

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2010**

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**ORTIZ, RIVERA, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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MUNICIPALITY OF CIALES  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Ciales, as of and for the year ended June 30, 2010, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Colinas de Jaguas I Project, as of June 30, 2010. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Colinas de Jaguas I Project, is based on the report of the other auditors.

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

Based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the Municipality of Ciales as of June 30, 2010 and the respective changes in financial position.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2010 on our consideration of the Municipality's internal control over financial

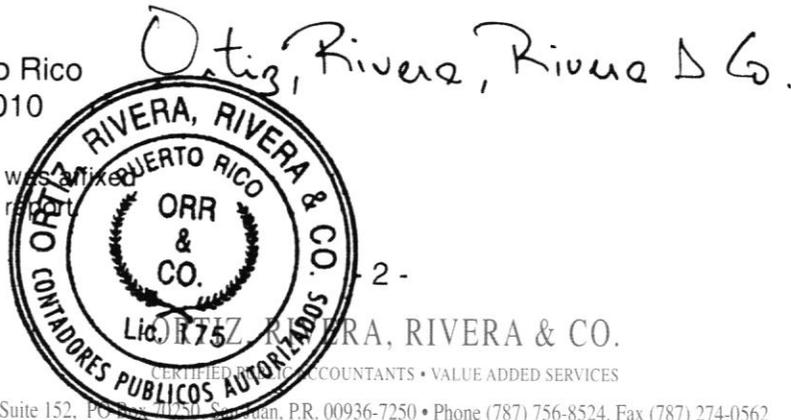
reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtain during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

San Juan, Puerto Rico  
December 16, 2010

The stamp 2586330 was affixed to the original of this report.



## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

The Municipality of Ciales (the "Municipality") discussion and analysis has been designed with the followings goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget), and;
- e) Identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

### ***FINANCIAL HIGHLIGHTS***

- The Municipality net assets decreased by \$618,202.
- Capital assets decreased by \$566,842.
- Capital expenditures amounted to \$455,733.
- General fund deficit increased by \$398,753.

### ***USING THIS ANNUAL REPORT***

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

#### **Government-Wide Financial Statements**

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

### **Fund Financial Statements**

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

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, Government 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 is useful in evaluating the Municipality's near term financial 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, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

### **Infrastructure Assets**

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time. The Municipality has elected to depreciate infrastructure assets instead of using the modified approach.

## FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's net assets totaled \$11.057 million at the end of 2010, compared to \$11.503 million at the end of the previous year.

The largest portion of the Municipality's net assets consists of the investment made throughout the years in capital assets such as land, buildings, equipment and infrastructure. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service represents another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

The unrestricted deficit is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences and claims and judgments among others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations. The restricted portion consists of monies reserved for debt service and future capital expenditures.

### Condensed Statement of Net Assets

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Current assets	\$ 3,940,155	\$ 4,155,373
Capital assets	21,709,874	22,276,716
Total assets	<u>25,650,029</u>	<u>26,432,089</u>
Current liabilities	5,739,543	6,040,509
Noncurrent liabilities	8,853,885	9,188,482
Total liabilities	<u>14,593,428</u>	<u>15,228,991</u>
Invested in capital assets, net of related debt	21,709,874	22,230,319
Restricted	673,885	491,819
Unrestricted	(11,327,158)	(11,219,230)
Total net assets	<u>11,056,601</u>	<u>11,502,908</u>

## Changes in Net Assets

The Municipality's net assets decreased \$618,202. Approximately 57 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 15 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and public housing and welfare.

### Condensed Statement of Activities June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Program revenues		
Charges for services	\$ 1,074,801	\$ 347,173
Operating grants and contributions	1,068,616	2,085,095
Capital grants and contributions	613,865	1,474,768
General revenues		
Property taxes	1,632,553	1,276,968
Municipal license tax	420,041	764,814
Sales and use taxes	921,326	580,792
Grant and contributions not restricted for specific purpose	5,497,423	5,765,165
Interest and investment earnings	4,241	3,106
Miscellaneous	2,256,136	2,106,046
Total revenues	<u>13,489,002</u>	<u>14,403,927</u>
Expenses		
General government	6,641,795	5,260,289
Public safety	884,970	991,768
Public housing and welfare	211,489	1,994,780
Public works	3,284,780	3,270,347
Economic development	1,076,589	-
Culture and recreation	899,140	717,805
Health and welfare	885,395	1,737,588
Interest on long-term debt	223,046	344,689
Total expenses	<u>14,107,204</u>	<u>14,317,266</u>
Change in net assets	(618,202)	86,661
Net assets, beginning of year, as restated	<u>11,674,803</u>	<u>11,416,247</u>
Net assets, end of year	<u>\$ 11,056,601</u>	<u>\$ 11,502,908</u>

## **FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

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

### **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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported a combined deficit of \$1,799,388 compared to a deficit of \$1,585,329 in the prior year. There are reservations of fund balance amounting to \$3,134,570. This is the fund balance that is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$5,024) and 2) to pay debt service (\$673,885) and 3) to pay for capital projects (\$2,455,661).

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2010, the general fund has a deficit of \$4,928,934. The deficit increased by \$398,753 during fiscal year 2010.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Municipality Council revised the Municipality's budget to reclassify certain expenditures among the different governmental functions. Such reclassifications were necessary to provide for the developments that affected the Municipality's finances.

The most significant variances between budget and actual results were a revenue shortfall on Intergovernmental revenue and lower than budgeted expenditures on public works.

