COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

HON. MARCOS A. IRIZARRY PAGÁN
MAYOR

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, 2014

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PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of 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, 2014, 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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Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2014, 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.

Emphasis of Matter

As discussed in Note 11 to the financial statements, in September 23, 2014, the Municipality entered an Administrative Order on Consent (Docket No. RCRA-02-2014-7301) with the United States Environmental Protection Agency (EPA). The Municipality shall perform some actions required by this Order and comply with its provisions. The Municipality have an obligation under this Order on Consent to comply with any requirement, term, or condition, set forth in or required by this Order, and is subject to penalties for failure to comply. 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 60 through 61 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 me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the 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 basic 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic 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 April 30, 2015, 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
April 30, 2015

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014. 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, 2014 by $5,218,224, and at June 30, 2013 by $9,740,204;
- The Municipality's total net position decrease by $4,521,980 during fiscal year 2013-2014;
- As of June 30, 2014, the Municipality's governmental funds reported combined ending fund balance of $2,090,509 a decrease of $713,195 from the prior year;
- At June 30, 2014, the Statement of Net Position presented an unrestricted deficit of $17,452,263,
- The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2014 were $22,686,781 (net of accumulated depreciation);
- The investment in capital assets for this year was $18,601,421 (net of related debt);
- Loans principal payments were $1,000,000 and $926,000 in 2014 and 2013, 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, 2014, 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 funds.

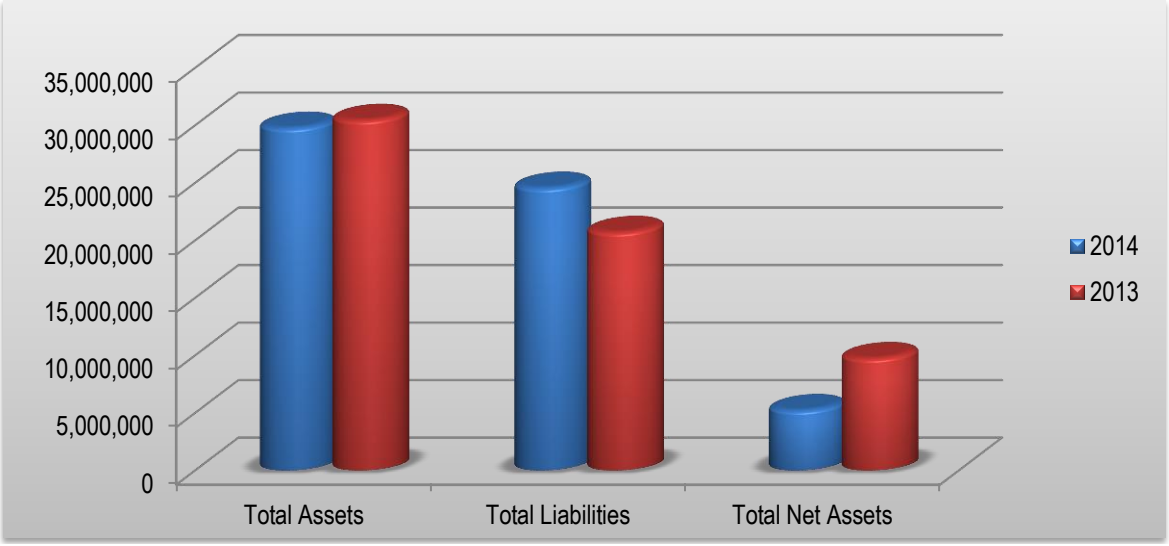
GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 $5,218,224 as of June 30, 2014, versus $9,740,204 as of June 30, 2013. 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 positions

	2014	2013
Current and non-current assets	$ 7,081,206	$ 7,858,964
Capital assets	22,686,781	22,589,134
Total Assets	**29,767,987**	**30,448,098**
Current liabilities	8,353,252	2,819,932
Long-term liabilities	16,196,511	17,887,961
Total Liabilities	**24,549,763**	**20,707,893**
Deferred Inflows of Resources	**-**	**-**
Net positions:		
Investment in capital assets, net of related debt	18,601,421	18,277,047
Restricted	4,069,066	4,802,164
Deficit	(17,452,263)	(13,339,007)
Total Net positions	**$ 5,218,224**	**$ 9,740,204**



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

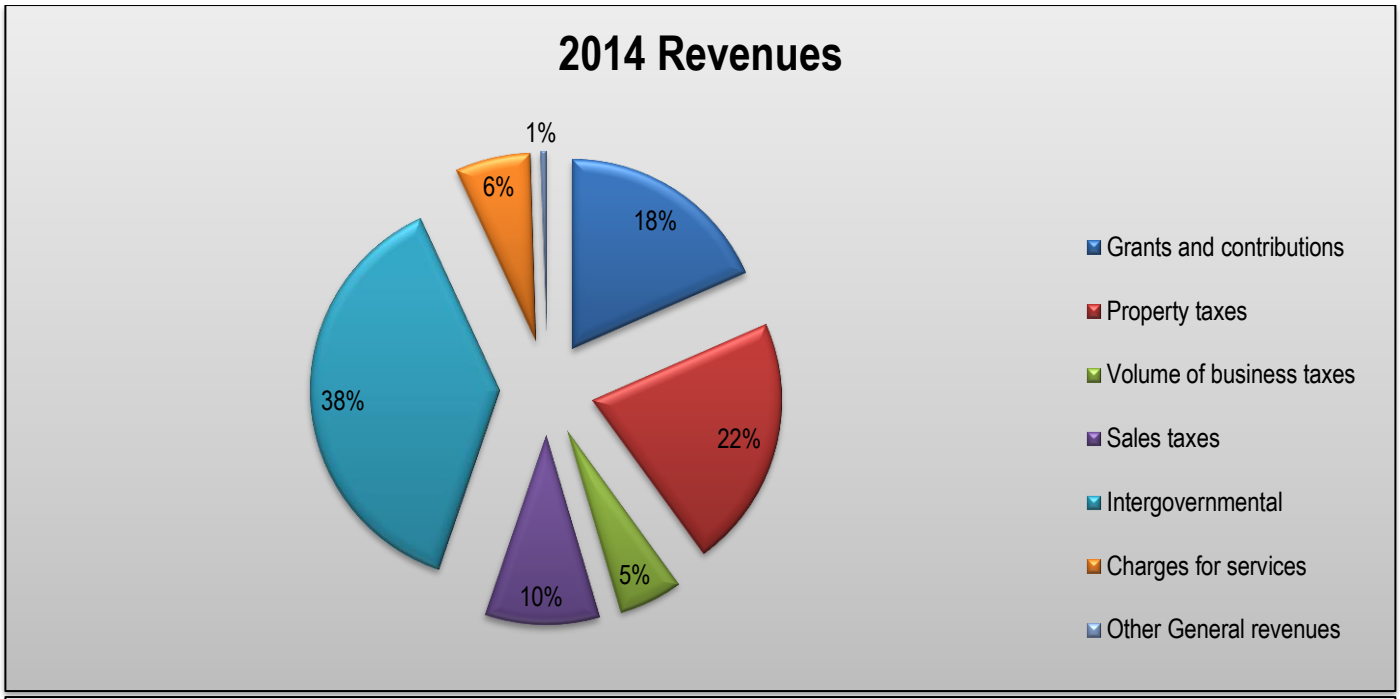
Governmental activities decreased the Municipality's net position. Key elements of this decrease are as follows: the Municipality's governmental activities had net expenses of $15,719,252. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general net expense exceed revenues by $4,521,980.

