the government-wide and fund financial statements presented the following accounts payable, regarding to the outstanding balance of these bonds and notes, including its accrued interests:

Description		Amount
Principal	$	930,000
Interests		147,413
Total	**$**	**1,077,413**

NOTE 8 – DUE TO OTHER GOVERNMENTAL UNITS

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

Governmental Unit	Amount
State Retirement System Administration	$ 71,650
Puerto Rico Aqueduct and Sewer Authority	47,949
General Service Administration	132,422
State Department of Labor	171,191
State Department of Family	4,715
Total	**$ 427,927**

NOTE 9 – UNEARNED REVENUES AND DEFERRED INFLOW OF RESOURCES

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

Program Description	Amount
State Office of the Elderly	$ 10,869
Homeland Security Grants	9,666
State Department of Family	18,008
FTA Rural Development	9,213
Total	**$ 47,756**

The deferred inflows of resources of $255,784 in the General Fund is composed of $159,188 and $96,596 that represents the excess of property taxes revenues over advances received from the CRIM during fiscal year 2012-2013, according final settlement statement and the amount to be reimbursed by the State Government for Christmas bonus vested by Municipality's employees, respectively. These amounts were not collected by the Municipality at June 30, 2013.

The deferred inflows of resources of $617,030 in the General Fund represent the volume of business taxes collected in fiscal year 2012-2013 that will be earned in fiscal year 2013-2014.

NOTE 10 – GENERAL LONG-TERM DEBTS

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

	Balance at June 30, 2012	Borrowings or additions	Payments or deductions	Balance at June 30, 2013	Balance due within one year
General, Special Obligation Bonds and Notes	$ 11,075,000	$ 3,090,000	$ 926,000	$ 13,239,000	$ 1,000,000
Notes payable:					
CRIM:					
Law 42	294,820	-	7,447	287,373	7,915
Financing of delinquent accounts	107,360	-	5,368	101,992	5,368
Property Taxes	55,109	-	55,109	-	-
PREPA	578,705	-	578,705	-	-
P.R. General Service Adminitration	519,429	-	519,429	-	-
P.R. Employees Retirement System	536,852	-	536,852	-	-
Capital Leases	40,585	-	28,354	12,231	7,022
Estimated liability for municipal solid waste landfill closure and postclosure care costs	1,228,435	133,090	-	1,361,525	-
Compensated absences	2,381,155	247,554	-	2,628,709	1,301,252
Christmas Bonus	263,967	-	6,836	257,131	257,131
Total	$ 17,081,417	$ 3,470,644	$ 2,664,100	$ 17,887,961	$ 2,578,688

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE

The Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. Bonds and notes payables as of June 30, 2013, are comprised of the following individual issues:

BONDS PAYABLE

Description	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, 2013)	$40,000
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%	455,000
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, 2013)	465,000
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%	427,000

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

BONDS PAYABLE (CONTINUED)

Description	Outstanding Amount
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% (1.72% at June 30, 2013)	155,000
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% (1.72% at June 30, 2013)	160,000
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% (1.72% at June 30, 2013)	410,000
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% (1.72% at June 30, 2013)	1,735,000
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, 2013)	52,000
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% (1.72% at June 30, 2013)	155,000
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% (1.72% at June 30, 2013)	490,000
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% (1.72% at June 30, 2013)	2,070,000
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% (1.72% at June 30, 2013)	300,000
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% (1.72% at June 30, 2013)	125,000

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

1. BONDS PAYABLE (CONTINUED

Description	Outstanding Amount
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, 2013)	325,000
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, 2013)	205,000
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, 2013)	20,000
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, 2013)	1,685,000
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, 2013)	315,000
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, 2016)	560,000
2013 special obligation notes of $3,090,000 due in a lump sum of $3,090,000 on July 1, 2014; bearing interest at rates ranging from 4.50% to 6.00% (6.00% at June 30, 2013)	3,090,000
	$13,239,000

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

Year ending June 30,	Principal	Interest	Total
2014	$ 1,000,000	$ 405,478	$ 1,405,478
2015	4,278,000	628,792	4,906,792
2016	751,000	498,935	1,249,935
2017	603,000	472,340	1,075,340
2018	647,000	430,571	1,077,571
2019-2023	1,976,000	1,683,549	3,659,549
2024-2028	1,765,000	1,115,990	2,880,990
2029-2033	1,804,000	464,583	2,268,583
2034-2038	415,000	48,560	463,560
Totals	$ 13,239,000	$ 5,748,796	$ 18,987,796

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

B. OBLIGATION UNDER CAPITAL LEASE

The Municipality is obligated under two capital lease agreements with third parties that expire on June 30, 2014 and November 1, 2015. As of June 30, 2013 the capitalized cost of capital leased equipment (photocopiers) amounts to $90,997 and are being paid in monthly installments of $1,683, including interest at 3.69%, 5.02% and 5.00%, respectively. The present value of future minimum lease payments of the lease agreements as of June 30, 2013 follows:

Year ended June 30,	Amount
2014	$ 7,475
2015	3,816
2016	1,591
Less: Amount representing interests	(651)
Present value of minimum lease payments	**$ 12,231**

C. COMPENSATED ABSENCES

The government-wide statement of net position includes $2,628,709 of accrued sick leave benefits, compensatory and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

D. PROPERTY TAX DEBT – LAW 42

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

In addition, on February 12, 2003, the Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2013 amounted to $287,373.