The reason for the shortfall in Intergovernmental revenue is mainly related to the budgetary constraints faced by the Commonwealth of Puerto Rico which in turn is affecting the Municipality. Actual expenditures lower than budget is directly related to the shortfall in Intergovernmental revenue.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Municipality's investment in capital assets as of June 30, 2010, amounts to \$33.1 million, net of accumulated depreciation of \$11.4 million, leaving a net book value of \$21.7 million. This investment in capital assets includes land, buildings, improvements, equipment, intangibles, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total decrease in the Municipality's investment in capital assets for the current fiscal year was about 2.54% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$.8 million for the year. Depreciation charges for the year totaled \$1.3 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2010, the Municipality has \$.7 million of unexpended proceeds from bond issuances that are committed to future construction activities. The Municipality also has \$1.3 million of unexpended proceeds from grants that are committed to future construction activities.

### **Debt Administration**

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient "payment capacity." Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

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

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

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2010-2011 fiscal year.

The most significant changes between the budget for fiscal year 2009-2010 and the one for fiscal year 2010-2011 were the following:

- Increase of \$575,736 in intergovernmental revenue
- Increase of \$480,972 in public works expenditures

The increase in intergovernmental revenue is mostly related to an expected increase in the contributions from the Puerto Rico Electric Power Authority.

The increase in public works expenditures is mainly a reflection of the expected increase in intergovernmental revenue expected by the Municipality.

## **FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 1<sup>st</sup> floor of the Town Hall, Ciales, Puerto Rico 00638.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
STATEMENT OF NET ASSETS  
JUNE 30, 2010**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Colinas de Jaguas</u>
Cash in bank (Notes 2 and 5)	\$ 335,003	\$ 1,294
Cash with fiscal agent (Notes 2 and 5)	1,281,477	
Accounts receivable:		
Property taxes	5,367	
Rent		21,939
Sales and use tax	22,454	
Due from other agencies (Note 9)	2,295,854	
Restricted deposits		160,382
Other assets		193
Capital assets, net (Note 11)	<u>21,709,874</u>	<u>407,284</u>
 Total assets	 <u>\$ 25,650,029</u>	 <u>\$ 591,092</u>
 <b><u>Liabilities and Net Assets</u></b>		
<b>Liabilities</b>		
Bank overdraft	\$ 3,549	\$ -
Accounts payable and accrued liabilities	464,869	60,440
Due to other agencies (Note 12)	4,619,110	
General obligations:		
Bonds	295,000	
Interest	74,477	
Deferred revenues (Note 13):		
Municipal license tax	282,538	
Noncurrent liabilities (Note 15):		
Due within one year	786,932	24,301
Due in more than one year	8,066,953	1,502,425
Total liabilities	<u>14,593,428</u>	<u>1,587,166</u>
<b>Net Assets</b>		
Investment in capital assets, net of related debt	21,709,874	
Restricted for:		
Debt service	673,885	
Capital project	2,455,661	
Unrestricted	(13,782,819)	(996,074)
Total net assets	<u>11,056,601</u>	<u>(996,074)</u>
 Total liabilities and net assets	 <u>\$ 25,650,029</u>	 <u>\$ 591,092</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Unit</u>
<b>Primary Government:</b>					
General government	\$ 6,641,795	\$ -	\$ -	\$ (5,566,994)	\$ -
Public safety	884,970			(884,970)	
Public housing and welfare	211,489			(211,489)	
Recreation	899,140			(899,140)	
Health and welfare	885,395			(885,395)	
Economic development	1,076,589		1,068,616	(1,076,589)	
Public work	3,284,780			(1,602,299)	
Interest on long-term debt	223,046			(223,046)	
Total primary government	<u>\$ 14,107,204</u>	<u>\$ 1,068,616</u>	<u>\$ 613,865</u>	<u>(11,349,922)</u>	<u>-</u>
<b>Component Unit:</b>					
Colinas de Jaguas Project	\$ 370,911	\$ 331,580	\$ -		(39,331)
General revenues:					
Property taxes (Note 6)				1,632,553	
Municipal license tax (Note 7)				420,041	
Sales and use taxes (Note 8)				921,326	
Grants and contributions not restricted to specific programs				5,497,423	
Interest, fines and penalties				4,241	
Miscellaneous				2,256,136	
Total general revenues				<u>10,731,720</u>	
Change in net assets				(618,202)	(39,331)
Net assets at beginning of year, as restated (Note 21)				11,674,803	(956,743)
Net assets at end of year				<u>\$ 11,056,601</u>	<u>\$ (996,074)</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2010**

<u>Assets</u>	<u>General</u>	<u>Bonds Issuance</u>	<u>Joint Resolution</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 27,184	\$ 1,116	\$ 2,282	\$	\$ 304,421	\$ 335,003
Cash with fiscal agent (Notes 2 and 5)	5,348			1,037,995	238,134	1,281,477
Accounts receivable:						
Sales taxes	22,454					22,454
Property taxes				5,367		5,367
Due from other agencies (Note 9)	2,163,804				132,050	2,295,854
Due from other funds (Note 10)	97,424	692,243	1,265,070			2,054,737
Total assets	<u>\$ 2,316,214</u>	<u>\$ 693,359</u>	<u>\$ 1,267,352</u>	<u>\$ 1,043,362</u>	<u>\$ 674,605</u>	<u>\$ 5,994,892</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2010**

<u>Liabilities and Fund Balance (Deficit)</u>	<u>General</u>	<u>Bond Issuance</u>	<u>Joint Resolution</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>						
Bank overdraft	\$ 3,549	-	-	-	-	\$ 3,549
Accounts payable and accrued liabilities	382,638				82,231	464,869
Due to other funds (Note 10)	1,957,313				97,424	2,054,737
Due to other agencies (Note 12)	4,619,110					4,619,110
General obligations:						
Bonds				295,000		295,000
Interest				74,477		74,477
Deferred revenues: (Note 13)						
Municipal license tax	282,538					282,538
Total liabilities	<u>7,245,148</u>	<u>-</u>	<u>-</u>	<u>369,477</u>	<u>179,655</u>	<u>7,794,280</u>
<b>Fund Balance (Deficit)</b>						
Reserved for:						
Encumbrances	5,024					5,024
Debt service				673,885		673,885
Capital projects		693,359	1,267,352		494,950	2,455,661
Unreserved fund balance (deficit)	(4,933,958)					(4,933,958)
Total fund balance (deficit)	<u>(4,928,934)</u>	<u>693,359</u>	<u>1,267,352</u>	<u>673,885</u>	<u>494,950</u>	<u>(1,799,388)</u>
Total liabilities and fund balance	<u>\$2,316,214</u>	<u>\$ 693,359</u>	<u>\$ 1,267,352</u>	<u>\$1,043,362</u>	<u>\$ 674,605</u>	<u>\$ 5,994,892</u>

The accompanying notes are an integral part of these basic financial statements.