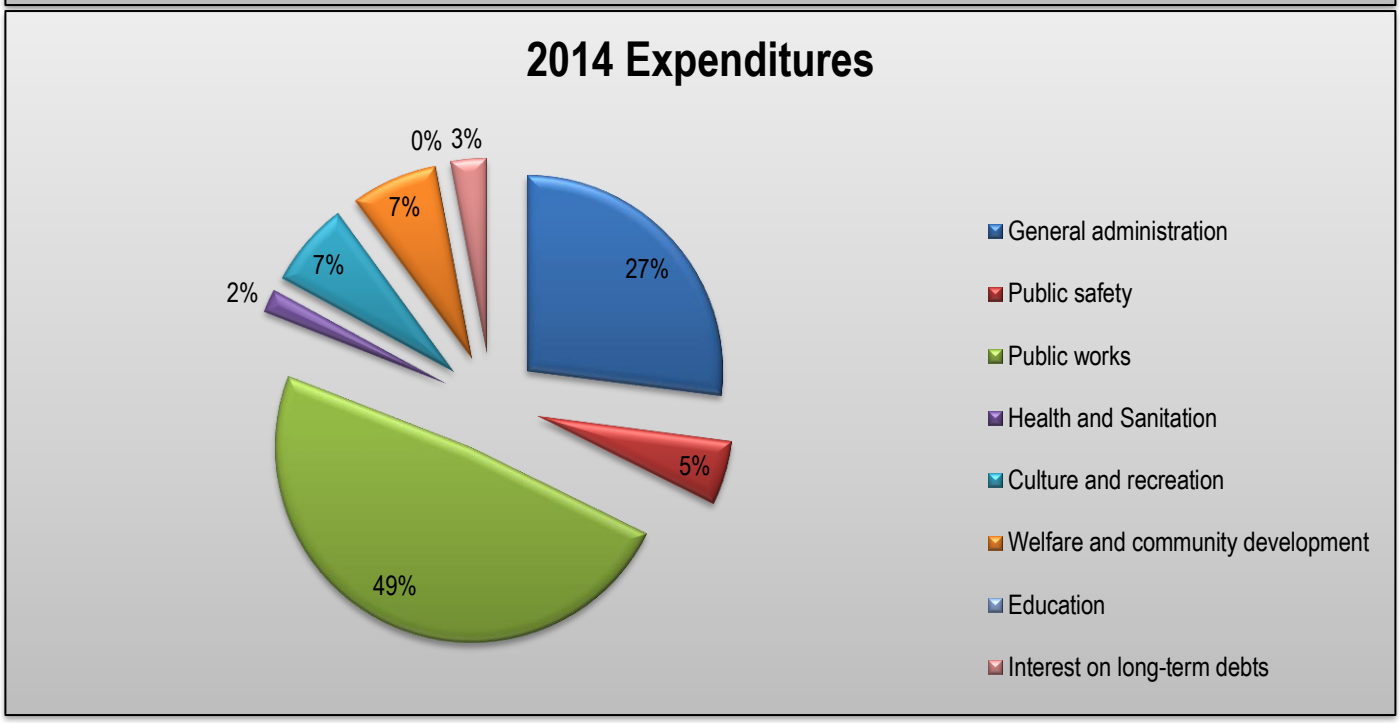
The cost of all governmental activities this year was $19,417,126. **Table 2** presents the cost of each of the Municipality's largest programs.

Table 2

Statement of Activities	**2014**	**2013**
Revenues		
Grants and contributions	$ 2,744,896	$ 3,596,746
General revenues:		
Property taxes	3,214,226	3,083,364
Sales taxes	1,459,015	1,280,197
Volume of business taxes	807,836	774,645
Intergovernmental	5,646,449	4,680,187
Interests	25,642	44,250
Charges for services	952,978	576,410
Other general revenues	44,104	265,050
Total revenues	14,895,146	14,300,849
Expenses		
General administration	5,245,911	5,928,234
Public works	9,444,902	3,669,772
Public safety	1,020,684	884,428
Culture and recreation	1,364,282	1,343,845
Health and sanitation	376,652	380,894
Welfare and community development	1,388,292	1,171,210
Education	2,340	273,160
Interest on long-term debts	574,063	415,000
Total expenses	19,417,126	14,066,543
Changes in net position	(4,521,980)	234,306
Net position – beginning	9,740,204	9,505,898
Net position – ending	**$ 5,218,224**	**$ 9,740,204**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)





GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Approximately eighteen percent (18%) of the Municipality's governmental activities total revenue came from grants and contributions, and thirty eight percent (38%) came from grants and contributions not restricted for specific purposes. Federal grants represent thirty four percent (34%) of the Municipality's grants and contributions revenues. Also, approximately thirty seven percent (37%) 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 twenty seven percent (27%) from general administration and forty nine percent (49%) 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	**2014**	**2013**
Assets:		
Total assets – Major Funds	$ 6,564,588	$ 5,933,115
Total assets – Other Funds	2,047,524	2,885,367
Combined total assets	**$ 8,612,112**	**$ 8,818,482**
Liabilities:		
Total liabilities – Major Funds	5,727,877	5,337,564
Total liabilities – Other Funds	702,338	580,618
Combined total liabilities	6,430,215	5,918,182
Deferred Inflows of Resources:		
Total inflows – Major Funds	91,388	96,596
Total Inflows – Other Funds	-	-
Combined total deferred inflows of resources	91,388	96,596
Fund Balances (as restated):		
Restricted, Committed or Assigned – Major Funds	2,787,881	2,511,223
Restricted, Committed or Assigned – Other Funds	1,345,186	2,304,749
Unassigned	(2,042,558)	(2,012,268)
Combined total fund balances	2,090,509	2,803,704
Total liabilities and fund balances	**$ 8,612,112**	**$ 8,818,482**

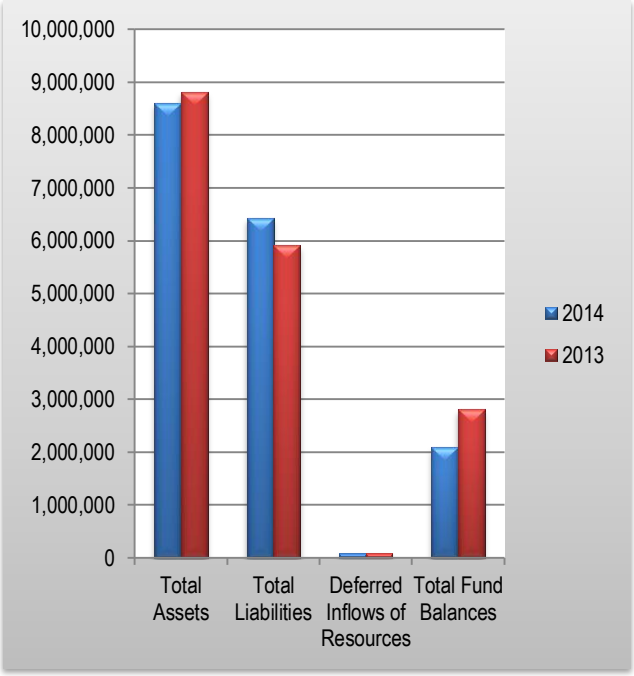
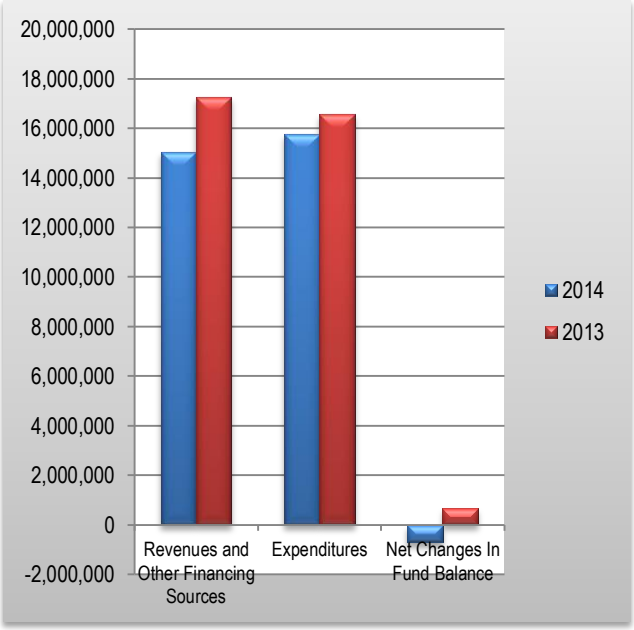


Table 4

Changes in Fund Balances	**2014**	**2013**
Revenues:		
Total revenues – Major Funds	$ 13,275,137	$ 13,460,834
Total revenues – Other Funds	1,784,405	1,772,334
Combined total revenues	15,059,542	15,233,168
Expenditures:		
Total expenditures – Major Funds	13,749,875	14,354,653
Total expenditures – Other Funds	2,022,862	2,219,521
Combined total expenditures	15,772,737	16,574,174
Other financing sources:		
Other financing sources – Major Funds	(932,027)	1,448,908
Other financing sources – Other Funds	932,027	562,257
Combined other financing sources, net	-	2,011,165
Net changes in fund balance	(713,195)	670,159
Fund Balance – beginning	2,803,704	2,133,545
Fund Balance – ending	**$ 2,090,509**	**$ 2,803,704**



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, 2014, the Municipality's governmental funds reported combined ending fund balances of $2,090,509, a decrease of $713,195 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	$ 10,671,703	$ 10,700,750	$ 29,047
Total expenditures, encumbrances and other financing uses	10,671,703	10,629,478	42,225
Excess or (deficiency)	**$ -**	**$ 71,272**	**$ 71,272**

The original and the final budget of the General Fund for the fiscal year ended June 30, 2014 amounted to $10,671,703. 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, 2014 were $9,207,532, which is $1,464,171 less than the budgeted revenues. In addition, the total actual expenditures, (budgetary basis) of the General Fund for the fiscal year ended June 30, 2014 were $10,725,869, which is $54,166 more 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, 2014 amounted to $22,686,781 (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 $97,647. 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	$ 1,510,420
Land	1,738,254
Land Improvement	2,415,516
Buildings	12,181,136
Infrastructure	3,207,087
Machinery and equipment	687,585
License vehicles	946,783
Total Assets	**$ 22,686,781**

LONG-TERM DEBT

At June 30, 2014, the Municipality had total of $21,682,132 in general obligations and others outstanding debts, as shown in **Table 7**. Of this amount, $12,239,000 comprises debt backed by the full faith and credit of the government and $9,443,132 is other obligations.