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

E. PROPERTY TAX DEBT – LAW 42 (CONTINUED)

The annual requirements to amortize the property tax debt –law 42 as of June 30, 2013 are as follows:

June 30,	Principal	Interest
2014	$ 7,914	$ 17,661
2015	8,412	17,163
2016	8,940	16,635
2017	9,502	16,073
2018	10,099	15,476
2019-2023	60,850	67,026
2024-2028	82,524	45,352
2029-2033	99,131	15,957
Totals	**$ 287,373**	**$ 211,342**

F. PROPERTY TAX DEBT – LAW 146

On September 24, 2002, the CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the CRIM at June 30, 2013 amounted to $101,992.

The annual requirements to amortize the property tax debt –law 146 as of June 30, 2013 are as follows:

June 30,	Principal	Interest
2014	$ 5,368	$ 6,344
2015	5,368	6,010
2016	5,368	5,676
2017	5,368	5,342
2018	5,368	5,008
2019-2023	26,840	20,030
2024-2028	26,840	11,680
2029-2033	21,472	3,332
Totals	**$101,992**	**$63,422**

NOTE 11 – LANDFILL CLOSURE AND POSTCLOSURE CARE COST OBLIGATION

The Municipality owns a municipal solid waste landfill and adopted the required provisions of Statement No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*", issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. The $1,361,525 reported as landfill closure and post closure care liability at June 30, 2013, represents an estimate of the cumulative amount reported to date based on the percentage used of the estimated capacity of the landfill.

The Municipality will recognize the remaining estimated cost of closure and post closure care as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2013. The estimated life of the landfill according to the engineers of the Municipality is approximately three (3) years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12 – DEBT RETIREMENT

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

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

NOTE 13 – PROPERTY TAXES

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

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

The tax rate per annum is 10.33% for real property and 8.33% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 9.30% and 7.30%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund.

The remaining portion belonging to the Municipality of 3.30% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the Debt Service Fund (See Note 8). The Municipality has not reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

NOTE 13 – PROPERTY TAXES (CONTINUED)

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

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

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

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

NOTE 14 – VOLUME OF BUSINESS TAX

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

- 1.50% for financial institutions and savings and loan associations.
- 0.50% for all other organizations.

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

NOTE 15 – SALES AND USE TAXES

On July 4, 2006, the Legislature of the Commonwealth of Puerto Rico approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipalty 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 unprepared foods) as those provided by the Commonwealth's sales and use tax.

NOTE 15 – SALES AND USE TAXES (CONTINUED)

Section 6189 of the Puerto Rico Internal Revenue Code of 2011, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed overall sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

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

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

NOTE 16 – INTERGOVERNMENTAL REVENUES

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

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

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NOTE 17 – INTERFUND TRANSFERS

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

	Transfers Out:					
	Major funds					
Transfers In:	General Fund	Debt Service Fund	CDBG Grants Fund	Permanent Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Major funds:						
General fund	$ -	$ 100,000	$ -	$ -	$ 21,551	$ 121,551
Debt service fund	136,563	-	-	-	-	136,563
CDBG Grants Fund	112,513	-	-	-	-	112,513
Permanent Capital	-	-	-	-	-	-
Improvement Fund	-	-	-	-	-	-
Nonmajor funds:						
Other governmental fund	583,808	-	-	-	-	583,808
Total	**$ 832,884**	**$ 100,000**	**$ -**	**$ -**	**$ 21,551**	**$ 954,435**

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN

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

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

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

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

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

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

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

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

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

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

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

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

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

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

The total pension expenditures recorded in the category of administration for the fiscal year ended on June 30, 2011, 2012 and 2013 were, approximately, $352,010, $422,918 and $368,616, respectively. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2013. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

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

Also, at June 30, 2013, the Municipality presents contingencies amounting $274,727 in the Balance Sheet. This amount represent accounts payable related to the waste management services that are being analyze by management to proceed with the corresponding payments.

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is $65,468.