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
JUNE 30, 2010**

Total fund balances - governmental funds \$ (1,799,388)

Amounts reported for governmental activities in the statement of net assets are different because:

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 21,709,874
  
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (8,853,885)

Net assets of governmental activities \$ 11,056,601

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF CIALES**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General	Bonds Issuance	Joint Resolution	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes (Note 6)	\$ 1,270,836	\$ -	\$ -	\$ 361,717	\$ -	\$ 1,632,553
Municipal license taxes (Note 7)	420,041					420,041
Sales and use taxes (Note 8)	614,634			306,692		921,326
Licenses, permits, and other local taxes	548,318					548,318
Charges for services	526,483					526,483
Intergovernmental revenues (Note 14):						
Federal grants and contributions			318,500		1,682,481	1,682,481
State contributions	5,162,923				16,000	5,497,423
Interest, fines, and penalties	3,501			740		4,241
Other revenues	2,256,136					2,256,136
Total revenues	<u>10,802,872</u>	<u>-</u>	<u>318,500</u>	<u>669,149</u>	<u>1,698,481</u>	<u>13,489,002</u>
<b>EXPENDITURES</b>						
Current:						
General government	5,443,549				11,409	5,454,958
Public safety	818,580				37,251	855,831
Public housing and welfare					129,913	129,913
Recreation	410,945					410,945
Public works	3,191,686					3,191,686
Health and sanitation	885,395				1,380,047	2,265,442
Capital outlays		25,542	385,191		45,000	455,733
Debt service:						
Principal				1,485,507		1,485,507
Interest and other				223,046		223,046
Total expenditures	<u>10,750,155</u>	<u>25,542</u>	<u>385,191</u>	<u>1,708,553</u>	<u>1,603,620</u>	<u>14,473,061</u>
Excess (deficiency) of revenues under expenditures	52,717	(25,542)	(66,691)	(1,039,404)	94,861	(984,059)
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceed of refunding bonds					1,540,000	1,540,000
Loan proceeds	770,000					770,000
Transfers in	302					302
Transfers out	(1,221,772)			2,761,772		2,762,074
Payment to refunded bonds				(302)	(1,540,000)	(2,762,074)
Total other financing sources	<u>(451,470)</u>	<u>-</u>	<u>-</u>	<u>1,221,470</u>	<u>-</u>	<u>(1,540,000)</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	(398,753)	(25,542)	(66,691)	182,066	94,861	(214,059)
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR</b>	(4,530,181)	718,901	1,334,043	491,819	400,089	(1,585,329)
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<u>\$ (4,928,934)</u>	<u>\$ 693,359</u>	<u>\$ 1,267,352</u>	<u>\$ 673,885</u>	<u>\$ 494,950</u>	<u>\$ (1,799,388)</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Net change in fund balances - total governmental funds \$ (214,059)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 759,191
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental (1,326,033)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (770,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 1,485,507
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in (552,808)

Changes in net assets of governmental activities \$ (618,202)

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF CIALES**  
**STATEMENT OF REVENUES AND EXPENDITURES, BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General Fund				Debt Service Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	
	Original	Final			Original	Final		
<b>REVENUES</b>								
Property taxes	\$ 1,068,192	\$ 1,068,192	\$ 1,068,187	\$ (5)	\$ 272,040	\$ 272,040	\$ 360,149	\$ 88,109
Municipal license taxes	592,536	592,536	420,040	(172,496)				
Sales and use taxes	1,148,976	1,148,976	612,771	(536,205)				
Licenses and permits	416,928	416,928	548,318	131,390				
Charges for services	641,544	641,544	413,001	(228,543)				
Intergovernmental revenues:								
State contributions	5,735,424	6,127,551	4,031,788	(2,095,763)				
Interest, fines, and penalties	20,004	20,004	9,084	(10,920)				
Other revenues	975,996	975,996	27,722	(948,274)				
Total revenues	10,599,600	10,991,727	7,130,911	(3,860,816)	272,040	272,040	360,149	88,109
<b>EXPENDITURES</b>								
Current:								
General government	4,568,088	4,971,488	4,200,520	770,968				
Public safety	1,149,264	947,964	817,032	130,932				
Public works	3,449,196	3,558,523	2,012,465	1,546,058				
Recreation	477,216	446,016	398,277	47,739				
Health and welfare	955,836	956,836	885,395	71,441				
Transfers to other funds		110,900	110,900	-	272,040	272,040	196,257	75,783
Total expenditures	10,599,600	10,991,727	8,424,589	2,567,138	272,040	272,040	196,257	75,783
Excess (deficiency) of (expenditures) revenues over revenues (expenditures)	\$ -	\$ -	\$ (1,293,678)	\$ (1,293,678)	\$ -	\$ -	\$ 163,892	\$ 163,892

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**1. ORGANIZATION**

The Municipality of Ciales, Puerto Rico (Municipality) was founded in 1815. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 12 members. The members of these branches are elected every four years in the Puerto Rico general elections.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial information of the Municipality is presented in this report as follows:

- Management's Discussion and Analysis - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- Government - Wide Financial Statements - The reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF CIALES**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

- **Statement of Net Assets** - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

**a. Reporting Entity**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14".

The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units, A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The Colinas de Jaguas Project is included in the basic financial statements as a discretely component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Colinas de Jaguas Project is a 54-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation. The Project is operated under Section 515 of USDA, Rural Development (USDA-RD) and regulated by the U. S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. Also, the Project is financed by a Mortgage of Section 515 Direct Loan.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**b. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF CIALES**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Municipality reports the following major governmental funds:

1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

2) Bonds Issuance Fund

This fund is used to account the resources from the bonds issuance by the Legislature. The primary objectives of these assignments are the development of construction projects.