Table 7 Long Term Debts	Amount
General obligations bonds and notes	$ 12,239,000
Others	9,443,132
Total Long Term Debts	**$ 21,682,132**

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, 2014, 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 2014 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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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
Assets	
Current Assets:	
Cash and cash equivalents	$ 267,783
Receivables, net:	
Sales and use taxes	100,133
Fees and charges from services	16,283
Due from:	
Commonwealth government	144,087
Federal government	310,019
Restricted assets:	
Cash and cash equivalents	1,995,614
Cash with fiscal agent	3,182,222
Real estate held for sale	1,049,544
Other assets	15,521
Total Current Assets	7,081,206
Noncurrent Assets:	
Capital assets	
Land and construction in progress	3,248,674
Other capital assets, net	19,438,107
Total Noncurrent Assets	22,686,781
Total Assets	**29,767,987**
Liabilities	
Accounts payable and accrued liabilities	916,517
Interest payable	225,325
Intergovernmental payable	626,538
Contingencies	407,593
Unearned revenues	691,658
Long term liabilities:	
Due within one year	5,485,351
Due in more than one year	16,196,781
Total Liablilities	**24,549,763**
Net Position	
Invested in capital assets, net of related debt	18,601,421
Restricted for:	
Debt service	791,529
Other specified purposes	3,277,537
Unrestricted (deficit)	(17,452,263)
Total Net Position	**$ 5,218,224**

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, 2014

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	$ 5,245,911	$ 890,210	$ 544,733	$ -	$ (3,810,968)
Public works and sanitation	9,444,902	44,263	18,750	1,473,811	(7,908,078)
Public safety	1,020,684	-	14,969	-	(1,005,715)
Culture and recreation	1,364,282	18,505	-	-	(1,345,777)
Health	376,652	-	-	-	(376,652)
Welfare and community development	1,135,247	-	455,833	-	(679,414)
Education	255,385	-	236,800	-	(18,585)
Interest on long term debt	574,063	-	-	-	(574,063)
Total	$ 19,417,126	$ 952,978	$ 1,271,085	$ 1,473,811	(15,719,252)

General revenues :	
Taxes:	
Property taxes	3,214,226
Municipal license taxes	807,836
Sales and use taxes	1,459,015
Grants contributions not restricted to specific programs	5,646,449
Interest	25,642
Other	44,104
Total general revenues:	11,197,272
Change in net position	(4,521,980)
Net position - beginning	9,740,204
Net position - ending	**$ 5,218,224**

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	Major Funds					
	General Fund	Debt Service Fund	Legislative Joint Resolution Fund	Permanent Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Assets and Deferred Outflows of Resources						
Assets						
Cash and cash equivalents	$ 267,783	$ -	$ -	$ -	$ -	$ 267,783
Receivables, net:						
Sales and use tax	35,483	64,650	-	-	-	100,133
Fees and charges from services	16,283	-	-	-	-	16,283
Due from:						
Commonwealth government	91,388	-	3,577	-	49,122	144,087
Federal government	-	-	-	-	310,019	310,019
Other funds	1,046,745	-	521,644	1,000,000	12,061	2,580,450
Other assets	-	-	-	-	15,521	15,521
Restricted assets:						
Cash and cash equivalents	-	-	642,255	159,788	1,193,571	1,995,614
Cash with fiscal agent	74,354	2,640,638	-	-	467,230	3,182,222
Total Assets	1,532,036	2,705,288	1,167,476	1,159,788	2,047,524	8,612,112
Deferred Outflows of Resources	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	**$ 1,532,036**	**$ 2,705,288**	**$ 1,167,476**	**$ 1,159,788**	**$ 2,047,524**	**$ 8,612,112**
Liabilities, Deferred Inflows of Resources and Fund Balances (deficit)						
Liabilities						
Accounts payable and accrued liabilities	$ 353,289	$ -	$ 396,010	$ -	$ 167,218	$ 916,517
Interest payable	-	225,325	-	-	-	225,325
Matured bonds payable	-	1,115,000	-	-	-	1,115,000
Due to:						
Commonwealth government	626,538	-	-	-	-	626,538
Other funds	1,526,284	573,434	9,256	-	471,476	2,580,450
Contingencies	274,727	-	-	-	-	274,727
Unearned revenues	628,014	-	-	-	63,644	691,658
Total liabilities	3,408,852	1,913,759	405,266	-	702,338	6,430,215
Deferred Inflows of Resources						
Unavailable revenues:						
Intergovernmental revenues	91,388	-	-	-	-	91,388
Total Deferred Inflows of Resources	91,388	-	-	-	-	91,388
Fund Balances (deficit)						
Restricted	74,354	791,529	762,210	1,159,788	1,345,186	4,133,067
Unassigned	(2,042,558)	-	-	-	-	(2,042,558)
Total fund balances (deficit)	(1,968,204)	791,529	762,210	1,159,788	1,345,186	2,090,509
Total Liabilities, Deferred Inflows of Resources and Fund Balances (deficit)	**$ 1,532,036**	**$ 2,705,288**	**$ 1,167,476**	**$ 1,159,788**	**$ 2,047,524**	**$ 8,612,112**

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total fund balances- governmental funds		$ 2,090,509
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:		22,686,782
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.		91,387
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	$ (11,124,000)	
Note payable to CRIM-Law No. 42	(279,458)	
Note payable to CRIM-financing of delinquent accounts	(96,624)	
Municipal landfill closure and post closure	(6,546,114)	
Commitments and contigencies	(132,866)	
Compensated absences	(2,281,040)	
Christmas Bonus	(234,687)	
Obligations under capital leases	(5,209)	(20,699,998)
Net position of governmental activities:		$ 5,218,224

The accompanying notes are an integral part of these statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

STATEMENT OF REVENUES AND CHANGE IN FUND BALANCE (DEFICIT)
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2014

	Major Funds					
	General Fund	Debt Service Fund	Legislative Joint Resolution Fund	Permanent Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes:						
Property taxes	$ 2,320,656	$ 893,570	$ -	$ -	$ -	$ 3,214,226
Municipal license taxes	807,836	-	-	-	-	807,836
Sales and use taxes	757,248	701,767	-	-	-	1,459,015
Intergovernmental:						
Commonwealth Government	5,801,199	-	1,033,047	-	766,320	7,600,566
Federal financial assistance	-	-	-	-	955,175	955,175
Fees, fines and charges for services	890,210	-	-	-	62,768	952,978
Interest	25,500	-	-	-	142	25,642
Other	44,104	-	-	-	-	44,104
Total revenues	10,646,753	1,595,337	1,033,047	-	1,784,405	15,059,542
Expenditures						
Current:						
General government	4,580,722	-	323,732	-	394,533	5,298,987
Public works and sanitation	3,323,725	-	-	-	538,751	3,862,476
Public Safety	900,104	-	-	-	28,422	928,526
Culture and recreation	1,160,788	-	-	-	715	1,161,503
Health	359,472	-	-	-	-	359,472
Welfare and community development	535,268	-	-	-	473,115	1,008,383
Education	-	-	-	-	255,385	255,385
Capital outlays	125,960	-	668,211	-	331,941	1,126,112
Debt Service:						
Principal	13,283	1,185,000	-	-	-	1,198,283
Interest	46,416	527,194	-	-	-	573,610
Total expenditures	11,045,738	1,712,194	991,943	-	2,022,862	15,772,737
Excess (deficiency) of revenues over expenditures	(398,985)	(116,857)	41,104	-	(238,457)	(713,195)
Other financing sources (uses):						
Transfers in	573,434	358,593	-	-	-	932,027
Transfers out	(358,593)	(573,434)	-	-	-	(932,027)
Total other financing resources (uses)	214,841	(214,841)	-	-	-	-
Net change in fund balances (deficit)	(184,144)	(331,698)	41,104	-	(238,457)	(713,195)
Fund balances (deficit) at beginning of year	(1,784,060)	1,123,227	721,106	1,159,788	1,583,643	2,803,704
Fund balances (deficit) at end of year	**$ (1,968,204)**	**$ 791,529**	**$ 762,210**	**$ 1,159,788**	**$ 1,345,186**	**$ 2,090,509**

