

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE GUANICA**

**AUDITORIA 2006-2007**

**30 DE JUNIO DE 2007**

OFICINA DEL COMISIONADO  
DE PLANEACION MUNICIPAL  
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2007**

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152. PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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**PART I - FINANCIAL SECTION**

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Services Division

## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
Municipal Legislature  
Municipality of Guánica  
Guánica, 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 Guánica, as of and for the year ended June 30, 2007, 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 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 of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Guánica as of June 30, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund and debt services fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2007 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.

The Management's Discussion and Analysis on pages 3 through 15 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

San Juan, Puerto Rico  
December 21, 2007

*Ortiz, Rivera, Rivera & Co.*

The stamp 2299734 was affixed  
to the original of this report.



**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUÁNICA**  
Management Discussion and Analysis  
June 30, 2007

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Our discussion and analysis of the Municipality of Guánica financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2007. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage reader to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The Municipality has reported assets amounting to \$22.39 million in the accompanying statement of net assets, of which most significant are capital assets and cash and cash equivalents amounting to \$18.43 million and \$2.51 million respectively.
- The Municipality's capital assets increase as a result of this year's operations. Capital assets as of June 30, 2007 are \$18.43 million, as compared to \$15.89 million for the year ended June 30, 2006, for a 16% of increase.
- The assets of the Municipality exceeded its liabilities by \$9.09 million at June 30, 2007, represented as "net assets" in the accompanying statements of net assets. Restricted and unrestricted (deficit) net assets amounted to \$3.10 million and \$(7.70) million, respectively. Net assets invested in capital assets amounted \$13.69 million.
- During the year, the Municipality reported revenues of \$8.33 million in the General Fund of total revenues restricted and unrestricted of \$14.39 million.
- Long term liabilities principal payments were \$4.735 million. During the year ended June 30, 2007, the Municipality issued \$.335 million on bonds payable.
- The Municipality has reported total expenses amounting to \$12.22 million in the accompanying statement of activities.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Municipality as a whole and present a long-term view of the Municipality's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Municipalities' operations in more detail than the government-wide statements by providing information about the Municipality's most significant funds. Both perspectives 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.

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**Overview of the Basic Financial Statements**

The Municipality's financial statements include three components:

1. the government-wide financial statements
2. the fund financial statements
3. notes of the financial statements

These components are described below:

**Government-wide financial statement:** Are designed to provide reader with a broad of the Municipality's operations and finance as whole in a manner similar to Private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The governmental-wide financial statements include; the statement of net assets and the statement of activities.

**The Statement of Net Assets and the Statement of Activities**

The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's *net assets* and changes in them. You can think of the Municipality's net assets, the difference between assets and liabilities, as one way to measure the Municipality's financial health, or *financial position*. Over time, *increases or decreases* in the Municipality's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the roads, to asses the *overall health* of the Municipality of Guánica.

In the Statement of Net Assets and the Statement of Activities, we divide the Municipality into:

- Governmental activities – Most of the Municipality's basic services are reported here, including the municipal police, public works, garbage disposal, public energy and health services, and general administration. Property taxes, municipal license tax, state and federal grants finance most of these activities.

**Reporting the Municipality's Most Significant Funds**

**Fund Financial Statement:** Report the financial position and results of operations of the Municipality's governmental funds. The Fund Financial statement components are the Balance Sheet-government funds and the Statements of Revenues, Expenditures and Changes in Fund Balance. The Fund financial statements provide detailed information about the most significant funds, not the Municipality as a whole. Some funds are required to be established by bond covenants.

The Municipality's basic services are reported in the governmental funds, that uses an accounting approach which focus on how money flows into and out of those funds and the balances left at year-end that are

**COMMONWEALTH OF PUERTO RICO**  
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available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation on this report.

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

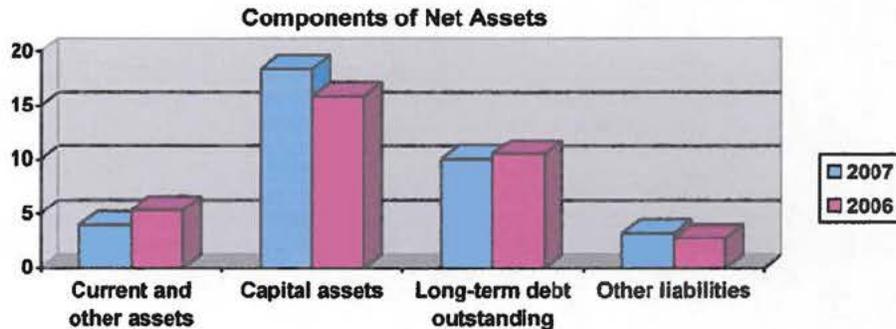
**THE MUNICIPALITY AS A WHOLE**

The Municipality's *combined* net assets increases from a year ago, from \$7.93 million to \$9.09 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 3) of the Municipality's governmental activities.