3) Joint Resolution Fund

This fund is used to account the resources for all the transactions of the State Contribution by Legislature Resolutions. The primary objective of these funds is the development of projects on communities, non-for-profit organizations, purchase of equipment and indirect assignment to persons of low and moderate income.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF CIALES**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

4) Debt Service Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

**d. Cash and Cash with Fiscal Agent**

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

Cash with fiscal agent in the other governmental fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**e. Interfund Receivables and Payables**

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

**f. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets' sidewalks, and drainage system), are reported in the applicable governmental or component units columns in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Infrastructure	25-50 years
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipments	5-20 years

**g. Reservation of Fund Balance**

Reservations of fund balance represent portions of fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1) Encumbrances

Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

2) Debt Service Fund

Represents net assets available to finance future debt service payments.

3) Capital Projects Fund

Capital projects fund represents the reservation of amounts to be used for future expenditures on capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

**h. Risk Financing**

The Municipality carries 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. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2010 amounted to approximately \$151,942. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$184,007 for workers' compensation insurance covering all municipal employees.

**i. Compensated Absences**

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

**j. Use of Estimates**

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

**k. Future Adoption of Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
54	Fund Balance Reporting Governmental Fund Type Definitions	2010-11
57	OPEB Measurements by Agent Employers and Agent Multiple – Employer Plans	2011-12
59	Financial Instrument Omnibus	2010-11
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial reporting entity: Omnibus – on amendment of GASB Statements No. 14 and 34	2012-13

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**3. 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 and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, include only the operations of the general and the debt service funds. The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

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 is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2010 representing the original budget.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**b. Budget/GAAP Reconciliation**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing use for the year ended June 30, 2010 is presented below for the general and debt service funds:

**Debt Service**

Excess of expenditures over revenues - budgetary basis	\$ 163,892
Entity differences:	
Non-budgeted transfers	<u>18,174</u>
Excess of expenditures over revenues - GAAP basis	<u>\$ 182,066</u>

**Explanation of differences:**

	<u>General Fund</u>
<b>Sources/inflows of resources</b>	
Actual amounts (budgetary basis) "available appropriation" from the budgetary comparison schedule	\$ 7,130,911
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	( 302)
Transfers from other funds are inflow of budgetary sources but are not revenues for financial reporting purpose	<u>3,672,263</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 10,802,872</u>
<b>Uses/outflows of resources</b>	
Actual amounts (budgetary basis) "total charges to Appropriations" from the budgetary comparison schedule	\$ 8,424,589

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Differences-budget to GAAP:

Prior year encumbrances recorded as current year expenditures for GAAP basis	\$ 179,564
Current year encumbrances recorded as expenditures for budgetary purposes	( 5,024)
Transfers to other funds are out flow of budgetary uses but are not expenditures for financial reporting purpose	<u>2,151,026</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 10,750,155</u>

**c. Legal Compliance**

The legal level of budgetary control is at the individual department level for general fund expenditures, and principal and interest due for the debt service fund.

**4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$8.9 million differences are as follows:

Bonds payable	\$3,063,000
Compensated absences	1,309,814
Notes payable	3,103,777
Claims and judgments	183,000
Other long-term liabilities	<u>1,194,494</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$8,853,885</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**5. DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The deposits at GDB of approximately \$238,134 that is restricted principally for capital projects and the \$1,037,995 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its investments in one (1) bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC). The standard insurance amount limit is \$250,000 that is temporary through December 31, 2013.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

**6. PROPERTY TAXES**

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 6.83% for real property and 10.33% for personal property. The composition is as follows:

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	<u>Real</u>	<u>Personal</u>
Basic property 4.00%	6.00%	6.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	2.00%	3.50%
Discounts made by state to tax payer	< .20%>	< .20%>
	<u>6.83%</u>	<u>10.33%</u>

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The "Additional special property tax – municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax – state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at

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June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for approximately \$1.1 million. This amount will be repaid through advances from property taxes (refer to Note 15).

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2009-10, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2010, the amount received by CRIM, less than the amount collected from taxpayers and charges by CRIM received by the Municipality for the same period by approximately \$213,254. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements (refer to Note 9).

**7. MUNICIPAL LICENSE TAX**

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2010. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Ciales, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Ciales are as follows:

Savings and loans associations	=	1.00%
Financial institutions	=	1.50%
Other organizations:	=	.50%

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The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$282,538, corresponding to the next fiscal year municipal license.

**8. SALES AND USE TAXES**

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed 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% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

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

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**9. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power Authority (General Fund)	\$ 1,678,442
CRIM (General Fund)	213,254
Labor Department (General Fund)	191,708
Education Department - (General Fund)	80,400
OCAM - SBGP Program (Other Governmental Fund)	52,552
Education Department - Even Start Program (Other Governmental Fund)	44,498
Family Department - Child Care Program (Other Governmental Fund)	<u>35,000</u>
 Total	 <u><u>\$ 2,295,854</u></u>

**10. INTERFUND TRANSACTIONS**

**a. Due From/To Other Funds:**

The due from and due to other fund balances as of June 30, 2010, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Bonds Issuance Fund	General Fund	\$ 692,243
General Fund	Other Governmental Funds	97,424
Joint Resolution Fund	General Fund	<u>1,265,070</u>
		<u><u>\$2,054,737</u></u>

The balance of \$1,265,070 due from the general fund to the Joint Resolution Fund represents amount due from prior years related to state contributions' grants.