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014

Net change in fund balances (deficit) - total governmental funds:		$ (713,195)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds reports capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for capital assets	$ 1,126,112	
Less: current year depreciation	(1,028,465)	97,647
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Christmas bonus reimbursement		91,388
Revenues reported in funds which are not reported as revenues in the Statement of Activities:		
Prior Year Christmas bonus reimbursement	(96,594)	
Property Taxes-General Fund	(159,188)	(255,782)
Expenditures reported in the Stament of Activities funds which are not reported as expenses in the Statement of Revenues, Expenditures and Change in Fund Balances (Deficit)		20,305
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds principal payments		1,185,000
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	347,669	
Commitments and Contigencies	(132,867)	
Christmas bonus	22,444	
Municipal Landfill	(5,184,589)	(4,947,343)
Change in Net Position of Governmental Activities:		$ (4,521,980)

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.

A. Financial Reporting Model

The accompanying basic financial statements present the financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Municipality at June 30, 2014, in conformity with *Accounting Principles Generally Accepted in the United States of America* (GAAP), as prescribed by the *Governmental Accounting Standards Board* (GASB). In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2014 in conformity with GAAP.

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

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

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2014, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity

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

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

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

Based on the application of the criteria outlined above, the Municipality's management has concluded that there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2014.

C. Financial Statement Presentation

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

Government-Wide Financial Statements (GWFS)

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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

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

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

- **Unrestricted Net Position** – These consists of net position which do not meet the definition of the two preceding categories. Unrestricted net position often 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, 2014, 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 safety, (3) public works and sanitation, (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:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General government:
- Municipal legislature
- Mayor's office
- Department of finance
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- EPD 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 sports and recreation
- Department of tourism
- Department of arts and culture

Welfare and community development:
- Department of elderly affair

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

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

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

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

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

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

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

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

Governmental Fund Financial Statements (FFS)

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

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

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

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

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

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)

C. Financial Statement 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.

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.

Legislative Joint Resolution Fund – This is the fund used to account for all the transactions of the financial resources assigned by Puerto Rico Legislature for specific purposes.

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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.

Permanent Capital Improvement Fund – This fund is used to account for all financial resources and transactions related to the acquisition or construction of major capital facility or assets.

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Revenue sources not meeting this availability criterion or collected in advance are recorded as unearned revenues or deferred inflow of resources at June 30, 2014.

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

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, 2014, 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 position but not in the governmental funds.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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.

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.

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, 2014.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Balances

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, 2014, 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 available were not used for pool investments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. CASH, CASH EQUIVALENT AND INVESTMENT (CONTINUED)

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 improvements	20-50
License vehicles 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, 2014.

BALANCE JUNE 30 2013	NET INCREASE (DECREASE)	BALANCE JUNE 30 2014	CURRENT PORTION	LONG-TERM PORTION
$ 2,628,709	$ (347,669)	$ 2,281,040	$ 955,516	$ 1,325,524

O. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. Corresponding premiums payable monthly are paid directly by the Municipality. Also, there is an additional insurance cost that is withheld by the Municipal Revenue Collection Center from monthly advances of annual property tax and subsidy 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 2013-2014 amounted to $201,243. 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, 2014 amounted $267,907.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The GASB has issued the following accounting standards that have effective dates after June 30, 2014:

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

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 *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, 2014.

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2014, (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. Therefore, the Municipality's management has concluded that at June 30, 2014, 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, 2014. Therefore, the Municipality's management has concluded that at June 30, 2014 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, 2014.

The Municipality's bank balances in commercial banks of $267,783 in the General Fund, $642,255 in Legislative Joint Resolution Fund and $159,788 in the Permanent Capital Improvement Fund were fully collateralized at June 30, 2014. In the Other Governmental Funds, there were deposits with commercial banks of $1,193,571 that were fully collateralized.

The deposits at GDB of $74,354 in the General Fund, $2,640,638 in the Debt Service Fund and the $467,230 in Other Governmental Funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

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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 and use taxes receivable of $35,483 in the General Fund and $64,650 in the Debt Service Fund represents the amount earned but not received at June 30, 2014.

B. STATE GOVERNMENT RECEIVABLES

At June 30, 2014, the Municipality maintained an account 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	$ 94,966
State Department of Labor and Human Resources – Law 52	41,545
Others	7,576
Total	**$ 144,087**

C. FEDERAL GRANTS RECEIVABLE

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

Description	Amount
Child Care Development Block Grant	$ 125,514
Community Development Block Grants - State's Program	165,473
Hazard Mitigation Grants	18,750
Others	282
Total	**$ 310,019**

NOTE 4 – DUE FROM / TO OTHER FUNDS

Interfund receivables and payables at June 30, 2014 are summarized as follows:

	Due from:					
	Major funds					
Due to:	General Fund	Debt Service Fund	Legislative Joint Resolutions Fund	Permanent Capital Improvement Fund	Other Governmental funds	Total governmental funds
Major funds:						
General Fund	$ -	-	521,644	1,000,000	4,640	$ 1,526,284
Debt Service Fund	573,434	-	-	-	-	573,434
Legislative Joint Resolution Fund	9,256	-	-	-	-	9,256
Nonmajor funds:						
Other governmental fund	464,055	-	-	-	7,421	471,476
Total	$ 1,046,745	-	521,644	1,000,000	12,061	$ 2,580,450

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

- Recognize in the legislature joint resolution fund ($521,644) of the pool of cash of the state assignments deposited in the current bank account and to recognized in the permanent capital improvement fund ($1,000,000) of the outstanding balance of the loans granted to the general fund, to temporarily cover operating costs.

- Recognize a pending non-routinary transfer of unrestricted cash surplus from debt service fund, amounting to $573,434, to the general fund.

- Recognize in the general fund the outstanding balance of the loans granted to non-major funds ($464,055) to temporarily cover the payroll and other operating costs of several federally and state funded programs.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers, which are considered by management to be fully realizable at June 30, 2014.

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, 2014, 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.

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 2013-2014, 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	$ 1,570,654	$ -	$ 1,570,654	$ 167,600	$ -	$ 1,738,254
Construction in progress	1,444,332	-	1,444,332	66,088	-	1,510,420
Total capital assets, not being depreciated/amortized	3,014,986	-	3,014,986	233,688	-	3,248,674
Capital assets, being depreciated/amortized:						
Land improvements	4,654,786		4,654,786	666,592	-	5,321,378
Buildings, structures, and improvements	15,422,378	-	15,422,378	58,337	-	15,480,715
Infrastructure and infraestructure improvements	33,153,316	-	33,153,316	-	-	33,153,316
Machinery and equipment	2,941,663	-	2,941,663	48,495	-	2,990,158
Licensed vehicles	3,977,722	-	3,977,722	119,000	-	4,096,722
Total capital assets, being depreciated/amortized	60,149,865	-	60,149,865	892,424	-	61,042,289
Total cost basis of capital assets	63,164,851	-	63,164,851	1,126,112	-	64,290,963
Less: accumulated depreciation and amortization:						
Land improvements	(2,761,919)	-	(2,761,919)	(143,943)	-	(2,905,862)
Buildings, structures, and improvements	(2,985,487)	-	(2,985,487)	(314,092)	-	(3,299,579)
Infrastructure and infraestructure improvements	(29,753,245)	-	(29,753,245)	(192,984)	-	(29,946,229)
Machinery and equipment	(2,128,129)	-	(2,128,129)	(174,444)	-	(2,302,573)
Licensed vehicles	(2,946,937)	-	(2,946,937)	(203,002)	-	(3,149,939)
Total accumulated depreciation and amortization	(40,575,717)	-	(40,575,717)	(1,028,465)	-	(41,604,182)
Net capital assets	$ 22,589,134	$ -	$ 22,589,134	$ 97,647	$ -	$ 22,686,781