**Table 1**  
**NET ASSETS**  
**(in million)**  
Governmental Activities

	2006	2007
Current and other assets	\$5.35	\$3.96
Capital assets	15.89	18.43
Total assets	21.24	22.39
Long-term debt outstanding	(10.55)	(10.08)
other liabilities	(2.76)	(3.22)
Total liabilities	(13.31)	(13.30)
Net assets:		
Invested in capital assets, net of related debt	12.80	13.69
Restricted for:		
Debt services	.42	.23
Capital project	1.86	2.87
Other specified purpose	.03	.03
Unrestricted	(7.18)	(7.71)
Net Assets	<u>\$ 7.93</u>	<u>\$9.092</u>

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Net assets of the Municipality's governmental activities increased by \$0.38 million (\$9.09 million Compared to \$7.93 million). *Unrestricted* net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, changed from approximately \$(7.18) million at June 30, 2006 to a \$(7.71) million at June 30, 2007. The following is a condensed presentation of the Municipality's results of operations, as reported in the government-wide financial statements:

Comparative Condensed Statement of Activities:

	2006	2007
<b>Revenues:</b>		
Program revenues:		
Operating grants and contributions	\$ 1,272,210	\$ 1,675,274
Capital grants and contributions	2,292,583	
Charges for services	418,676	550,698
General revenues:		
Property taxes	1,036,814	1,626,687
Municipal license taxes	304,620	378,269
Unrestricted intergovernmental contributions and reimbursements	6,094,125	8,042,761
Unrestricted interest on deposit	75,516	124,646
Other	136,579	701,084
Special items-		
Gain on sale of capital assets	533,368	
<b>Total revenues</b>	<u>12,164,491</u>	<u>13,385,577</u>
<b>Expenses:</b>		
General government	4,824,656	5,740,027
Public Safety	1,290,543	1,087,949
Public work and sanitation	2,417,080	2,159,721
Culture and recreation	526,173	546,883
Health and welfare	2,308,078	2,396,623
Interest and bonds, notes and capital lease obligations	422,072	296,311
<b>Total expenses</b>	<u>11,788,601</u>	<u>12,227,514</u>
<b>Net increase in net assets</b>	375,890	1,158,063
<b>Net assets-at the beginning of the year, as restated</b>	7,558,283	7,934,173
<b>Net assets- at end of the year</b>	<u>\$ 7,934,173</u>	<u>\$ 9,092,235</u>

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**Financial analysis of the Municipality's Governmental Funds**

The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental fund is to provide information on near-term inflow, outflow, and balance of spend able resources. Such information is useful in assessing the Municipality's financial 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 fiscal year. The following is a condensed presentation of the Municipality's balance sheet and results of operations of government fund:

	2006	2007
<b>Comparative Condensed Balance Sheet-Governmental funds:</b>		
Total assets-major funds	\$5,621,673	\$5,538,928
Total assets-non major funds	<u>2,016,207</u>	<u>1,021,407</u>
Total assets	<u>7,637,880</u>	<u>6,560,335</u>
Total liabilities-major funds	4,082,194	4,239,179
Total liabilities-non major funds	<u>2,171,675</u>	<u>1,150,272</u>
Total liabilities	<u>6,253,869</u>	<u>5,389,451</u>
<b>Fund Balances:</b>		
Reserved-major funds	3,072,817	3,075,212
Reserved-non major funds	140,805	205,454
Unreserved-major funds	(1,533,338)	(1,791,347)
Unreserved-non major funds	<u>(296,272)</u>	<u>(318,455)</u>
Total fund balances	<u>1,384,011</u>	<u>1,170,884</u>
<b>Comparative Condensed Statement of Operations-Governmental funds:</b>		
Total revenues-mayor funds	9,060,165	11,902,463
Total revenues-non major funds	<u>2,515,454</u>	<u>2,492,002</u>
Total revenues	<u>11,575,618</u>	<u>14,394,465</u>
Total expenditures-major funds	11,209,284	12,262,867
Total expenditures-non major funds	<u>2,626,385</u>	<u>2,682,778</u>
Total expenditures	<u>13,835,669</u>	<u>14,945,645</u>
Other Financial Sources-major funds(excluding operating transfers among funds)	<u>1,727,302</u>	<u>335,000</u>
Special items, net	<u>612,265</u>	
Net changes in fund balances	<u>\$ 79,516</u>	<u>\$ (216,180)</u>

**COMMONWEALTH OF PUERTO RICO**  
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**Governmental Activities**

Programs revenues of Municipality's governmental activities increase by (\$1.1 million) while total expenses increased by (\$.5 million). The Municipality of Guánica took the following major actions this year to improve the financial position:

- The Mayor of the Municipality of Guánica still has a Finance Auxiliary Director to improve the collections of municipal licensed tax and property tax revenues; supervise the operations of the official and auxiliary collector of the Municipality.
- In the budget respect the administration of the Municipality received the estimated of expenses by each department, and the Budget Director and the Mayor performed the evaluation to those expenses and determine the needed of each one, looking for the reduction of those unnecessary expenses without affecting the daily operations.

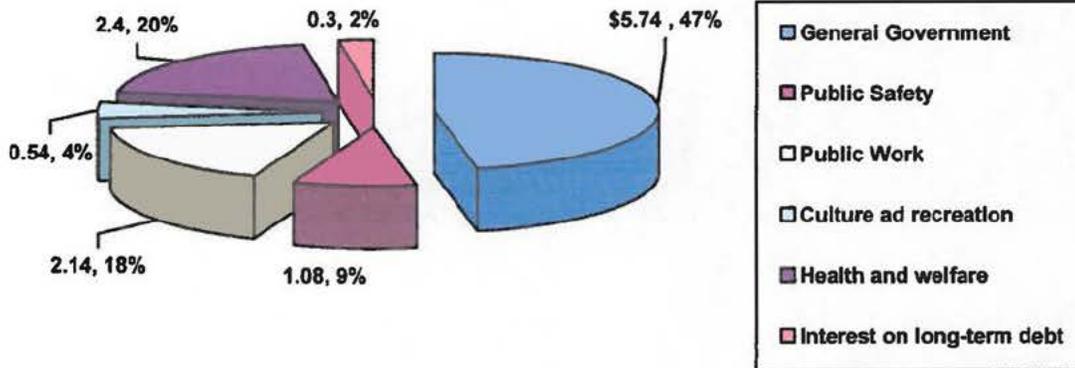
Expenses during the fiscal year ended June 30, 2007, was substantially related to the following:

**Table 2**  
**Governmental Activities**  
**(in Million)**

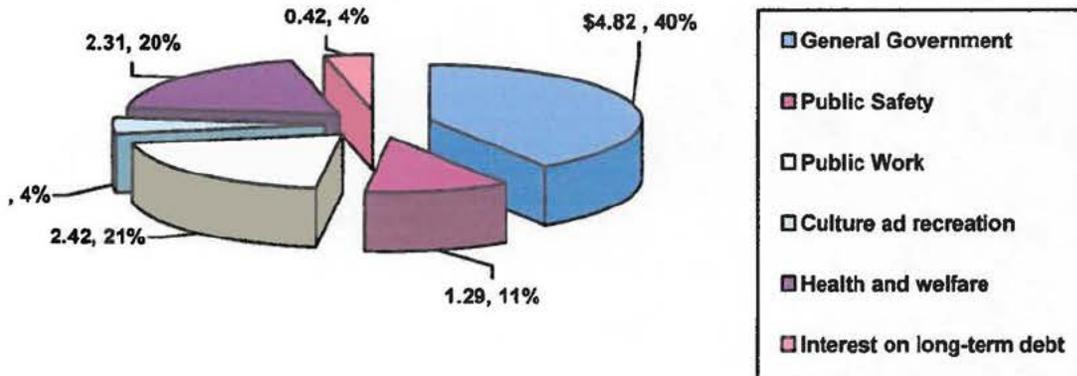
	Total expenses	
	2006	2007
General Government	\$ 4.82	\$ 5.74
Public Safety	1.29	1.08
Public Work	2.42	2.14
Culture, recreation and education	.53	.54
Health and welfare	2.31	2.40
Interest on long-term debt	.42	.30
Totals	\$ 11.79	\$12.22

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**Total Expense 2007**



**Total Expense 2006**



The cost of all governmental activities this year was \$ million compared to \$ million last year. Table 2 presents the cost of each of the Municipality of Guanica's largest programs.

The major sources of general revenue are property taxes, municipal license taxes, and grant and contributions not restricted, which in total represent \$7.43 (61%) and \$6.48 (46%) of all revenues in 2006 and 2005, respectively.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUÁNICA**  
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**Table 3**  
**Governmental Activities**  
(in million)

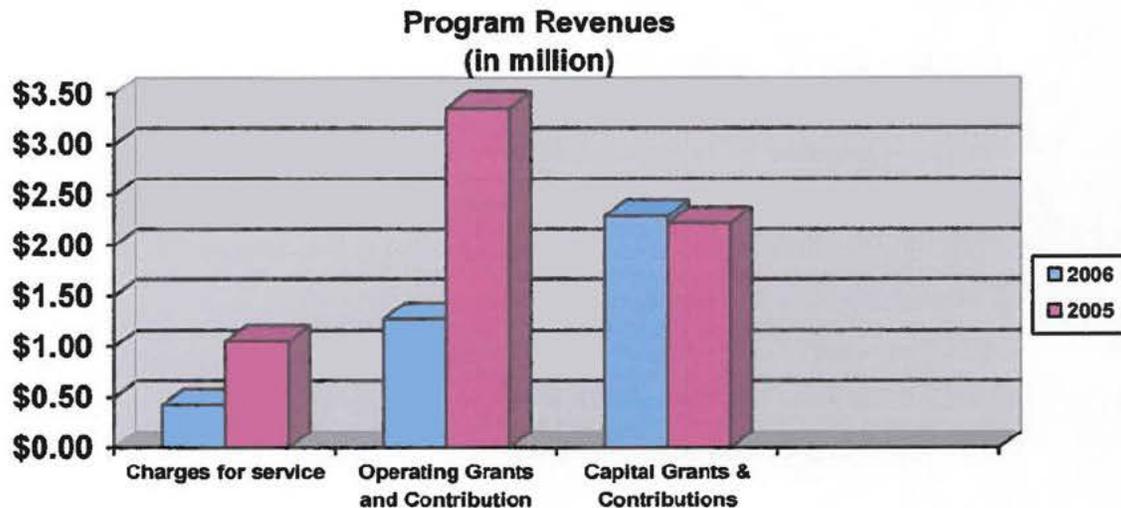
	General Revenues By major sources	
	2006	2007
	Property taxes	\$1.04
Municipal license taxes	.30	.37
Grants and contributions	6.09	8.04
Totals	\$7.43	\$10.03

**Table 4**  
**Governmental Activities**  
(in million)

	Program Revenues by major sources	
	2006	2007
Charges for service	\$ .42	\$ .55
Operating Grants and Contribution	1.27	1.67
Capital Grants and Contributions	2.29	.25
Totals	\$3.98	\$2.47

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**MUNICIPALITY OF GUÁNICA**  
Management Discussion and Analysis  
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#### **THE MUNICIPALITY'S FUND**

As the Municipality completed the year, its governmental funds reported a combined fund balance of \$1.17 million, which is lower than last year total of \$1.38 million.

In addition, these other changes in fund balance should be noted:

- The Municipality experienced an increase in the other operating grants and contributions by \$ .40 million
- This year the Municipality increases the property tax revenues.

#### **General Fund Budgetary Highlights**

Over the course of the year, the Municipal Assembly revised the Municipality of Guánica budget several times. These budget amendments fall into various categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in May 2006).