NOTE 20 – FUND BALANCE

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

	Major governmental funds					
	General Fund	Debt Service Fund	CDBG Grants Fund	Permanent Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Fund balances						
Restricted						
Debt service	$ -	$ 1,123,227	$ -	$ -	$ -	$ 1,123,227.00
General government	228,208	-	-	-	-	228,208
Public works and sanitation	-	-	-	-	2,166,139	2,166,139
Culture and recreation	-	-	-	-	7,085	7,085
Welfare and community development	-	-	-	1,159,788	111,484	1,271,272
Education	-	-	-	-	20,041	20,041
Unassigned	(2,012,268)	-	-	-	-	(2,012,268)
Total fund balances	**$ (1,784,060)**	**$ 1,123,227**	**$ -**	**$ 1,159,788**	**$ 2,304,749**	**$ 2,803,704**

NOTE 21 – SUBSEQUENT EVENTS

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. The ERS financial situation was approached through Act 3, which became effective on July 1, 2013 ("Effective Date").

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the various existing Acts, Regulations and Codes. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42).

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund, which authorize municipalities to pledge the funds deposited on the Municipal Administration Fund to secure the repayment of any loan, bond, promissory note or other evidence of debt, whose source of repayment are the funds deposited into the Special Fund and to meet any budgeted expenditure of the municipalities and any activity or project of the municipalities; authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in the approved Law.

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal

NOTE 21 – SUBSEQUENT EVENTS (CONTINUED)

Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico"; in order to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

Management has evaluated subsequent events through March 28, 2014, the date the financial statements were available to be issued.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual amounts (budgetary basis)	Variance with final budget -
	Original	Final	(See note A)	over (under)
Revenues:				
Property taxes	$ 2,179,214	$ 2,179,214	$ 2,179,214	
Municipal license taxes	715,566	715,566	774,645	$ 59,079
Sales and use taxes	561,832	561,832	449,133	(112,699)
Intergovernmental revenues	5,422,085	5,422,085	4,029,338	(1,392,747)
Fees, fines and charges for services	661,676	661,676	587,745	(73,931)
Investment earnings	50,000	50,000	33,298	(16,702)
Other	55,000	55,000	303,381	248,381
Total revenues	9,645,373	9,645,373	8,356,754	(1,288,619)
Expenditures:				
Current:				
General government	6,745,048	6,880,349	4,859,201	2,021,148
Public works and sanitation	3,623,517	3,606,709	2,858,366	748,343
Public safety	805,828	681,528	587,205	94,323
Culture and recreation	1,000,217	1,025,934	922,705	103,229
Welfare and community development	472,257	452,347	368,717	83,630
Total expenditures	12,646,867	12,646,867	9,596,194	3,050,673
Excess of revenues over expenditures	$ (3,001,494)	$ (3,001,494)	$ (1,239,440)	$ 1,762,054
Other financing sources (uses)				
Proceeds from long term debt issuance	3,148,248	3,148,248		(3,148,248)
Transfer out	(146,754)	(146,754)	(146,754)	
Total other financing sources (use)	3,001,494	3,001,494	(146,754)	(3,148,248)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)	$ -	$ -	$ (1,386,194)	$ (1,386,194)

Explanation of Differences:

Sources/inflows of financial resources:	
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	$ 8,356,754
Differences - budget basis to GAAP:	
Net increase in receivables	1,610,613
Resources considered revenues for financial reporting but not for budgetary purposes	209,748
Resources considered revenues for budgetary purposes but not for financial reporting	(100,000)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 10,077,115
Uses/outflows of financial resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 9,596,194
Differences - budget basis to GAAP:	
Net increase in payables	1,687,021
Nonbudgeted expenditures	1,724,070
Prior year encumbrances recorded as current year expenditures for GAAP basis	613,422
Current-year encumbrances recorded as current expenditures for Budgetary basis	(2,415,088)
Resources considered expenses for financial reporting purposes but are not expenditures for budgetary purposes	(32,780)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 11,172,839

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

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

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2013 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2013.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-Through State – State Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	27,623
Total U.S. Department of Agriculture			**27,623**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers Program	14.871		318,806
Pass-Through State - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State's Program	14.228	AB-53/ FC-53/ NSP1	1,605,121
ARRA- Community Development Block Grants – State's Program	14.255	AR-08	93,871
Total Community Development Block Grants Cluster			1,698,992
Pass-Through State – State Department of Family:			
ARRA- Homelessness Prevention and Rapid Re- housing Program	14.257	N/AV	16,529
Total U.S. Department of Housing and Urban Development			**2,034,327**
U.S. DEPARTMENT OF ENERGY:			
Pass-through State – Office of the Energy Affairs Administration:			
ARRA- Energy Efficiency and Conservation Block Grant Program	81.128	0013-A-024	124,804
Total U.S. Department of Energy			**124,804**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE			
Pass-Through Office of the Elderly:			
Special Program for the Aging, Title III	93.045	130418R2	36,729
Pass-Through State Department of Family:			
Promoting Safe and Stable Families	93.556	E-6890-272-1230000-04F-2012-G-1201	49,752
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant	93.575	N/AV	173,487
Total U.S. Department of Health and Human Service:			**259,968**
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-Through- Governor Office- Public Safety Affairs:			
Homeland Security Grant Program	97.067	N/AV	141,258
Total U.S. Department of Homeland Security:			**141,258**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 2,587,980**

See accompanying Notes to Schedule of Expenditures of Federal Awards

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – GENERAL

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – FEDERAL CFDA NUMBER

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

NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 – MAJOR PROGRAMS

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

PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of **Lajas**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated March 28, 2014. The report on the governmental fund financial statements was unmodified. In addition, the report on the governmental activities was qualified for the liability related to the landfill closure and post-closure costs and because I did not obtain an evaluation of the legal cases from the external lawyers of the Municipality.