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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	$	191,647
Public Works and sanitation		397,836
Public safety		92,158
Culture and recreation		202,780
Health		17,180
Welfare and community development		124,524
Education		2,340
Total depreciation and amortizaiton expense	**$**	**1,028,465**

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2013-2014, and not paid by the Municipality at June 30, 2014. Following is a detail of these accounts payable and accrued liabilities by major fund:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	$ 221,552	$ 131,737	$ 353,289
Legislative Joint Resolution Fund	396,010		396,010
Other Governmental Funds	167,218		167,218
Total	**$ 784,780**	**$ 131,737**	**$ 916,517**

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, 2014, 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	$ 1,115,000
Interests	225,325
Total	**$ 1,340,325**

NOTE 8 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2014, balance due to other governmental units consists of the following:

Governmental Agency		Amount
Retirement System Administration	$	77,809
Puerto Rico Aqueduct and Sewer Authority		107,586
General Service Administration		192,968
State Department of Labor		181,867
Municipal Revenue Collection Center		66,308
Total	**$**	**626,538**

NOTE 9 – UNEARNED REVENUES AND DEFERRED INFLOW OF RESOURCES

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

Program Description		Amount
Special Program for the Aging Title III	$	24,654
Homeland Security Grant Program		14,452
Promoting Safe and Stable Families		8,287
Rural Development		9,213
Disaster Grants - Public Assistance		132
Community Services Block Grant		6,428
Other		478
Total	**$**	**63,644**

Unearned revenues of $628,014 in the General Fund represent the volume of business taxes collected in fiscal year 2013-2014 that will be earned in fiscal year 2014-2015.

The deferred inflows of resources of $91,388 in the General Fund represent the amount to be reimbursed by the Commonwealth Government for Christmas bonus vested by Municipality's employees. These amounts were not collected by the Municipality at June 30, 2014.

NOTE 10 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Balance at June 30, 2013	Borrowings or additions	Payments or deductions	Balance at June 30, 2014	Balance due within one year
General, Special					
Obligation Bonds and Notes	$ 13,239,000	$ -	$ 1,000,000	$ 12,239,000	$ 4,278,000
Notes payable:					
CRIM:					
Law 42	287,373	-	7,915	279,458	8,142
Financing of delinquent accounts	101,992	-	5,368	96,624	5,368
Capital Leases	12,231	-	7,022	5,209	3,638
Estimated liability for municipal solid waste landfill closure and postclosure care costs	1,361,525	5,184,589	-	6,546,114	
Compensated absences	2,628,709	-	347,669	2,281,040	955,516
Christmas Bonus	257,131	-	22,444	234,687	234,687
Total	$ 17,887,961	$ 5,184,589	$ 1,390,418	$ 21,682,132	$ 5,485,351

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, 2014, are comprised of the following individual issues:

BONDS PAYABLE

Description	Outstanding Amount
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%	$ 406,000
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% (4.73% at June 30, 2014)	420,000
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%	408,000
2004 general obligation bonds of $630,000 due in annual installments of $45,000 to $80,000 through July 1, 2014; bearing interest at rates ranging from 1.50% to 6.62% (1.50% at June 30, 2014)	80,000

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

BONDS PAYABLE (CONTINUED)

Description	Outstanding Amount
2005 general obligation bonds of $665,000 due in annual installments of $55,000 to $80,000 through July 1, 2014; bearing interest at rates ranging from 1.53% to 6.62% (1.63% at June 30, 2014)	$ 80,000
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 1.50% to 6.62% (1.50% at June 30, 2014)	280,000
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 1.50% to 6.62% (1.50% at June 30, 2014)	1,680,000
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, 2014)	50,000
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 1.50% to 7.50% (1.50% at June 30, 2014)	130,000
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 1.50% to 7.50% (1.50% at June 30, 2014)	340,000
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 1.50% to 7.50% (1.50% at June 30, 2014)	2,025,000
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 1.50% to 7.25% (1.50% at June 30, 2014)	260,000
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 1.50% to 7.50% (1.50% at June 30, 2014)	85,000
2008 general obligation bonds of $370,000 due in annual installments of $15,000 to $40,000 through July 1, 2025; bearing interest at rates ranging from 4.75% to 5.75% (4.75% at June 30, 2014)	310,000

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

1. BONDS PAYABLE (CONTINUED

Description	Outstanding Amount
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, 2014)	$ 170,000
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, 2014)	15,000
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, 2014)	1,655,000
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, 2014)	270,000
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, 2014)	485,000
2013 special obligation notes of $3,090,000 due in a lump sum of $3,090,000 on July 1, 2014; bearing interest at rates ranging from 4.50% to 6.00% (6.00% at June 30, 2014)	3,090,000
Total	**$ 12,239,000**

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NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

The annual requirements to amortize the general obligations bonds and notes outstanding as of June 30, 2014 are as follows:

Year ending June 30,	Principal	Interest	Total
2015	$ 4,278,000	$ 430,724	$ 4,708,724
2016	751,000	496,935	1,247,935
2017	603,000	472,340	1,075,340
2018	647,000	430,570	1,077,570
2019	595,000	389,361	984,361
2020-2024	1,703,000	1,564,355	3,267,355
2025-2029	1,844,000	993,602	2,837,602
2030-2034	1,528,000	312,115	1,840,115
2035-2039	290,000	22,122	312,122
Totals	$ 12,239,000	$ 5,112,124	$ 17,351,124

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, 2014 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, 2014 follows:

Year ended June,30	Amount
2015	$ 3,816
2016	1,590
Less: Amount representing interests	(197)
Present value of minimum lease payments	$ 5,209

C. COMPENSATED ABSENCES

The government-wide statement of net position includes $2,281,040 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, 2014 amounted to $279,458.

The annual requirements to amortize the property tax debt –law 42 as of June 30, 2014 are as follows:

June 30,	Principal	Interest
2015	$ 8,412	$ 17,163
2016	8,940	16,635
2017	9,502	16,073
2018	10,099	15,476
2019	10,734	14,841
2020-2024	64,673	14,841
2025-2029	87,709	40,166
2030-2034	79,389	10,124
Total	**$ 279,458**	**$ 145,320**

E. 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, 2014 amounted to $96,624.

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

The annual requirements to amortize the property tax debt –law 146 as of June 30, 2014 are as follows:

June 30,	Principal	Interest
2015	$ 5,368	$ 6,010
2016	5,368	5,676
2017	5,368	5,342
2018	5,368	5,008
2019	5,368	4,674
2020-2024	26,840	18,360
2025-2029	26,840	10,010
2030-2034	16,104	1,998
Total	**$ 96,624**	**$ 57,078**

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 $6,546,114 reported as landfill closure and post closure care liability at June 30, 2014, 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 2014. The estimated life of the landfill according to the engineers of the Municipality is approximately two (2) years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

In September 23, 2014, the Municipality entered an Administrative Order on Consent (Docket No. RCRA-02-2014-7301) with the United States Environmental Protection Agency (EPA). The Municipality shall perform the actions required by this Order and comply with its provisions. This Order require, within other requirements, the following: (1) cover solid waste disposed of in the Landfill with daily cover, (2) institute measures to control fugitive dust at the Landfill, (3) ensure that the Landfill has adequate security to restrict unauthorized access to the Landfill so as to prevent theft, scavenging, trespass and unauthorized waste disposal, (4) inspect all incoming loads of waste to be deposited at the Landfill so as to prevent the disposal of prohibited materials, (5) the Municipality shall maintain a log of incoming waste loads, (6) the Municipality shall only deposit waste on a single active face unless, for operational reasons, the use of multiple faces cannot be avoided, (7) submittal of closure and post-closure plans for the Landfill for review no later than July 30, 2016. The Municipality have an obligation under Administrative Order on Consent to comply with any requirement, term or condition, set forth in or required by this Order and is subject to penalties for failure to comply, unless the performance is prevented or delayed by events arising from causes not reasonably foreseeable and beyond the control of the Municipality.

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.

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 Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

On July 29, 2007, the Commonwealth Legislature approved Act No. 80 (Act 80) which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .1% of the .5% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80. Effective January 1, 2011 the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050 the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

NOTE 15 – SALES AND USE TAXES (CONTINUED)

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue $757,248 in the general fund corresponding to the 1% imposition and $701,767 in the debt service fund corresponding to the Municipal Redemption Fund.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10th day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable in the general and debt service funds at June 30, 2014, of $35,483 and $64,650, respectively, represents the tax collected on June (or before) by individuals, organizations and entities but reported and paid to the Municipality on or before July 10, net of uncollectible accounts.