**COMMONWEALTH OF PUERTO RICO**  
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**June 30, 2007**

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

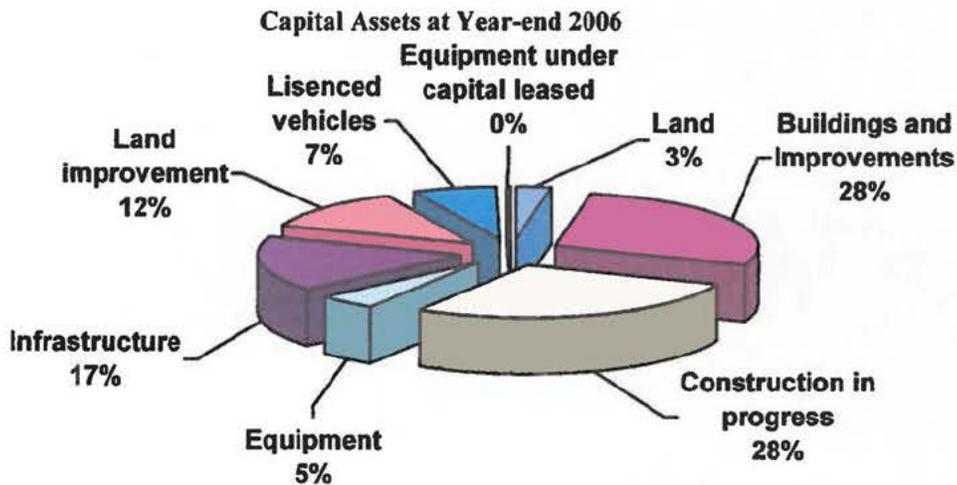
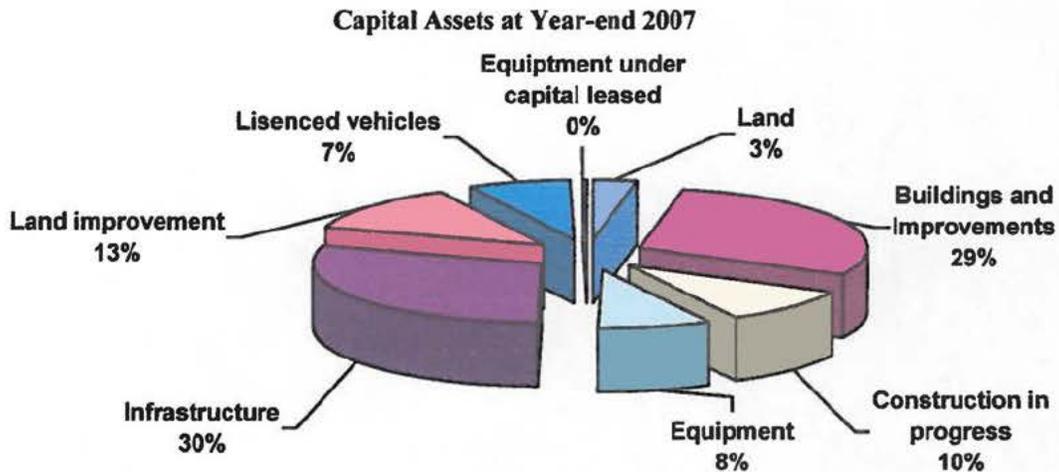
**Capital Assets**

As of June 30, 2007, the Municipality of Guánica had \$ 26.50 million invested in a broad range of capital assets, including buildings, parks, roads, bridges, and equipment. (See Table 5). This amount represents a net increase (including additions and deductions) of just over \$3.10 million, or 13 %, over last year. In this table you see few changes in amount compared to last year due to reclassifications of real property to proper division.

**Table 5**  
**Capital Assets at Year-end**  
**(At cost, in Thousands)**

	<i>Governmental Activities</i>	
	2006	2007
Land	\$ .67	\$ .65
Land improvement	2.89	2.89
Buildings and Improvements	6.55	10.28
Construction in progress	6.60	2.22
Licensed vehicles	1.61	1.79
Equipment	1.13	1.85
Equipment under capital leases	.04	.04
Infrastructure	4.01	6.78
<b>Totals</b>	<b>\$23.50</b>	<b>\$23.6</b>

COMMONWEALTH OF PUERTO RICO  
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More detailed information about the Municipality's capital assets is presented in Note 5 to the financial statements.

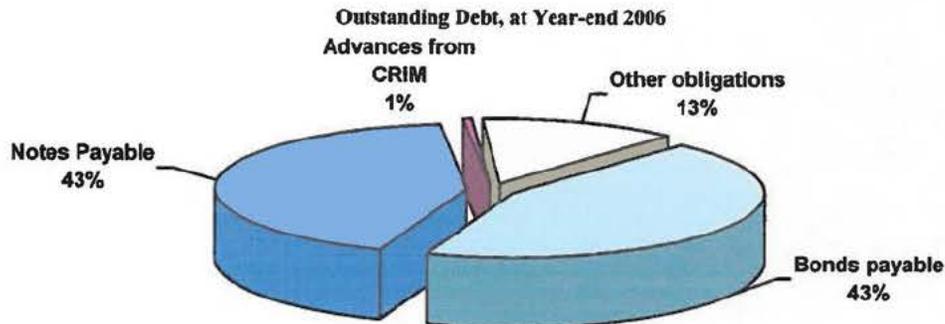
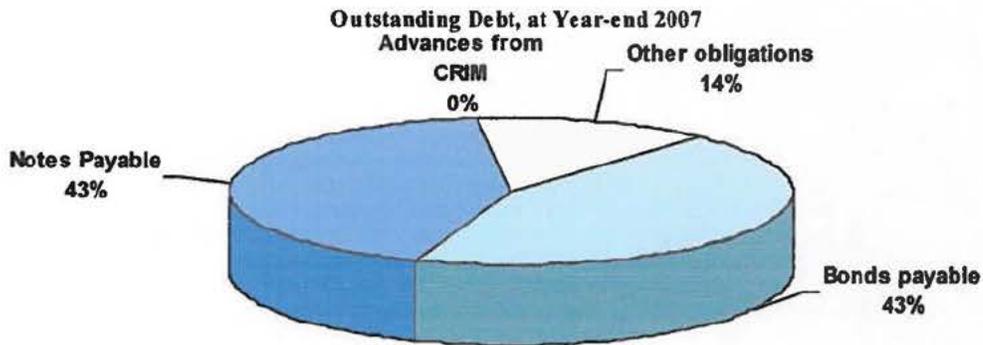
**COMMONWEALTH OF PUERTO RICO**  
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**Debt**