Remaining transfers are used to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2010 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$2,761,772
General Fund	Debt Service	<u>302</u>
		<u>\$2,762,074</u>

The transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**11. CAPITAL ASSETS**

Capital asset activity for the Municipality for the year ended June 30, 2010 was as follows:

<u>Description</u>	<u>Balance</u> <u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>
<b>CAPITAL ASSETS, NOT BEING DEPRECIATED</b>				
Land	\$ 1,706,856	\$ -	\$ -	\$ 1,706,856
Construction in progress	1,803,144	208,926	1,677,617	334,453
Total capital assets, not being depreciated	<u>3,510,000</u>	<u>208,926</u>	<u>1,677,617</u>	<u>2,041,309</u>
<b>CAPITAL ASSETS, BEING DEPRECIATED</b>				
Land improvements	6,035,958	1,738,167		7,774,125
Buildings and building improvements	5,343,957	35,000		5,378,957
Furniture and fixtures	760,478	122,151		882,629
Vehicles and equipment	2,778,824	51,399		2,830,223
Works of Art	75,000			75,000
Infrastructure	13,886,818	281,165		14,167,983
Total capital assets, being depreciated	<u>28,881,035</u>	<u>2,227,882</u>	<u>-</u>	<u>31,108,917</u>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Land improvements	1,346,620	501,843		1,848,463
Buildings and building improvements	2,076,144	182,561		2,258,705
Furnitures and fixtures	499,691	113,457		613,148
Vehicles and equipment	2,370,707	158,972		2,529,679
Works of Art	30,000	15,000		45,000
Infrastructure	3,791,157	354,200		4,145,357
TOTAL ACCUMULATED DEPRECIATION	<u>10,114,319</u>	<u>1,326,033</u>	<u>-</u>	<u>11,440,352</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	18,766,716	901,849	-	19,668,565
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 22,276,716</u>	<u>\$ 1,110,775</u>	<u>\$ 1,677,617</u>	<u>\$ 21,709,874</u>

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

General government	\$ 634,029
Culture and education	488,195
Public works	93,094
Health and sanitation	81,576
Public works	<u>29,139</u>
 Total depreciation expense - governmental activities	 <u>\$1,326,033</u>

Capital asset activity for Colinas de Jaguas Project, a discretely presented component unit, for the year ended June 30, 2010 was as follows:

<u>Component Unit- Colinas de Jaguas Project</u>	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$ 154,124	\$ -	\$ -	\$ 154,124
Total capital assets, not being depreciated	<u>154,124</u>	<u>-</u>	<u>-</u>	<u>154,124</u>
Capital assets, being depreciated:				
Buildings, equipment, and furniture	2,278,557	24,762		2,303,319
Total capital assets, being depreciated	<u>2,278,557</u>	<u>24,762</u>	<u>-</u>	<u>2,303,319</u>
Less accumulated depreciation for:				
Buildings, equipment, and furniture	1,961,245	88,914		2,050,159
Total accumulated depreciation	<u>1,961,245</u>	<u>88,914</u>	<u>-</u>	<u>2,050,159</u>
Total capital assets, being depreciated, net	<u>317,312</u>	<u>(64,152)</u>	<u>-</u>	<u>253,160</u>
Colinas de Jaguas Project capital assets, net	<u>\$ 471,436</u>	<u>\$ (64,152)</u>	<u>\$ -</u>	<u>\$ 407,284</u>

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**12. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2010 are as follows:

Puerto Rico Retirement System Administration	\$ 1,051,622
Puerto Rico Electric Power Authority	1,679,965
Puerto Rico Water and Sewer Authority	95,154
Internal Revenue Service	708,804
Treasury Department	1,056,206
Puerto Rico General Services Administration	15,166
Labor Department	<u>12,193</u>
 Total	 <u><u>\$ 4,619,110</u></u>

**13. DEFERRED REVENUES**

**a. Municipal License Tax**

The deferred revenues of approximately \$282,538 in the general fund related to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.

**b. Federal Government**

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant.

**14. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, and payments in lieu of taxes from the Puerto Rico Electric Power Authority.

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**15. LONG-TERM DEBTS**

Bonds and other long-term liabilities outstanding at June 30, 2010 are as follows:

**Bonds**

\$181,000 series of 1992, payable in annual installments of \$14,000 to \$13,000 until January 1, 2017, interest at 5%.	\$ 77,000
\$400,000 series of 1996, payable in annual installments of \$10,000 to \$40,000 until July 1, 2016, interest from 5% to 8%.	180,000
\$250,000 series of 2004, payable in annual installments of \$5,000 to \$25,000 until July 1, 2028, interest from 5% to 7%.	215,000
\$282,000 series of 2007, payable in annual installments of \$35,000 to \$45,000 until January 1, 2014, interest at 4.25%.	171,000
\$300,000 series of 2007, payable in annual installments of \$35,000 to \$55,000 until July 1, 2013, interest from 6.6% to 7.5%.	150,000
\$1,555,000 series of 2010, payable in annual installments of \$20,000 to \$175,000 until July 1, 2024, interest from 4.75% to 7.5%.	1,540,000
\$755,000 series of 2010, payable in annual installments of \$15,000 to \$130,000 until July 1, 2019, interest from 5% to 7.5%.	<u>730,000</u>
<b>Total bonds payable</b>	<b><u>\$3,063,000</u></b>