On June 30, 2013, the Commonwealth approved Act No. 40 which among other things, reduces the municipal sales and use tax from 1.5% to 1% and increasing the Commonwealth sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014 the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

The purpose of the Act No. 18 of January 24, 2014 is to create a special fund called Municipal Administration Fund (FAM) under custody of the Governmental Development Bank of Puerto Rico ("GDB") that permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

The 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds during a transitory period from February 1, 2014 to June 30, 2014 the Commonwealth will deposit $43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

After July 1, 2014 the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The Municipality of Lajas signed the agreement to be covered.

For municipalities covered by the agreement the .5% will be distributed as follows:

NOTE 15 – SALES AND USE TAXES (CONTINUED)

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities has the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

The purpose of the Act No. 19 of January 24, 2014 is to create the Municipal Finance Corporation (COFIM) a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be $65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period.

The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

NOTE 16 – INTERGOVERNMENTAL REVENUES

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

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

NOTE 17 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended at June 30, 2014, are summarized as follows:

	Transfers Out:		
	Major Funds		
Transfers In:	General Fund	Debt Service Fund	Total Governmental Funds
Major funds:			
General Fund	$ -	573,434	$ 573,434
Debt Service Fund	358,593		358,593
Total	$ 358,593	$ 573,434	$ 932,027

The principal purposes of inter-fund transfer is to:

- Make a non-routinary transfer of unrestricted cash surplus from debt service fund, amounting to $573,434, to the general fund.
- To reclassified principal and interest operational loans payments from general fund to debt service fund ($358,593).

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN

a) Act No. 447 and System 2000 (until June 30, 2013)

As of June 30, 2014 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems.

The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The system operates under Act 447, approved on May 15, 1951 effective on January 1, 1952 and Act 1 of February 16, 1990 for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of $200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Act No. 305 of September 24, 1999 amended Act. No. 447 of 1951 and Act 1 of February 16, 1990 to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan.

There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was $10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

The Act No. 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to $6,600 plus 8.275% of gross salary in excess of $6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 9.275% of gross

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

b) Act No. 3 of 2013 (beginning July 1, 2013)

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").
- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act No. 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.
- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.
- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment).
- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.
- Increased employee contributions from 8.275% to a minimum of 10.00%.
- After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.

  Retirement age was modified as follows:

- Act No. 447 regular employees: age 58 to 61,
- Act No. 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
- Act No. 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).
- Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).
- Due to changes to Special Laws, the minimum monthly pension for current retirees was increased from $400 to $500.

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of $5,000. Therefore, the maximum monthly employee contribution will be $12.50 ($5,000 x .25%).
- Survivor benefits were modified.

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

Fiscal year ended June 30,	Total
2014	$ 340,637
2013	368,616
2012	422,918
Totals	$ 1,132,71

c) Act No. 32 of 2013 (beginning July 1, 2013)

On June 25, 2013, Act No. 32 was approved in order to amend Act No. 447 of 1957 by creating a new Article 5-117 Additional Uniform Contribution (AUC), with the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer.

Act No. 32 defines the concept of the AUC as follows:

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars ($140,000,000).

- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars ($1,000,000,000). If, for any fiscal, the certified AUC is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year.

For the fiscal year 2013-2014, $41.142 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED

evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)).

In addition to the pension benefits described above, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from $600 to $200 (current retirees),
- Elimination of summer bonus of $100 (current retirees),
- No change in medical plan contribution of up to $1,200 and medicine bonus of $100 (current retirees).
- Eliminated all Special Law benefits to future retirees.

Act No. 3 also established that employers will contribute $2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

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, 2014. 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.

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.

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. All potential claims are accrued in the financial statements at June 30, 2014.

In addition, at June 30, 2014, the Municipality reported liabilities amounting $407,593 and $274,727 in the Statement of Net Position and the Balance Sheet, respectively. These amounts represents, in its majority, plaintiffs for collection of money and other matters based on the advice of the legal counsels of the Municipality.

NOTE 19 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. It is the Municipality opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

C. OTHER COMMITMENTS

At June 30, 2014 the general fund had commitments of approximately $177,304 for executory purchase orders or contracts that will be honored during the subsequent year.

NOTE 20 – FUND BALANCE

As of June 30, 2014, the fund balance (deficit) classifications are as follows:

	Major governmental funds					
	General Fund	Debt Service Fund	Legislative Joint Resolutions Program	Permanent Capital Fund	Other Governmental Fund	Total Governmental Fund
Fund balances						
Restricted						
Debt service	$ -	$ 791,529	$ -	$ -	$ -	$ 791,529
General government	74,354	-	762,210	-	166,197	1,002,761
Public works and sanitation	-	-	-	1,159,788	1,089,125	2,248,913
Culture and recreation	-	-	-	-	9,683	9,683
Welfare and community development	-	-	-	-	80,181	80,181
Unassigned	(2,042,558)	-	-	-	-	(2,042,558)
Total fund balances	$ (1,968,204)	$ 791,529	$ 762,210	$ 1,159,788	$ 1,345,186	$ 2,090,509

NOTE 21 – SUBSEQUENT EVENTS

On September 23, 2014, the Municipality entered an Administrative Order on Consent (Docket No. RCRA-02-2014-7301) with the United States Environmental Protection Agency (EPA). The Municipality shall perform the actions required by this Order and comply with its provisions.

Management has evaluated subsequent events through April 30, 2015, which is the date the financial statements were available to be issued and determined that no additional material subsequent events require disclosure or an estimate to be recorded as June 30, 2014.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual amounts (budgetary basis)	Variance with final budget -
	Original	Final	(See note A)	over (under)
Revenues:				
Property taxes	$ 2,457,596	$ 2,457,596	$ 2,365,505	$ (92,091)
Municipal license taxes	715,566	715,566	807,836	92,270
Sales and use taxes	561,832	561,832	725,750	163,918
Intergovernmental revenues	5,496,242	5,496,242	5,801,199	304,957
Fees, fines and charges for services	1,270,467	1,270,467	930,856	(339,611)
Investment earnings	20,000	20,000	25,500	5,500
Other	150,000	150,000	44,104	(105,896)
Total revenues	10,671,703	10,671,703	10,700,750	29,047
Expenditures:				
Current:				
General government	5,961,971	5,817,159	5,704,932	112,227
Public works and sanitation	2,734,174	2,889,686	3,003,508	(113,822)
Public safety	645,939	687,323	669,870	17,453
Culture and recreation	914,391	879,051	867,423	11,628
Welfare and community development	415,228	398,485	383,745	14,740
Total expenditures	10,671,703	10,671,703	10,629,478	42,225
Excess of revenues over expenditures	$ -	$ -	$ 71,272	$ 71,272

Explanation of Differences:

Sources/inflows of financial resources:	
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	$ 10,700,750
Differences - budget basis to GAAP:	
Net decrease in receivables	(9,148)
Resources considered revenues for budgetary purposes but not for financial reporting	(44,849)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 10,646,753
Uses/outflows of financial resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 10,629,478
Differences - budget basis to GAAP:	
Net increase in payables	47,318
Nonbudgeted expenditures	398,461
Prior year encumbrances recorded as current year expenditures for GAAP basis	513,388
Current-year encumbrances recorded as current expenditures for Budgetary basis	(177,304)
Resources considered expenses for budgetary purposes but are not expenditures for financial purposes	(365,603)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 11,045,738

See accompanying notes to the budgetary comparison schedule - general fund.

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2014.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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	$ 28,393
Total U.S. Department of Agriculture			**28,393**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		309,644
Pass-Through State - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State's Program	14.228	AB-53/ FC-53	350,765
Total U.S. Department of Housing and Urban Development			**660,409**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE			
Pass-Through Office of the Elderly:			
Special Program for the Aging, Title III	93.045	N/AV	70,311
Pass-Through State Department of Family:			
Promoting Safe and Stable Families	93.556	N/AV	38,065
Pass-Through Administration of Children and Families:			
Community Services Block Grant	93.569	2014-000203	13,424
Child Care and Development Block Grant	93.575	G1401PRCCDF	213,761
Total U.S. Department of Health and Human Service:			**335,561**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-Through- Governor Office- Public Safety Affairs:			
Homeland Security Grant Program	97.067	N/AV	28,421
Pass-Through- Governor Office- Governor's Authorized Representative:			
Disaster Grants- Public Assistance	97.036	N/AV	99,423
Hazard Mitigation Grant	97.039	N/AV	18,750
Total U.S. Department of Homeland Security:			**146,594**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 1,170,957**

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, 2014

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.