At year-end, the Municipality had \$ 10.55 million in bonds and notes outstanding versus \$ 10.79 million last year, an increase of 13.3 percent, as shown in Table 6.

**Table 6**  
**Outstanding Debt, at Year-End**  
**(in Thousands)**

	<b>Governmental Activities</b>	
	2006	2007
Bonds payable	\$ 4.62	\$4.73
Notes Payable	4.51	4.59
Advances from CRIM	.06	0
Other obligations	1.36	1.47
<b>Totals</b>	<b>\$10.55</b>	<b>\$10.79</b>



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New bonds in the amount of \$.335 million were issued. The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave, claims and judgments, and Christmas bonus. More detailed information about the Municipality's long-term liabilities is presented in Note 7 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality's elected and appointed officials considered many factors when setting the fiscal-year 2007 budget. Unemployment in the Municipality now stands at 14.4 percent.

Amounts available for appropriations in the General Fund for the fiscal year 2007 are \$7.69 million, a decrease of 6 percent under the final 2006 budget of \$8.2 million.

Budgeted expenditures are expected to rise accordingly to the increase in budgeted revenues.

If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of 2008.

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to show the accountability for the money it receives. If you have questions about this report or need additional financial information, contact us at Municipality of Guánica, PO Box 785, Guánica, Puerto Rico 00653.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
STATEMENT OF NET ASSETS  
JUNE 30, 2007**

<u>Assets</u>	<u>Governmental Activities</u>
Cash (Notes 2 and 5)	\$ 884,170
Cash with fiscal agent (Notes 2 and 5)	1,629,663
Due from other agencies (Note 9)	1,447,140
Capital assets, net (Note 11)	<u>18,433,371</u>
 Total assets	 <u>\$ 22,394,344</u>
 <u>Liabilities and Net Assets</u>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 984,611
Due to other agencies (Note 12)	502,780
Deferred revenues (Note 13):	
Municipal license tax	303,000
Property tax	26,662
Federal government	412,296
Noncurrent liabilities (Note 15):	
Due within one year	709,563
Due in more than one year	10,082,457
Accrued interest	280,740
Total liabilities	<u>13,302,109</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	13,698,371
Restricted for:	
Debt service	228,788
Capital projects	2,876,893
Federal programs	(3,901)
Unrestricted	<u>(7,707,916)</u>
Total net assets	<u>9,092,235</u>
 Total liabilities and net assets	 <u>\$ 22,394,344</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</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>	
General government	\$ 5,750,685	\$ 550,698	\$ -	\$ (5,199,987)
Public safety	1,087,949			(1,087,949)
Culture and recreation	546,883			(546,883)
Public housing and welfare	2,396,623		326,534	(2,044,987)
Economic development	2,149,063		1,323,638	(825,425)
Interest on long-term debt	296,311			(296,311)
<b>Total</b>	<b>\$ 12,227,514</b>	<b>\$ 550,698</b>	<b>\$ 1,650,172</b>	<b>(10,001,542)</b>
General revenues:				
Property taxes				1,626,687
Municipal license tax				378,269
Sales and use tax				286,158
Grants and contributions not restricted to specific programs				8,042,761
Interest, fines and penalties				124,646
Miscellaneous				701,084
<b>Total general revenues</b>				<b>11,159,605</b>
Change in net assets				1,158,063
Net assets at beginning of year, as restated (Note 21)				7,934,172
<b>Net assets at end of year</b>				<b>\$ 9,092,235</b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2007**