Internal Control Over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not design to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Finding 13-II-02 and 13-II-03.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 13-II-01.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 13-II-02 and 13-II-03.

Municipality's Response to Findings

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

Purpose of this Report

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

Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 28, 2014

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

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

Report on Compliance for Each Major Federal Program

I have audited Municipality of **Lajas**, Puerto Rico (Municipality) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality's major federal programs for the fiscal year ended June 30, 2013. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

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

Basis for Qualified Opinion on Section 8 Housing Choice Voucher

As described in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding CFDA 14.871 Program Section 8 Housing Choice Vouchers as described in finding number 13-III-09 for Reporting. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

Qualified Opinion on Section 8 Housing Choice Voucher

In my opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Municipality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Section 8 Housing Choice Voucher for the year ended June 30, 2013.

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

Unmodified Opinion on Each of the Other Major Federal Programs

In my opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of my auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 13-III-04, 13-III-05, 13-III-06, 13-III-07, 13-III-08, 13-III-10 and 13-III-11.

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

Report on Internal Control over Compliance

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

My 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses and 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. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 13-III-09 to be material weaknesses.

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

Report on Internal Control over Compliance (Continued)

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as items 13-III-04, 13-III-05, 13-III-06, 13-III-07, 13-III-08, 13-III-10 and 13-III-11 to be significant deficiencies.

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

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

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License Number 5200

Guayama, Puerto Rico
March 28, 2014

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	**Qualified opinion on governmental activities**	
	Unmodified opinion on fund financial statement	
Internal control over financial reporting:		
Material weakness identified?	Yes **X**	No
Significant deficiencies identified?	Yes **X**	None reported
Noncompliance material to financial statements noted?	Yes **X**	No

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes **X**	No
Significant deficiencies identified?	Yes **X**	None reported
Type of auditor's report issued on compliance for major programs:	**Qualified Opinion for Section 8 Housing Choice Voucher**	
	Unmodified Opinion for Community Development Block Grants/ States	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes **X**	No

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants/ State's
14.255	ARRA- Community Development Block Grants/ State's
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 X

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING 13-II-01

REQUIREMENT ACCOUNTING RECORDS AND REPORTING SYSTEM

CONDITION

The Municipality did not maintain complete accounting records that generates accurate financial information that permits the preparation of the financial statements in conformity with generally accepted accounting principles (GAAP).

CONTEXT

During my examination of the accounting records, I noted that the Municipality does not summarize the transactions in a formal accounting system in order to properly record and account for the transactions of the general fund and special revenue funds.

Also, during my cash test, I noted that the Municipality does not have effective internal control procedures to ensure the prompt preparation of the bank reconciliations. The bank reconciliations were prepared several months after the end of the fiscal year.

CRITERIA

Article 8.010 (b) of State Act Number 81- *Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico* of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) states that uniform accounting system used by the Municipality must produce reliable reports and financial statements provide complete information about the results of operations of the Municipality and include the necessary internal controls to account for all funds, capital assets and other assets.

In addition, Chapter IV, Section 12 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affair (OCAM), establishes that the accounting system of the municipalities shall provide for the timely and accurate preparation of bank reconciliations. In addition, the Municipality shall prepare a monthly report of revenues and disbursements, which has to be reconciled with the bank reconciliations.

CAUSE

The Municipality did not maintain effective internal control over the accounting records from where the financial information is obtain for the preparation of the financial statements in accordance with generally accepted accounting principles. In addition, the Municipality's internal control procedures failed to assure that the bank reconciliations were prepared in a complete manner and within the time required by law and properly reconciled with the accounting records.

EFFECT

The Municipality is not in compliance with Article 8.010 (b) and (c) of the State Law Number 81 of August 30, 1991 and Chapter IV, Section 12 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affair (OCAM).

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	**13-II-01 (CONTINUED)**
REQUIREMENT	**ACCOUNTING RECORDS AND REPORTING SYSTEM**
RECOMMENDATION	I recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system that provides trial balances by each fund in the modified accrual basis of accounting. In addition, the system should provide for the maintenance accounts receivable, accounts payable, capital assets and the general long term debts of the Municipality. Also, management should evaluate the assignment of additional accounting staff in order to accelerate the bank reconciliation process.
MANAGEMENT RESPONSE	Management will establish the internal controls and procedures in maintaining a proper accounting system for each fund. The system will be updated to ensure that the accounts receivables and payables are accurately recorded. Management will also assign additional staff members to accelerate the bank reconciliation process.