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, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated April 30, 2015.

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.

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. 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that I consider to be significant deficiencies. Findings 2014-001 and 2014-002.

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 2014-002.

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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)

Municipality's Response to Findings

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

Purpose of this Report

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

Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
April 30, 2015

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, 2014. 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 Major Federal Programs

As identified in the findings numbers listed in the table below and described in the accompanying Schedule of Findings and Questioned Costs, the Municipality, did not comply with requirements regarding the following:

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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)

Basis for Qualified Opinion on Major Federal Programs (continued)

Awarding Agency	Federal Program	Compliance Requirement	Finding Number
Housing and Urban Development	14.228- CDBG- State's Program	Davis-Bacon Act	2014-004
Housing and Urban Development	14.228- CDBG- State's Program	Procurement and Suspension and Debarment	2014-005
Housing and Urban Development	14.228- CDBG- State's Program	Reporting	2014-006
Housing and Urban Development	14.871- Section 8 Housing Choice Voucher	Reporting	2014-008
Housing and Urban Development	14.871- Section 8 Housing Choice Voucher	Special Test- Utility Allowance Schedule	2014-009
Housing and Urban Development	14.871- Section 8 Housing Choice Voucher	Special Test- Housing Quality Standards Inspections/ HQS Enforcement	2014-011

Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to the programs.

Qualified Opinion on Major Federal Programs

In my opinion, except for the noncompliance described in the "Basis for Qualified Opinion on Major Federal Programs" 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 each of the major federal programs listed in the "Basis for Qualified Opinion on Major Federal Programs" paragraph for the year ended June 30, 2014.

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 2014-003, 2014-007 and 2014-010.

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.

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)

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 significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-004, 2014-005, 2014-006, 2014-008, 2014-009 and 2014-011 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as items 2014-003, 2014-007 and 2014-010 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.

Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
April 30, 2015

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAJAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Opinion Units	**Type of Opinions**
Governmental activities	Unmodified
General Fund	Unmodified
Debt Service Fund	Unmodified
Legislative Joint Resolution Fund	Unmodified
Permanent Capital Improvement Fund	Unmodified
Aggregated remaining fund	Unmodified

Internal control over financial reporting:		
Material weakness identified?	Yes	No **X**
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 Community Development Block Grants/ State's and Section 8 Housing Choice Vouchers**	
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
14.871	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 NUMBER	**2014-001**
REQUIREMENT	**ACCOUNTING RECORDS AND REPORTING SYSTEM**
CONDITION	The Municipality did not maintain complete accounting records.
CONTEXT	During the examination of the accounting records, I noted that the Municipality does not summarize in a formal accounting system, in order to properly record and account, the financial transactions of the general fund and the special revenue funds. The accounting records of the Municipality are maintained simultaneously, through a manual and a computerized accounting system for which no reconciliation procedures are made among them.
CRITERIA	Chapter VIII, 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 the Municipality's operations and include the necessary internal controls to account for all funds, capital assets and other assets.
CAUSE	The Municipality has not established effective internal control procedures over the accounting system.
EFFECT	The Municipality is not in compliance with Chapter VIII, Articles 8.010 (b) and (c) of the State Law Number 81 of August 30, 1991.
RECOMMENDATION	I recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system which adequately summarizes the accounting information of all the financial transactions related to assets, liabilities, revenues and expenditures of the Municipality's funds.
MANAGEMENT RESPONSE	During the fiscal year 2014-2015 the Municipality began the implementation of SIMA (Solución Integrada para Municipios Avanzados) of Rock Solid Technologies. These solutions provide to the Municipality the ability to manage the following financial process: 1) budget account management, payroll, revenues, fixed assets, bank account reconciliation and other. With adequate control over this process the Municipality can generate accurate financial information in timely basis to generate the necessary report to make decision with more certainty.

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	**2014-002**
REQUIREMENT	**SINGLE AUDIT SUBMISSION**
CONDITION	The Municipality did not comply with the required due date for the submission of the Single Audit Report and the Data Collection Form.
CONTEXT	The Municipality did not submit, in a timely manner, the Single Audit Reporting package for the fiscal year ending on June 30, 2014. The due date for this report was no later than March 31, 2015.
CRITERIA	OMB Circular A-133, Subpart C, Section 320 (a) states that all audits shall be completed and submitted to the Federal Audit Clearinghouse and the cognizant agency within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit report.
CAUSE	Due to the lack of adequate accounting records, the Municipality did not comply with the requirements established in OMB Circular A-133.
EFFECT	The Municipality is not in compliance with OMB Circular A-133, Subpart C, Section 320 (a). Also, the Municipality could be sanctioned by the Federal Government for the noncompliance of this requirement.
RECOMMENDATION	I recommend management to establish adequate accounting records that allow for the timely completion of its financial statements and performance of the Single Audit.
MANAGEMENT RESPONSE	Notwithstanding the effort of the Municipality, the documents related to legal confirmation and invitation to tender for asphalt purchases and road pavement were not available for inspection prior to the required due date for the submission of the Single Audit. We instruct our personnel to and give an adequate follow up to audit requirements in order to comply in the future with due date as request the Circular A-133, Subpart C, Section 320 (a).

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-003**
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	In the cash management test, I noted that during the fiscal year 2013-2014, the Program maintained an average cash balance of approximately $12,258. In addition, I examined seven (7) requests of funds made by the Program to the pass-through agency and found that four (4) requests took between eight (8) and one hundred twenty-seven (127) days from the moment the funds were deposited and the issuance of the checks.
CRITERIA	Code of Federal Regulations 24, Section 570.489 (c) 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 only for immediate needs.
EFFECT	The Program is not in compliance with Code of Federal Regulations 24, 570.489 (c).
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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-003 (CONTINUED)**
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**
MANAGEMENT RESPONSE	On behalf of this criteria the Municipality's authority has instructed correction measures immediately towards this matter with the federal programs administrative procedures and accounting area, so that in accordance with the Finance Department from where the checks are made there will be a direct communication from the Federal Program Director with the financial area so that the procedures flow rapidly and comply with the cash management. This way when the federal program make their request of funds and they arrive at the municipality in accordance with the department of finance the checks will be disbursed at the requirements of the code of federal regulations 24, subpart 1 CFR, 570 489(c)(1) and in this way the federal program can maintain the appropriate cash management procedures.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-004**
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	**DAVIS-BACON ACT**
CONDITION	During the fiscal year 2013-2014, the Program did not comply with the requirements of the Davis-Bacon Act.
CONTEXT	During the grant disbursement test, I noted that the Program disbursed funds for a project of pavement of roads and streets and found the following conditions: a. The contract formalized between the contractor and the Municipality, did not included the required prevailing wage rate clauses in accordance with the Davis-Bacon Act. b. I did not found evidence that the Program was monitoring the contractor's payrolls to assure that it was paying the prevailing wages to the employees.
CRITERIA	Davis- Bacon Act, 42 USC 5310.
CAUSE	The Municipality failed to apply all the monitoring procedures developed to test applicable contractors with compliance with the Davis Bacon Act.
EFFECT	The Municipality is not in compliance with Davis- Bacon Act, 42 USC 5310.
RECOMMENDATION	I recommended management to include in all the construction contracts that will be paid with CDBG funds, a clause that describe the required prevailing wage rates established in the Davis-Bacon Act. In addition, the Program should obtain the contractor's payrolls to be reviewed and to document adequately, that the wages paid by the contractors are in accordance with the wages established by the Department of Labor.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-004 (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	**DAVIS-BACON ACT**
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	On behalf of this criteria the office of the Municipal Secretary has already made correction measures towards this compliance and amended the pavement contracts with the Davis Bacon Act 42 USC 5310 and has instructed that all contracts that contains federal funds should include this criteria and clause not only on the construction projects but also with the pavement of roads. This information has been instructed towards the Federal Program Director office so that he will be aware of this matter also and give a follow up towards the administration program requirements.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-005**
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 AND COMPLIANCE**
NONCOMPLIANCE	**PROCUREMENT AND SUSPENSION AND DEBARMENT**
CONDITION	The Municipality did not included in the contracts all the clauses required by Federal regulation.
CONTEXT	In testing compliance with the procurement requirement, I examined one (1) contract for professional services and one (1) contract for the pavement of streets and roads and noted that the contracts did not included the following clauses: ▪ contractual legal remedies when contractor violates term and termination by grantee for default; ▪ clauses regarding retention of all required records for three years after grantees makes final payment and all other pending matters are closed; ▪ provision for the termination by grantee for default; ▪ provisions for compliance with Clear Air and Clear Water Act; ▪ provisions for compliance with Energy Policy and Conservation Act;
CRITERIA	Code of Federal Regulations, 24 Section 85.36 (i) (1-13) states that subgrantee's contracts must contain provisions in paragraph (i) of these Sections. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
CAUSE	Personnel of the Contract Division of the Municipality failed to assure that the contracts made with CDBG funds include all the clauses established in the Federal regulation.
EFFECT	The Program is not in compliance with Code of Federal Regulations, 24 Section 85.36 (i) (1-13).