<u>Assets</u>	<u>General</u>	<u>Commonwealth Legislature Resolutions</u>	<u>FEMA-Hazard Mitigation Grant</u>	<u>Debt Service</u>	<u>Section 8 Program</u>	<u>Capital Improvement Loan Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 5)	\$ 39,623	\$ 514,533	\$ -	\$ -	\$ 176,164	\$ -	\$ 153,850	\$ 884,170
Cash with fiscal agent (Notes 2 and 5)			41,453	779,402		517,053	291,755	1,629,663
Due from other agencies (Note 9)	100,348	511,855	355,161	10,126	99	4,742	464,809	1,447,140
Due from other funds (Note 10)	809,002	1,679,137			230		110,993	2,599,362
<b>Total assets</b>	<b>\$ 948,973</b>	<b>\$ 2,705,525</b>	<b>\$ 396,614</b>	<b>\$ 789,528</b>	<b>\$ 176,493</b>	<b>\$ 521,795</b>	<b>\$ 1,021,407</b>	<b>\$ 6,560,335</b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2007**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Commonwealth Legislature Resolutions</u>	<u>FEMA-Hazard Mitigation Grant</u>	<u>Debt Service</u>	<u>Section 8 Program</u>	<u>Capital Improvement Loan Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>								
Account payable and accrued liabilities	\$ 719,010	\$ 21,658	\$ -	\$ -	\$ -	\$ -	\$ 243,943	\$ 984,611
Due to other agencies (Note 12)	502,683						97	502,780
Due to other funds (Note 10)	1,336,326	194,720	396,614		4,357	13,256	654,089	2,599,362
General obligations:								
Bonds				280,000				280,000
Interest				280,740				280,740
Deferred revenues: (Note 13)								
Municipal license tax	303,000							303,000
Property tax	26,662							26,662
Federal government			160,153				252,143	412,296
Total liabilities	<u>2,887,681</u>	<u>216,378</u>	<u>556,767</u>	<u>560,740</u>	<u>4,357</u>	<u>13,256</u>	<u>1,150,272</u>	<u>5,389,451</u>
<b>Fund Balances (Deficit)</b>								
Reserved for:								
Encumbrances	314,559							314,559
Federal programs			(160,153)		172,136		(15,884)	(3,901)
Debt service				228,788				228,788
Capital projects		2,162,900				508,539	205,454	2,876,893
Unreserved fund balance (deficit)	(2,253,267)	326,247					(318,435)	(2,245,455)
Total fund balance (deficit)	<u>(1,938,708)</u>	<u>2,489,147</u>	<u>(160,153)</u>	<u>228,788</u>	<u>172,136</u>	<u>508,539</u>	<u>(128,865)</u>	<u>1,170,884</u>
Total liabilities and fund balance	<u>\$ 948,973</u>	<u>\$ 2,705,525</u>	<u>\$ 396,614</u>	<u>\$ 789,528</u>	<u>\$ 176,493</u>	<u>\$ 521,795</u>	<u>\$ 1,021,407</u>	<u>\$ 6,560,335</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
JUNE 30, 2007**

Total fund balances - governmental funds	\$ 1,170,884
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	18,433,371
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	(10,512,020)
Net assets of governmental activities	<u>\$ 9,092,235</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUANICA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General	Commonwealth Legislature Resolutions	FEMA-Hazard Mitigation Grant	Debt Service	Section 8 Program	Capital improvement Loan Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>								
Property taxes (Note 6)	\$ 1,258,828	\$ -	\$ -	\$ 457,380	\$ -	\$ -	\$ -	\$ 1,716,208
Municipal license taxes (Note 7)	378,269							378,269
Sales and use taxes (Note 8)							286,158	286,158
Licenses and permits	525,337						11,930	537,267
Charges for service and rents	13,431							13,431
Intergovernmental revenues (Note 14):								
Federal grants and contributions		31,659	113,377		217,511		1,519,926	1,882,473
State contributions	5,357,580	2,723,361					673,988	8,754,929
Interest, fines, and penalties	98,622	7,172		18,852				124,646
Other revenues	699,254	1,830						701,084
Total revenues	<u>8,331,321</u>	<u>2,764,022</u>	<u>113,377</u>	<u>476,232</u>	<u>217,511</u>	<u>-</u>	<u>2,492,002</u>	<u>14,394,465</u>
<b>EXPENDITURES</b>								
<b>Current</b>								
General government	3,967,629						1,056,317	5,023,946
Public safety	971,140	7,194					15,788	994,122
Culture and recreation	327,263						66,165	393,428
Public housing and welfare	1,172,722	4,216	160,153		220,101		819,400	2,376,592
Economic development	1,785,943	205,459					67,047	2,058,449
Capital outlays	11,059	1,836,371				522,435	658,061	3,027,926
Debt service:								
Principal retirement	440,317			280,000				720,317
Interest and other				350,865				350,865
Total expenditures	<u>8,676,073</u>	<u>2,053,240</u>	<u>160,153</u>	<u>630,865</u>	<u>220,101</u>	<u>522,435</u>	<u>2,682,778</u>	<u>14,945,645</u>
Excess (deficiency) of revenues under expenditures	(344,752)	710,782	(46,776)	(154,633)	(2,590)	(522,435)	(190,776)	(551,180)
<b>OTHER FINANCING SOURCES (USES)</b>								
Loan proceeds							335,000	335,000
Transfers in	121,722	4,165		196,650			79	322,616
Transfers out	(196,729)			(15,363)			(110,524)	(322,616)
Total other financing sources (uses)	<u>(75,007)</u>	<u>4,165</u>	<u>-</u>	<u>181,287</u>	<u>-</u>	<u>-</u>	<u>224,555</u>	<u>335,000</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other	(419,759)	714,947	(46,776)	26,654	(2,590)	(522,435)	33,779	(216,180)
<b>FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED (Note 21)</b>	<u>(1,518,949)</u>	<u>1,774,200</u>	<u>(113,377)</u>	<u>202,134</u>	<u>174,726</u>	<u>1,030,974</u>	<u>(162,644)</u>	<u>1,387,064</u>
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<u>\$ (1,938,708)</u>	<u>\$ 2,489,147</u>	<u>\$ (160,153)</u>	<u>\$ 228,788</u>	<u>\$ 172,136</u>	<u>\$ 508,539</u>	<u>\$ (128,865)</u>	<u>\$ 1,170,884</u>

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

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
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, 2007**

Net change in fund balances - total governmental funds \$ (216,180)

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. 3,027,926
- Governmental funds report issuance of long-term debt as other financial resources because provided current financial resources. (335,000)
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (484,014)
- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. (1,008,888)
- 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. 720,317
- Change in accrued interest expense which does not require the use of current financial resources. 54,554
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (600,652)