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	**13-II-02**
REQUIREMENT	**ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS**
CONDITION	The Municipality did not adjust in its government wide financial statements, the required liability for closure and post closure care costs based on an adequate study of the activities of the solid waste landfill.
CONTEXT	At June 30, 2013, the liability recorded in the Statement of Net Position was not adequately supported by a study of the available space and the estimated cost of the closure and post-closure of the Municipality's waste landfill. In addition, the amount of expenses recorded in the financial statements is based on an estimate made by the Municipality's management.
CRITERIA	Regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria"; the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. GASB 18 requires the Municipality to perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations.
CAUSE	The Municipality did not maintain an adequate control of the accountability of the closure and post closure care costs of Municipal solid waste landfill. In addition, the Municipality did not perform the study required by EPA and GASB 18.
EFFECT	The Municipality is not in compliance with GASB 18 and the "Solid Waste Disposal Facility Criteria" issued by the U.S. Environmental Protection Agency.
RECOMMENDATION	I recommend management to perform the study of the activities that need to be implemented at the Municipality's solid waste landfill facilities and determine the amount of the liability that should be reported in the governmental activities.
MANAGEMENT RESPONSE	During the next fiscal year we will request a study of the space and costs of the closing and post-closing activities of the landfill. Also, we will proceed to adjust the liability reported in the financial statements in accordance with the study made.