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-005 (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 AND COMPLIANCE**
NONCOMPLIANCE	**PROCUREMENT AND SUSPENSION AND DEBARMENT**
RECOMMENDATION	I recommend management to update the contract model according with the federal requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	As of today the office of Municipal Secretary has given instruction and made the correction on the Federal Programs contracts and instructed that Federal Program Director be aware of any new clauses and inform it immediately to the Municipal Secretary Office. Complying in this way with the code of Federal Regulations, Subpart C 24 CFR section 85.36(1) (1-13).

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-006**
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) accurate accounting information.
CONTEXT	During the reporting test, I found that the accumulative expenditures reported in the quarterly report of June 30, 2014, submitted to the pass-through entity, have a difference amounting to $63,672 with the accumulative expenditures recorded in the general ledger maintained by the Program. Also, I found that the expenditures and program income quarterly reports for the fiscal year 2013-2014, were not certified by the Federal Program Director and the Program's accountant.
CRITERIA	CFR 24, Section 85.20 (b) (1) and (2) *Financial reporting*, states that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. *Accounting records*, states that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
CAUSE	The accounting staff failed to assure that the amounts recorded in the quarterly reports, submitted to pass-through entity, were in accordance with the accounting records.
EFFECT	Inaccurate accounting information was submitted to the pass-through entity.
RECOMMENDATION	The Program should continue improving its internal control over the recording of the financial transactions in order to assure that the information submitted to the pass-through entity agrees with the accounting registers of the Program.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-006 (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	The accounting system has been corrected in the Federal Programs relying on the Department of Finance new system implementation all of the accounts have been reconciled and the difference have been found and corrected. The quarterly reports are entered at the system and also have been signed by the Director and accountant of the Federal Programs. This new system assures the accounting will have accurate information.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-007**
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 the eligibility test, I examined twenty-five (25) participants' files, and noted the following conditions: a. In three (3) participants' files, I could not determine if the HAP was properly calculated; b. In one (1) participant's file, I did not found evidence of the deductions made for medical expenses or disability. The elimination of this deductions affects the HAP calculation; c. In four (4) participants' files, the Enterprise Income Verification (EIV) was not available for examination; d. In seven (7) participants' files, the certificate of no penal records was not available for examination. In addition, the payment standards used by the Program during the fiscal year 2013-2014, were not updated.
CRITERIA	Code of Federal Regulation 24, Section 982.516 (a) 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.
CAUSE	The Program's internal controls failed to assure that the reexaminations were properly calculated, validated with the EIV System and properly documented.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-007 (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).
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	Management will assure the proper HAP computation during the annual and interim reexamination process, strengthening our internal controls and procedures for verifying the family income and composition using the EIV system in each mandatory reexamination of the participants of the Program.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-008**
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 the 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 accounting system. Also, the Program did not maintain adequate subsidiary records for the payment of the portabilities-out. In addition, the Municipality failed to submit, in a timely manner, the audited financial information for the fiscal year 2012-2013 to HUD, through the FASS-PH system. This audited information was submitted, six months after the deadline, which was March 31, 2014. Also, the un-audited financial information for the fiscal year 2013-2014 was not submitted to HUD, through the FASS-PH system at August 31, 2014.
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. 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.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-008 (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**
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. Also, management should submit the un-audited and audited financial information in a timely manner.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Management will implement adequate accounting records to ensure the information submitted to HUD in our monthly reports are in accordance with our accounting records and are properly supported and submit our un-audited and audited financial information in a timely manner.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-009**
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 the 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.
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 has 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	Management will revise and update annually the utility allowance schedule as required by HUD.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-010**
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 the reasonable rent test, I examined a sample of twenty-five (25) participant's files and found the following conditions: • In one (1) participant's file, I did not found evidence of the reasonable rent study for a change of unit during the fiscal year 2013-2014; • In one (1) participant's file, the reasonable rent analysis did not included the rent and the direction of the comparable units; • In one (1) participant's file, the reasonable rent was dated after the contract with owner and participant, was made; • In four (4) participants' files, the reasonable rent studies were not certified by the employee that prepared the analysis.
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).

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-010 (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	**SPECIAL TEST- REASONABLE RENT**
RECOMMENDATION	I recommend management to continue strengthening the internal control procedures to assure that the rents paid to the owners are reasonable. Also, I recommend that adequate and proper documentation about the reasonable rent determination is maintained in the participant's files.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Management will strengthen the internal control procedure to assure that the rents paid to the owners are reasonable. The proper documentation of the reasonable rent determination will be maintained in the participants' files.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-011**
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- HOUSING QUALITY STANDARDS INSPECTIONS/ HQS ENFORCEMENT**
CONDITION	The Program did not documented properly the housing quality inspections during the fiscal year 2013-2014.
CONTEXT	During my test, I examined twenty-five (25) participant's files, in order to verify if the Program follows the Housing Quality Standards, and noted the following conditions: • I did not found evidence, that during fiscal year 2013-2014, the Program conducted quality control re-inspections; • In one (1) participant's file, in which the inspection made, was "failed", I did not found evidence that the required corrections were made within thirty (30) calendar days of the inspections.
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. Also CRF 982.158 (d) states that the PHA must prepare a unit inspection report.
CAUSE	The Program failed to properly document the corrections of deficiencies made by the owners within the time frame specified by the Federal regulation.
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Section 982.158 (a) and (d).
RECOMMENDATION	I recommend management to continue strengthening the internal control procedures in order to assure that the units Housing Quality Standards deficiencies are corrected and documented during the specified period established by the Federal regulation. In addition, the Program should conduct quality control re-inspections.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	**2014-011 (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	**SPECIAL TEST- HOUSING QUALITY STANDARDS INSPECTIONS/ HQS ENFORCEMENT**
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Management will strengthen the internal control procedures to assure that the HQS (Housing Quality Standards) deficiencies are corrected and documented during the specified period established by the Federal regulation and will conduct the quality control inspections.

COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDIGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
13-III-04	Cash Management	14.228	None	No corrective action has been taken. Finding Reference 2014-003.
13-III-05	Davis Bacon	14.228/ 14.255	None	No corrective action has been taken. Finding Reference 2014-004.
13-III-06	Procurement and Suspension and Debarment	14.228	None	No corrective action has been taken. Finding Reference 2014-005.
13-III-07	Reporting	14.228	None	No corrective action has been taken. Finding Reference 2014-006.
13-III-08	Eligibility	14.871	None	No corrective action has been taken. Finding Reference 2014-007.
13-III-09	Reporting	14.871	None	No corrective action has been taken. Finding Reference 2014-008.
13-III-10	Special Test- Utility Allowance Schedule	14.871	None	No corrective action has been taken. Finding Reference 2014-009.
13-III-11	Special Test- Reasonable Rent	14.871	None	No corrective action has been taken. Finding Reference 2014-010.
2012-III-1	Allowable Cost/ Cost Principle	14.871	$64,192	Full corrective action was taken.
2012-III-2	Reporting	14.228	None	No corrective action has been taken. Finding Reference 2014-006.
2012-III-4	Procurement and Suspension and Debarment	14.228	None	No corrective action has been taken. Finding Reference 2014-005.

COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDIGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
2011-III-1	Allowable Cost/ Cost Principle	14.871	$64,192	Full corrective action was taken.
2011-III-2	Reporting	14.228	None	No corrective action has been taken. Finding Reference 2014-006.
2011-III-4	Procurement and Suspension and Debarment	14.228	None	No corrective action has been taken. Finding Reference 2014-005.
2010-III-1	Reporting	14.228	None	The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.
2010-III-3	Procurement and Suspension and Debarment	14.228	None	The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.
01-09	Reporting	14.228	None	The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.