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**Notes Payable**

Note payable of \$1,174,924 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in annual aggregate principal installments of \$15,373 plus interest rate of 6.1875%.	\$1,033,578
Note payable of \$340,000, series 2005, its payable in annual installments of \$25,000 to \$40,000 until July 2014, interest from 4.37% to 7.25%.	155,000
Note payable of \$49,600, series 2006, its payable in annual installments of \$6,100 to \$8,100 until January 1, 2013, interest at 4.5%.	23,200
Note payable of \$500,000, series 2009, its payable in annual installments of \$100,000 until July 1, 2013, interest at 5%.	355,000
Note payable of \$1,210,000, series 2009, its payable in annual installments of \$10,000 to \$140,000 until July 1, 2021, interest at 5%.	1,120,000
Note payable of \$523,000, series 2009, its payable in annual installments of \$51,000 to \$82,000 until July 1, 2016, interest from 2.42% to 7.5%.	<u>417,000</u>
Total notes payable	<u>\$3,103,778</u>

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**Other Long-Term Liabilities**

Due to Labor Department, payable in monthly installments of \$4,599 until February 1, 2012.	\$ 91,987
Due to CRIM corresponding to LIMS System, payable in monthly installments of \$1,411 until November 2011, interest at 5.95%.	23,952
Due to CRIM corresponding to Law 46, payable in monthly installments of \$1,814 until March 2032, interest at 6.22%.	192,112
Due to Treasury Department, payable in monthly installments of \$835 to \$1,304 until March 2011, and a final payment of \$439,948.	451,684
Due to Puerto Rico Retirement System Administration, payable in monthly installments of \$12,500 until July 2011.	<u>134,211</u>
Total other long-term liabilities	<u>\$893,944</u>

**Component Unit**

The original mortgage, in the amount of \$1,945,000 was payable to Rural Housing Service (RHS) and collateralized by the apartment complex. The required monthly principal and interest payments totaled \$11,053. On November 14, 1997, the mortgages on the property were transferred from the Puerto Rico Urban and Housing Corporation to the new owner, the Municipality of Ciales. Rural Housing Service, the mortgagee, recalculated and adjusted the amortization of the mortgages at the time, resulting in a smaller monthly payment. The revised payments of the three mortgages commenced on December 1, 1997.

Under agreements with RHS, the project is required to make monthly escrow deposits for insurance and replacement of Project assets, and is subject to restrictions as to operating policies, rental charges and operating expenditures.

The liability of the Project under the mortgages is limited to the underlying value of the real estate, plus other amounts deposited with the lender.

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The mortgages are insured by RHS, collateralized by the Project, and consist of the following:

Interest at 6.5%, payable in monthly installments of \$8,159, including interest, through the due date, December 2031.	\$1,208,139
Interest at 8.75%, payable in monthly installments of \$2,351, including interest, through the due date, December 2031.	285,734
Interest at 11.25%, payable in monthly installments of \$543, including interest, through the due date, December 2032.	<u>32,853</u>
Less current maturities	<u>24,301</u>
	<u>\$1,502,425</u>

The interest rates shown above are net of 2% interest rental credit.

Aggregate maturities of the mortgage payable for each of the next five years following June 30, 2010 and thereafter, are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Amount</u>
2011	\$ 24,301
2012	26,559
2013	29,031
2014	34,695
2015 and thereafter	<u>1,412,140</u>
	<u>\$1,526,726</u>

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The annual debt service requirements for the bonds payable and notes payable at June 30, 2010, are as follows:

	<b>Bonds</b>		<b>Notes Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2011	\$ 174,000	\$ 323,852	\$ 258,417	\$ 186,525
2012	192,000	307,567	279,164	172,103
2013	234,000	289,108	291,101	156,431
2014	201,000	267,388	303,635	140,260
2015	241,000	247,450	186,371	123,248
2016-2020	1,231,000	829,328	788,968	483,755
2021-2025	735,000	195,453	510,003	223,844
2026-2030	55,000	7,200	325,492	107,605
2031-2035			160,626	12,612
	<b><u>\$3,063,000</u></b>	<b><u>\$2,467,346</u></b>	<b><u>\$3,103,777</u></b>	<b><u>\$1,606,383</u></b>

Long-term liability activity for the year ended June 30, 2010 was as follows:

<b>Primary Government</b>	<b>Beginning Balance</b>	<b>Adjustments</b>	<b>Additions</b>	<b>Payments</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
<b>Governmental Activities:</b>						
Bonds payable	\$ 2,451,000	\$ -	\$ 770,000	\$ 158,000	\$ 3,063,000	\$ 174,000
Notes payable	3,347,535			243,758	3,103,777	258,417
Total long-term debt	<u>5,798,535</u>	<u>-</u>	<u>770,000</u>	<u>401,758</u>	<u>6,166,777</u>	<u>432,417</u>
<b>Other long-term liabilities:</b>						
Puerto Rico Retirement System Administration	1,132,696			998,485	134,211	134,211
Due to Puerto Rico Treasury Department	18,729	(15,608)		3,121	-	-
A. A. Public Finance Co.	92,626	(92,626)			-	-
Labor Department Municipality of Toa Baja	-		134,914	42,927	91,987	55,192
Due to Treasury Department		(63,664)			-	-
Loan \$500,000	467,332			15,648	451,684	15,648
LIMS System	38,788			14,836	23,952	15,732
CRIM Law 46	200,844			8,732	192,112	8,732
ASES	-	300,348			300,348	-
Claims and judgements	183,000				183,000	-
Compensated absences	1,192,268		117,546		1,309,814	125,000
Total other long-term liabilities	<u>3,389,947</u>	<u>128,450</u>	<u>252,460</u>	<u>1,083,749</u>	<u>2,687,108</u>	<u>354,515</u>
Total noncurrent liabilities, governmental activities	<u>\$ 9,188,482</u>	<u>\$ 128,450</u>	<u>\$ 1,022,460</u>	<u>\$ 1,485,507</u>	<u>\$ 8,853,885</u>	<u>\$ 786,932</u>
<b>Component Unit:</b>						
Colinas de Jaguas Project mortgage payable	\$ 1,550,550	\$ -	\$ -	\$ 23,824	\$ 1,526,726	\$ 24,301

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**16. RETIREMENT PLAN**

**a. Plan Description**

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average

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they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 2000 will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

**b. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2010 was approximately \$208,484.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The Municipality's payroll for employees covered by ERS was approximately \$2.2 million. The Municipality total payroll for all employees was approximately \$5.2 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**17. RISK MANAGEMENT**

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

**18. LEASES**

**Operating Leases**

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2010 was approximately \$59,032.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets. Leasing arrangements with the Municipality

The Municipality is obligated under no cancellable operational leases, with periods not longer than one year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**19. CONTINGENCIES**

The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

**20. COMMITMENTS**

The Municipality of Ciales had several outstanding or planned construction projects as of June 30, 2010. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Bonds Issuance Fund that amounted to approximately \$582,231.