Changes in net assets of governmental activities \$ 1,158,063

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>General Fund</b>				<b>Debt Service Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget- Positive (Negative)</b>	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget- Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>			<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>								
Property taxes	\$ 967,848	\$ 967,848	\$ 1,142,453	\$ 174,605	\$ 248,462	\$ 248,462	\$ 457,380	\$ 208,918
Municipal license taxes	350,000	350,000	378,269	28,269				
Licenses and permits	1,130,407	1,130,407	525,337	(605,070)				
Charges for services and rent	30,000	30,000	13,431	(16,569)				
Intergovernmental revenues:								
State contributions	5,029,206	5,029,206	5,243,787	214,581				
Interest, fines, and penalties	40,000	40,000	102,261	62,261				
Other revenues	278,500	278,500	289,330	10,830			18,852	18,852
Total revenues	<u>7,825,961</u>	<u>7,825,961</u>	<u>7,694,868</u>	<u>(131,093)</u>	<u>248,462</u>	<u>248,462</u>	<u>476,232</u>	<u>227,770</u>
<b>EXPENDITURES</b>								
Current:								
General government	4,396,542	4,419,314	4,211,212	208,102				
Public safety	868,931	904,000	923,221	(19,221)				
Public housing and welfare	544,790	477,626	428,861	48,765				
Culture and education	338,386	338,638	302,013	36,625				
Economic development	1,677,312	1,686,383	1,648,107	38,276				
Debt service:								
Principal					108,462	108,462	280,000	171,538
Interest					140,000	140,000	350,865	210,865
Total expenditures	<u>7,825,961</u>	<u>7,825,961</u>	<u>7,513,414</u>	<u>312,547</u>	<u>248,462</u>	<u>248,462</u>	<u>630,865</u>	<u>382,403</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181,454</u>	<u>\$ 181,454</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (154,633)</u>	<u>\$ (154,633)</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**1. ORGANIZATION**

The Municipality of Guánica, Puerto Rico (Municipality) was founded in 1914. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous 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 14 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** - This 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).
- **Statement of Net Assets** - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 new 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," of the GASB. 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. 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. Based on the aforementioned criteria, the Municipality has no component units.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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 segment 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*.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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. 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) Section 8 Program

This fund account for revenue sources for the decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

3) 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

4) Commonwealth Legislature Resolutions Fund

This fund is used to account for revenue sources to be used for the construction and improvement of capital facilities and for welfare purposes.

5) FEMA-Hazard Mitigation Grant Program Fund

HMGP fund is used to account for revenues sources for the acquisition of property ("buyouts") severely damaged or destroyed in a natural disaster.

6) Capital Improvement Loan Fund

This fund is used to account for capital projects such as community facilities repairs, improvements of certain sport courts, and improvements to municipality roads.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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 and certificates of deposits 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 capital project's 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.

**e. Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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	20-50 years
Buildings and building improvements	30-50 years
Furniture and fixtures	5-20 years
Vehicles	8 years
Machinery and equipment, excluding those under capital leases	5-20 years

**g. Reservation of Fund Balance**

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

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

Represents net assets available to finance future debt service payments.

3) Capital Projects Fund

Represents the reservation of amounts to be used for future expenditures for 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007 amounted to approximately \$209,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$223,000 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 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

**j. Future Adoption of Accounting Pronouncements**

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

<b>Statement Number</b>	<b>Statement Name</b>	<b>Adoption Required in Fiscal Year</b>
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity transfers of Assets and Future Revenues	2007-08
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2007-08

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<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
50	Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27.	2007-08
51	Accounting and Financial Reporting for Intangible Assets	2009-10

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

**k. 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.

**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.

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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, includes 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.

**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 over expenditures for the year

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ended June 30, 2007 is presented below for the general fund and debt service funds:

	<b>General Fund</b>	<b>Debt Service Fund</b>
Excess of revenues over (under) expenditures - budgetary basis	\$181,454	(\$154,633)
Entity differences:		
Non-budgeted transfer in	121,722	196,650
Non-budgeted transfer out	( 196,729)	( 15,363)
Non-budgeted expenditures	( 661,879)	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	( 178,886)	
Current year encumbrances recorded as expenditure for budgetary basis	<u>314,559</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	( <u>\$419,759</u> )	<u>\$ 26,654</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 a 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

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current period and therefore are not reported in the funds. The details of the approximately \$10.5 million difference are as follows:

Bonds payable	\$ 4,455,000
PR Treasury Department	1,993,335
Compensated absences	1,206,095
Due to Puerto Rico Labor Department	572,502
Due to Puerto Rico Land Authority	118,064
Due to CRIM	1,153,994
Due to FEMA	750,467
Claims and judgements	64,524
Christmas bonus	<u>198,039</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u>\$10,512,020</u>

**5. DEPOSITS - CUSTODIAL CREDIT RISK**

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 Municipality's bank balances in commercial banks of approximately \$1.0 million in the governmental activities were fully collateralized at June 30, 2007. The deposits at GDB of approximately \$850,000 that are restricted principally for capital projects, and the \$583,000 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposits in one bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

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.

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**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 8.58% for real property and 6.58% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.50%	4.50%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.25%	1.25%
Discounts made by state to tax payer	< .20%>	< .20%>
	<u>8.58%</u>	<u>6.58%</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

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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 June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2006-07, 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, for the year ended June 30, 2007, 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 \$53,307. Such amount is presented as due from other governmental agencies in the general fund in the basic financial statements. (See Note 9).

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**7. MUNICIPAL LICENSE TAX**

Municipal License Tax is recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2007. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Guánica, 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 Guánica, are as follows:

Savings and loans associations	= 1.50%
Financial institutions	= 1.50%
Other organizations:	= .40%

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 \$303,000, corresponding to the next fiscal year municipal license.