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	**13-II-03**
REQUIREMENT	**ACCOUNTING RECORDS- INTERFUND TRANSACTIONS**
CONDITION	The Municipality transfer funds from a special revenue fund to the General Fund without adequate supporting documentation.
CONTEXT	During my examination of the accounting records, I noted that during the fiscal year 2012-2013, the Municipality transfer funds in the amount of $1,000,000, from the state assignments grants fund to the General Fund bank account. This transfer of funds was used by the General Fund to paid operational costs. Such grants are restricted by State Joint Resolutions.
CRITERIA	Article 8.004 (c) of the State Law Number 81 - *Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991* - August 30, 1991, stated that the restricted funds received by the Municipality should be only used for the purposes established by these resources.
CAUSE	The General Fund cash resources have been reduced over the past years due to the excess of expenditures over revenues and has caused a liquidity problem to meet its current obligations. This situation caused that the General Fund uses resources from other funds.
EFFECT	The Municipality is not in compliance with Articles 8.004 (c) and 8.010 (c) (2) and (3) of the State Law Number 81 - *Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991* - August 30, 1991.
RECOMMENDATION	I recommend management to identify other sources of income to reimburse immediately all the resources obtain from the state assignment grants. Also, the Municipality should avoid making transfers that are not adequately supported and authorized.
MANAGEMENT RESPONSE	Management is identifying other sources of income to satisfy and reimburse the resources obtained from the state assignment grant. In the future the Municipality will refrain from making such transfers.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	**13-III-04**
FEDERAL PROGRAMS	**COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM**
REQUIREMENT	**COMPLIANCE AND INTERNAL CONTROL**
NONCOMPLIANCE	**CASH MANAGEMENT**
CONDITION	The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.
CONTEXT	During my cash management test, I noted that during the fiscal year 2012-2013, the Program maintained an average cash balance of approximately $33,562 and $26,735 in the CDBG and CDBG- NSP bank reconciliations, respectively. In addition, I examined eighteen (18) requests of funds made by the Program to the pass-through agency and found that ten (10) requests took between seven (7) and sixty-five (65) days from the moment the funds were deposited and the issuance of the checks.
CRITERIA	Code of Federal Regulations 24, Subpart I, Section 570.489 (c) (1) states that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement made by the grantee.
CAUSE	The Program and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
EFFECT	The Program is not in compliance with Code of Federal Regulations 24, Subpart I, CFR 570.489 (c) (1).
RECOMMENDATION	I recommend management to strengthen its disbursements procedures to minimize the time between the transfer of funds by the pass-through entity and the disbursements made by the Municipality.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Management will strengthen the disbursement process and minimize the time between the deposit of funds and the disbursement made by the Municipality.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**13-III-05**
FEDERAL PROGRAM	**COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM** **ARRA- COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.255) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM**
REQUIREMENT	**INTERNAL CONTROL**
NONCOMPLIANCE	**DAVIS-BACON ACT**
CONDITION	During the fiscal year 2012-2013, the Program disbursed funds without evaluating the compliance with the Davis-Bacon Act.
CONTEXT	During my grant disbursement test, I noted that the Municipality disbursed funds for construction projects and found the following conditions: a. There were no adequate procedures to ensure that the contractor was complying with the Davis Bacon Act. I did not found evidence that the Municipality was verifying weekly, the contractor's payrolls to assure that it was paying the prevailing wages to the employees; b. For the projects "Repavement of Streets" and "Construction of Nine Apartments", I could not validate if the contractors submitted to the Program all the weekly payrolls; c. For the project "Construction of Sidewalks", I did not found evidence of the contractor's weekly payroll.
CRITERIA	Davis- Bacon Act, 42 USC 5310.
CAUSE	The Municipality failed to apply all the monitoring procedures developed to test applicable contractors with respect to the payment of prevailing wages.
EFFECT	The Municipality is not in compliance with Davis- Bacon Act, 42 USC 5310.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**13-III-05 (CONTINUED)**
FEDERAL PROGRAM	**COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM**
REQUIREMENT	**INTERNAL CONTROL**
NONCOMPLIANCE	**DAVIS-BACON ACT**
RECOMMENDATION	I recommended management to obtain the contractor's payrolls to be reviewed on a weekly basis and to document adequately, that the wages paid by the contractors are in accordance with the wages established by the Department of Labor and revise that all the employees that were interviewed were included in the contractor's weekly payrolls.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The review process of the contractor's payroll has been reinstated with a new coordinator. This employee will review the contractor's payroll records and will interview the contractor's employees to ensure proper monitoring procedures with respect to the payment of prevailing wages.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	**13-III-06**
FEDERAL PROGRAM	**COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS- OCAM**
REQUIREMENT	**COMPLIANCE AND INTERNAL CONTROL**
NONCOMPLIANCE	**PROCUREMENT AND SUSPENSION AND DEBARMENT**
CONDITION	The Municipality formalized contracts and did not verify if the contractors were suspended or debarred by the Federal government.
CONTEXT	During my grant disbursement test, I examined two (2) construction contracts and noted that the contracts did not included all the clauses required by the Federal regulation. In addition, I did not found evidence that the Municipality verified the Excluded Parties List System (EPLS) maintained by the General Service Administration, nor obtained a certification from the contractors, to assure that these contractors were not suspended or debarred.
CRITERIA	Code of Federal Regulations 24, Subpart C, Section 85.36 (i) (1-13) establishes all the required clauses that contracts should include. In addition, Code of Federal Regulations 24, Subpart C, Section 85.35 states that grantees and subgrantees must not make any award or permit any award at any tier to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs subject to 2 CFR part 2424.
CAUSE	The Program did not maintain appropriate procurement standard procedures to assure that a contract was formalized and included all the required clauses. The Program did not verify against the EPLS, that the contractor was not suspended or debarred.