**21. NET ASSETS RESTATEMENTS**

Net assets at beginning of year have been adjusted to reflect the following restatements:

	<b>Statement of Net Assets</b>
Beginning balance of the year as previously reported	\$ 11,502,905
Overstatement of long term debts	171,898
Beginning balance of the year as restated	\$ 11,674,803

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Section 8 Housing Choice Vouchers Pass-through Commissioner Office of Municipal Affairs - Community Development	14.871	\$ 276,064
State Block Grant Program - SBGP	14.228	491,324
Subtotal U.S. Department of HUD		<u>767,388</u>
<b>U.S. Department of Agriculture</b>		
Pass-through Governor's Office of Child Services and Community Development		
Child and Adult Care Food Program	10.558	33,439
Pass-through USDA Rural Development		
Housing Preservation Grants (HPG)	10.433	17,864
Subtotal U.S. Department of Agriculture		<u>51,303</u>
<b>U.S. Department of Education (DE)</b>		
Even Start-State Educational Agencies	84.213	233,888
Subtotal U.S. Department of DE		<u>233,888</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Pass-through the Office of Administration for Children and Families		
Child Care and Development Block Grant	93.575	273,662
ARRA - Child Care and Development Block Grant	93.715	37,848
Subtotal U.S. Department of HHS		<u>311,510</u>
<b>U.S. Department of Homeland Security</b>		
Pass-through Governor's Office		
National Incident Management System (NIMS)	97.107	37,251
Subtotal U.S. Department of Homeland Security		<u>37,251</u>
<b>TOTAL</b>		<u>\$ 1,401,340</u>

See notes to Schedule of Expenditures of Federal Awards.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Ciales and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**2. BASIS OF PRESENTATION**

The expenditures of the schedule are included in the Municipality's basic financial statements in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<b><u>Expenditures</u></b>
Expenditures as per basic financial statements:	
Federal expenditures included within other governmental funds	\$2,139,088
Total expenditures per schedule of expenditures of federal awards	<u>\$2,139,088</u>

**INDEPENDENT AUDITORS' 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  
Municipal Legislature  
Municipality of Ciales  
Ciales, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Ciales, as of and for the year ended June 30, 2010, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a control deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatements of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weakness as items 10-1A and 10-2B.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Ciales financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no 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 10-1A and 10-2B.

We noted certain matters that we have reported to management of the Municipality of Ciales in a separate letter dated December 16, 2010.

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

San Juan, Puerto Rico  
December 16, 2010

The stamp 2586331 was affixed to the original of this report.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited Municipality of Ciales's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Ciales' major federal programs for the year ended June 30, 2010. Municipality of Ciales' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Ciales' management. Our responsibility is to express an opinion on Municipality of Ciales' compliance based on our audit.

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

In our opinion, the Municipality of Ciales complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-1 through 10-3.

#### Internal Control over Compliance

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

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

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

Municipality of Ciales's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Municipality of Ciales's response and, accordingly, we express no opinion on it.

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

San Juan, Puerto Rico  
December 16, 2010

The stamp 2586332 was affixed  
to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Municipality of Ciales.
- b. There were significant deficiencies on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Ciales were disclosed during the audit.
- d. There were no significant deficiencies on internal controls over major programs.
- e. The auditors' report on compliance with requirements applicable to federal award programs for Municipality of Ciales express an unqualified opinion.
- f. Audit findings relative to the major federal award programs for the Municipality of Ciales are reported in number 3 of this schedule.
- g. The programs tested as major programs are:
  - State Block Grant Program (SBGP) - CFDA No. 14.228
  - Child Care and Development Block Grant – CFDA No. 93.575
  - ARRA – Child Care and Development Block Grant – CFDA No. 93.715
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Ciales was determined to be a high-risk auditee.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**a. Finding 10-A**

The Municipality realized several transfers from its special revenue fund accounts to the general account during 2009-2010 amounting to \$1,957,313 million. In addition, the Municipality made disbursements from general account in order to reimburse the funds used from the issuance bonds fund. Those transactions were not recorded on accounting books, and debt balance cannot be clearly determinate.

Criteria

The Article 8 of the Resource Allocation for the Realization of Permanent Works, Acquisition of Equipment, Purchase of Materials and Other Social Interest Activities Act (Law 179 of August 16, 2002) requires municipalities to utilize funds from state grants only for the intended purpose established by the Joint Resolution of the Puerto Rico Legislature and may not expend these in any activity not specifically and categorically addressed in the legislative grant. The use of funds from state grants in activities other than those mentioned in the Joint Resolution requires the prior approval of the Puerto Rico Legislature.

Cause

The bank transfers were authorized by the Finance Director. These transfers were made to compensate cash deficiency the Municipality was facing to pay current operating obligations. The Finance Director performed these transfers in violation of state law.

Recommendation

The Municipality should avoid this practice in order to comply with the law.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**b. Finding 10-B**

Analytical review procedures performed as a part of the audit revealed that the budget compared to actual indicates that the Municipality consistently overstates budgeted revenues. This has the effect in the budget process that causes also an inflated level of expenditures. Because the higher revenues are not realized and expenditures are not adjusted, an operating deficit results.