EFFECT	The Program is not in compliance with Chapter IX, Section 6 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM) and Code of Federal Regulation 24, Subpart C, Section 85.36 (i) (1-13) and Section 85.35.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	**13-III-06 (CONTINUED)**
FEDERAL PROGRAM	**COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS- OCAM**
NONCOMPLIANCE	**PROCUREMENT AND SUSPENSION AND DEBARMENT**
RECOMMENDATION	I recommend management to ensure that all contracts should be formalized with a formal written contract which includes all the required clauses. I recommend management to obtain the EPLS in printed or electronic format, every time the Municipality formalized a contract with Programs' funds.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Management will refer this finding to the Municipal Secretary's office. They will be instructed by management to include these clauses in all contracts. They will also be instructed to include the Excluded Party List System (EPLS) verification result when formalizing any contract to be paid with federal funds.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**13-III-07**
FEDERAL PROGRAM	**COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM**
REQUIREMENT	**COMPLIANCE AND INTERNAL CONTROL**
NONCOMPLIANCE	**REPORTING**
CONDITION	The Program did not submit to the Office of the Commissioner of Municipal Affairs (pass-through entity) certain reports required in the grant agreement.
CONTEXT	During my reporting test, I did not found evidence of the submission to the pass-through entity of the program income reports for the fiscal year 2012-20013, to be submitted quarterly. Also, I did not found evidence of the submission to the pass-through entity of the quarterly financial reports for all open programs for the months of April 2012 through June 2013.
CRITERIA	Code of Federal Regulations 24, Section 91.520 (a) and (c) states that performance and evaluation report is due 90 days after the close of its program year, 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 the in its plan. Also, Clauses 12 and 13 of the contract between the Municipality and the pass-through entity required the grantees to comply with certain financial reporting and program income reporting.
CAUSE	The Program did not follow the HUD and the pass-through entity requirements regarding the submission of reports.
EFFECT	The Program did not submit quarterly reports to the pass-through entity in order to comply with the Federal regulation.
RECOMMENDATION	The Program should follow the HUD and the pass-through entity guidelines in order to assure that all the required reports are prepared and submitted in a timely manner.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**13-III-07 (CONTINUED)**
FEDERAL PROGRAM	**COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM**
REQUIREMENT	**COMPLIANCE AND INTERNAL CONTROL**
NONCOMPLIANCE	**REPORTING**
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Management will follow the HUD guidelines for the preparation and submission of all the required reports in a timely manner.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**13-III-08**
FEDERAL PROGRAM	**SECTION 8 HOUSING CHOICE VOUCHERS (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
REQUIREMENT	**COMPLIANCE AND INTERNAL CONTROL**
NONCOMPLIANCE	**ELIGIBILITY**
CONDITION	The Program failed to document properly the eligibility process.
CONTEXT	During my eligibility test, I examined twenty (20) participant's files, and noted the following conditions: a. In thirteen (13) participant's files, the Enterprise Income Verification (EIV) was not available for examination; b. In three (3) participants' files, I could not determine if the HAP was properly calculated.
CRITERIA	Code of Federal Regulation 24, Section 982.516 (a) (1) states that the PHA must conduct a reexamination of family income and composition at least annually; (2) the PHA must obtain and document in the tenant file third party verification of the following factors or must document in the file why third party verification was not available: (A) reported family annual income; (B) the value of assets; (C) expenses related to deductions from annual income; and (D) other factors that affects the determination of adjusted income. In addition, Code of Federal Regulation, 24, Section 982.516 (g), states that as a condition of admission to or continued assistance under the program, the PHA shall require the family head, and such other family members as the PHA designates, to execute a HUD-approved release and consent form authorizing any depository or private source of income, or any Federal, state or local agency, to furnish or release to the PHA or HUD such information as the PHA or HUD determines to be necessary.
CAUSE	The Program's internal controls failed to detect that annual or interim reexaminations were properly calculated. Also, the Program has not established adequate internal controls over the use of the EIV System during the mandatory annual and interim reexamination as a third party income verification of the family income.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**13-III-08 (CONTINUED)**
FEDERAL PROGRAM	**SECTION 8 HOUSING CHOICE VOUCHERS (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
REQUIREMENT	**COMPLIANCE AND INTERNAL CONTROL**
NONCOMPLIANCE	**ELIGIBILITY**
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Section 982.516 (a) (1), (2) and (g) and the Administrative Plan.
RECOMMENDATION	I recommend management to properly recalculate the HAP computation during the annual and interim reexaminations. Management should continue strengthening the internal controls and procedures designed to verify the family income and composition using the EIV system in each mandatory reexamination of the participants.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The HAP recalculation process, utilizing the Earned Income Verification (EIV) tool will be done prior to the participant's annual re-examination procedure to ensure the proper verification of the family income and to discuss any discrepancies before the annual re-examination process.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**13-III-09**
FEDERAL PROGRAM	**SECTION 8 HOUSING CHOICE VOUCHERS (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
REQUIREMENT	**COMPLIANCE AND INTERNAL CONTROL**
NONCOMPLIANCE	**REPORTING**
CONDITION	The Program did not maintain accurate accounting records of the financial transactions.
CONTEXT	During my reporting test, I noted that the Program did not maintain adequate accounting records, and did not summarize the information of all the financial transactions, related to assets, liabilities, revenues and expenditures of the Program, in a formal general ledger. Also, I found that the accumulative expenditures reported monthly in the Voucher Management System (VMS), have differences with the check register maintained by the Program. In addition, I noted that the Program did not maintain adequate records and a proper accounting of the roll-forward balances of the administrative fee and HAP equities. In addition, the amounts of equity reported in the Voucher Management System (VMS) during the fiscal year 2012-2013 were not traceable to the accounting records, and were not properly supported with adequate documentation. Also, I found that during the fiscal year 2012-2013, the Program administrative expenses exceeded by $1,848 the Program administrative fees received during the fiscal year. In addition, the un-audited financial information for the fiscal year 2012-2013 that was submitted to HUD, through the FASS-PH system was not available for my examination.
CRITERIA	Code of Federal Regulations 24, Section 982.158 (a) states that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**13-III-09 (CONTINUED)**
FEDERAL PROGRAM	**SECTION 8 HOUSING CHOICE VOUCHERS (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
REQUIREMENT	**COMPLIANCE AND INTERNAL CONTROL**
NONCOMPLIANCE	**REPORTING**
CRITERIA	The PHA must comply with the financial reporting requirements in 24 CFR part 5 Subpart H. In addition, CFR 24, Section 5.801 (b) (1) states that submission of financial information must be prepared in accordance with Generally Accepted Accounting Principles; (2) submitted electronically to HUD through the internet, or in such other electronic format designated by HUD, or in such non-electronic format as HUD may allow if the burden or cost of electronic reporting is determined by HUD to be excessive.
CAUSE	The Program failed to establish adequate internal controls over the accounting records and is not reconciling its accounting records with the monthly reports in order to assure that there are no differences. In addition, the Program is not complying with the due dates established by HUD to submit the audited reports.
EFFECT	The Program did not submit to HUD, the required reports, in a timely manner and adequately supported, in order to comply with the Federal regulation.
RECOMMENDATION	The Program should implement adequate accounting records to ensure that the financial information submitted to HUD in its monthly reports agrees with the accounting records and are properly supported.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Management will strengthen its accounting procedures to ensure proper documentation and submission of the required reports in order to comply with the due dates established by HUD.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**13-III-10**
FEDERAL PROGRAM	**SECTION 8 HOUSING CHOICE VOUCHERS (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
REQUIREMENT	**COMPLIANCE AND INTERNAL CONTROL**
NONCOMPLIANCE	**SPECIAL TEST- UTILITY ALLOWANCE SCHEDULE**
CONDITION	The Program did not maintain an updated utility allowance schedule.
CONTEXT	During my utility allowance schedule test, I noted that the Program has not reviewed the utility rates data within the last twelve (12) months to ascertain if there has been a change of ten percent or more in utility rates. In addition, I did not found evidence of the utility allowance schedule used by the Program during the fiscal year 2012-2013.
CRITERIA	Code of Federal Regulations, 24 CFR, Section 982.517 (4) (c) states that the PHA must review its schedule of utility allowance each year, and must revise its allowance for a utility category if there has been a change of 10 percent (10%) or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowance and any revisions made in its utility allowance schedule.
CAUSE	The Program does not established procedures to ensure the accuracy of its utility allowance schedule.
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Section 24 CFR, Section 982.517 (4) (c).
RECOMMENDATION	I recommended management to revise and update annually, if necessary, its utility allowance schedule as required by this compliance requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The utility allowance schedule will be updated annually with the assistance of HUD.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**13-III-11**
FEDERAL PROGRAM	**SECTION 8 HOUSING CHOICE VOUCHERS (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
REQUIREMENT	**COMPLIANCE AND INTERNAL CONTROL**
NONCOMPLIANCE	**SPECIAL TEST- REASONABLE RENT**
CONDITION	The determination of the reasonable rent to owners was not properly documented by the Program.
CONTEXT	During my reasonable rent test, I examined a sample of twenty (20) participant's files and found that in six (6) participant's files, I did not found the reasonable rent study for changes of unit made during the fiscal year 2012-2013.
CRITERIA	Code of Federal Regulation 24, 982.507 (a) (1) states that the PHA may not approve a lease until the PHA determines that the initial rent to owner is a reasonable rent; (2) the PHA must re-determine the reasonable rent: (a) before any increase in the rent to owner; (b) if there is a five percent decrease in the published FMR in effect 60 days before the contract anniversary as compared with the FMR in effect one year before the contract anniversary; and (c) if directed by HUD.
CAUSE	The Program did not maintain adequate documentation in the participant files to support the basis for the determination that the rent paid to the owners are reasonable.
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Section 982.507 (a) (1) and (2).
RECOMMENDATION	I recommend management to strengthen the internal control procedures to assure that the rents paid to the owners are reasonable. Also, we recommend that adequate and proper documentation about the reasonable rent determination is maintained in the participant's files.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The reasonable rent will be made to every initial rent and change of units.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDIGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
2012-III-1	Allowable Cost/ Cost Principle	14.871	$64,192	No corrective action has been taken. Finding Reference 13-III-09.
2012-III-2	Reporting	14.228	None	No corrective action has been taken. Finding Reference 13-III-07.
2012-III-3	Equipment and Real Property Management	14.228 14.871	None	Full corrective action was taken. The physical inventory was taken during fiscal year 2012-2013.
2012-III-4	Procurement and Suspension and Debarment	14.228	None	No corrective action has been taken. Finding Reference 13-III-06.
2011-III-1	Allowable Cost/ Cost Principle	14.871	$64,192	No corrective action has been taken. Finding Reference 13-III-09.
2011-III-2	Reporting	14.228	None	No corrective action has been taken. Finding Reference 13-III-07.
2011-III-3	Equipment and Real Property Management	14.228 14.871	None	Full corrective action was taken. The physical inventory was taken during fiscal year 2012-2013.
2011-III-4	Procurement and Suspension and Debarment	14.228	None	No corrective action has been taken. Finding Reference 13-III-06.
2010-III-1	Reporting	14.228	None	No corrective action has been taken. Finding Reference 13-III-07.
2010-III-2	Equipment and Real Property Management	14.228 14.871	None	Full corrective action was taken. The physical inventory was taken during fiscal year 2012-2013.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDIGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
2010-III-3	Procurement and Suspension and Debarment	14.228	None	No corrective action has been taken. Finding Reference 13-III-06.
01-09	Reporting	14.228	None	No corrective action has been taken. Finding Reference 13-III-07.