We strongly recommend take the following steps to realistically budget for its operations:

- Management should immediately undertake a thorough review and comparison of the budget to current actual fiscal year revenues and expenses.
- Total expense budgeted should then be based on the total estimated revenue less a certain margin to add to fund balances at year-end or at minimum to break even for the year.
- The year budgeted revenue should be based on actual amounts earned in year through year, which result in the development of a more conservative and realistic budget.
- Any new or additional revenue sources being developed should be budgeted only when they are realized.
- Development and practice of a formal process of comparing the periodic budget to actual revenues and expenses by the management, with timely revisions as needed, should be commence.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

**a. SBGP- CFDA No. 14.228**

• **Condition 10-1**

The Federal Program Office did not request the extension for the 2006 year program contract (OCAM) on time.

Cause

The federal program did not maintain a due date schedule for request the extension for the contracts.

Effect

The program is not in compliance with the OCAM contract clauses. The program operates without a valid contract.

Criteria

The federal funds of SBGP can be available through a signed contract into the Municipality and OCAM for each program year. Based on ninth clause of the SBGP Program 2006 contract, the funds are available for 18 months after the contract is signed. Then, based on fourth clause, the Municipality can request an extension that should be realized at least 45 days before the contract ends.

Recommendation

The Federal Program Office should establish a due date schedule for monitoring the due date of each program year contract.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**b. ARRA – Child Care and Development Block Grant - CFDA No. 93.715**

• **Condition 10-2**

The Contract 2010-332 related to construction purpose, does not include the Davis Bacon Act clause.

Cause

Part of the federal funds assigned was to construction of an open-sided canopy. The program generally does not have funds for this purpose and is not aware for this clause.

Effect

The program is not in compliance with the Davis Bacon Act.

Criteria

The Davis Bacon Act as amended, requires that each contract over \$2,000 for construction, alteration, or repair of public building or public works shall contain a clause setting forth the minimum wages to be paid to various classes of laborers and mechanics employed under contract.

Recommendation

The contracts made by the Municipality should be reviewed with state and federal regulations before be signed.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**c. Child Care and Development Block Grant - CFDA No. 93.575**

• **Condition 10-3**

The following reports were submitted after the time required:

Report	Period	Date to be Submitted	Date Submitted	Days Over
Fund Request No. 1	October to December, 2009	10/10/2009	10/29/2009	19
Expenses Report	October to December, 2009	1/15/2010	1/25/2010	10
Expenses Report	April to June, 2010	7/15/2010	8/3/2010	19
Partial Close Report	July to September, 2010	10/15/2010	10/21/2010	6

Cause

The employee responsible for reports have other duties assigned that affect the complaints of the program.

Effect

The program is not in compliance with the reporting regulations.

Criteria

The Contract Number 241-2010-000178, into the Municipality and Acuden (the Agency), establishes on clause number seven, a funds request report for quarter ended should be submitted during the first ten calendar days of the following first month of the same quarter. In addition, a balance sheet or final report should be submitted for the quarter ended September 30, 2010 during the first fifteen calendar days of the following month.

Recommendation

The Municipality should verify the duties assigned to employees in order to comply with the reporting requirements.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
SCHEDULE OF STATUS OF PRIOR YEARS  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Years Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIALES  
SCHEDULE OF STATUS OF PRIOR YEARS  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>	
<b>SBGP - CFDA No. 14.228</b>	<b>Condition 08-1</b>  The Federal Program Office did not request the extensions for the year programs contracts (OCAM) on time.	Condition prevails.	still
<b>SBGP - CFDA No. 14.228</b>	<b>Condition 09-1</b>  The Federal Program Office did not request the extensions for the year programs contracts (OCAM) on time.	Condition prevails.	still

**EXHIBIT I**

**CORRECTIVE ACTION PLAN**

**ORTIZ, RIVERA, RIVERA & CO.**

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Estado Libre Asociado de Puerto Rico  
Gobierno Municipal de Ciales

HON. LUIS "ROLAN" MALDONADO RODRIGUEZ  
ALCALDE



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CIALES, P.R. 00638  
TEL. (787) 871-3500  
FAX: (787) 871-3743  
(787) 871-4000

**CORRECTIVE ACTION PLAN**

December 16, 2010

Cognizant or Oversight Agency for Audit:

Municipality of Ciales respectfully submits the following corrective action plan for the year ended June 30, 2010.

Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2010.

The findings from the June 30, 2010 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**Finding 10-1: SBGP - CFDA 14.228**

Reportable Condition: See Condition 09-1

Recommendation

The Federal Program Office should establish a due date schedule for monitoring the due date of each program year contract in order to request the extensions into the time required.

Action Taken

The Federal Program Office will establish schedule for monitoring and follow up due date of contract to comply with the requirement.

**FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**Finding 10-2: ARRA - Child Care and Development Block Grant - CFDA 93.715**

Reportable Condition: See Condition 10-2

Recommendation

The contracts made by the Municipality should be reviewed with state and federal regulations before be signed.

Action Taken

The Child Care program generally does not have funds approved for construction or improvement, and the office was not aware with requisites. The Municipality will establishes control procedures in order to verify the contracts related to construction or improvements that include all required information before will be signed.

**Finding 10-3: Child Care and Development Block Grant - CFDA 93.575**

Reportable Condition: See Condition 10-3

Recommendation

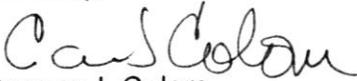
The Municipality should verify the duties assigned to employees in order to comply with the reporting requirements.

Action Taken

The Municipality will establish control procedures in order to make and submit the reports into the time required.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Carmen I. Colom at (787) 871-3636, for SBGP program, or Ana Rosario at (787) 871-5324, for Child Care Programs.

Cordially,



Carmen I. Colom  
Federal Program Director



Ana Rosario  
Child Care Program Director