**8. SALES AND USE TAXES**

On July 4, 2006, the Legislature of the Commonwealth of Puerto Rico approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within

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municipal limits. The Municipal Sales Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20<sup>th</sup> day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

**9. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Municipal Revenue Collection Center (General Fund)	\$ 53,307
Municipal Revenues Collection Center (Debt Service Fund)	10,126
Puerto Rico Health Department	47,041
Commonwealth Legislative	511,855
Department of Homeland Security	355,161
Department of Housing and Urban Development (Section 8)	99
Governmental Development Bank	4,742
Puerto Rico Department of Labor	69,869
Department of Housing and Urban Development (CDBG)	328,235
Puerto Rico Department of Family	65,706
Puerto Rico Department of Justice	<u>999</u>
 Total	 <u>\$1,447,140</u>

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**10. INTERFUND TRANSACTIONS**

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

The due from and due to other fund balances as of June 30, 2007 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Commonwealth Legislature Resolutions	\$ 194,720
General Fund	FEMA-Hazard Mitigation Grant	396,614
General Fund	Section 8 Program	4,357
General Fund	Capital Improvement Loan Fund	13,256
General Fund	Other Governmental Fund	200,055
Commonwealth Legislature Resolutions	General Fund	1,231,782
Commonwealth Legislature Resolutions	Other Governmental Funds	447,355
Section 8 Program	General Fund	230
Other Governmental Funds	General Fund	104,314
Other Governmental Funds	Other Governmental Funds	<u>6,679</u>
		<u>\$2,599,362</u>

**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2007 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Services	\$ 15,363
General	Other Governmental Funds	106,359
Commonwealth Legislature Resolution	Other Governmental Funds	4,165
Debt Services	General	196,650
Other Governmental Funds	General	<u>79</u>
Total		<u>\$322,616</u>

The transfer from the general fund to the debt service fund of \$196,650 represents monies transferred to cover debt service payments as become due.

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**11. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets, not being depreciated:				
Land	\$ 665,008	\$ -	\$ -	\$ 665,008
Construction in progress	6,604,290	2,117,303	6,501,340	2,220,253
Total capital assets, not being depreciated	<u>7,269,298</u>	<u>2,117,303</u>	<u>6,501,340</u>	<u>2,885,261</u>
Capital assets, being depreciated:				
Buildings and building improvements	6,549,886	3,732,108		10,281,994
Infrastructure	4,010,795	2,769,323		6,780,118
Land improvements	2,892,996			2,892,996
Vehicles	1,609,436	181,806		1,791,242
Machinery and equipment	1,127,585	728,726		1,856,311
Equipment under capital leases	43,571			43,571
Total capital assets, being depreciated	<u>16,234,269</u>	<u>7,411,963</u>	<u>-</u>	<u>23,646,232</u>
Less accumulated depreciation for:				
Buildings and building improvements	2,585,099	132,753		2,717,852
Infrastructure	1,283,910	95,308		1,379,218
Land improvements	1,992,642	86,615		2,079,257
Vehicles	973,402	114,808		1,088,210
Machinery and equipment	750,571	44,944		795,515
Equipment under capital leases	28,484	9,586		38,070
Total accumulated depreciation	<u>7,614,108</u>	<u>484,014</u>	<u>-</u>	<u>8,098,122</u>
Total capital assets, being depreciated, net	<u>8,620,161</u>	<u>6,927,949</u>	<u>-</u>	<u>15,548,110</u>
Governmental activities capital assets, net	<u>\$ 15,889,459</u>	<u>\$ 9,045,252</u>	<u>\$ 6,501,340</u>	<u>\$ 18,433,371</u>

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

General government	\$115,429
Public safety	93,827
Public works	90,614
Culture and recreation	153,455
Health and sanitation	20,031
Public Housing and welfare	<u>10,658</u>
<b>Total</b>	<b><u>\$484,014</u></b>

**12. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2007 are as follows:

Retirement System Administration	\$ 70,189
Puerto Rico Treasury Department	193,383
Puerto Rico General Services Administration	172,583
Puerto Rico Water and Sewer Authority	<u>66,625</u>
<b>Total</b>	<b><u>\$502,780</u></b>

**13. DEFERRED REVENUES**

**a. Municipal License Tax**

The deferred revenues of approximately \$329,662 in the general fund related to municipal license tax (\$303,000) collected in fiscal year 2006-07 that will be earned in fiscal year 2007-08.

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**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. These were related to the following federal programs/grants:

**Program/Grant Description**

FEMA - Hazard Mitigation Grant	\$160,153
Other governmental funds	<u>252,143</u>
Total	<u>\$412,296</u>

**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.

**15. LONG-TERM DEBTS**

Bonds and notes payable and other debt outstanding at June 30, 2007 are as follows:

**Bonds**

\$375,000 series of 1992, payable in annual installments of \$25,000 to \$50,000 until July 1, 2009, interest from 5% to 7.81%.	\$ 140,000
\$530,000 series of 2002, payable in annual installments of \$10,000 to \$40,000 until July 1, 2026, interest from 2.7% to 5.6%.	475,000
\$1,310,000 series of 2005, payable in annual installments of \$35,000 to \$105,000 until July 1, 2025, interest from 4.23% to 5.33%.	1,275,000

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\$335,000 series of 2007, payable in annual installments of \$60,000 to \$80,000 until July 1, 2011, interest from 6.6% to 7.5%. \$ 335,000

\$1,125,000 series of 1995, payable in annual installments of \$20,000 to \$110,000 until July 1, 2016, interest from 4.7% to 6.63%. 765,000

\$135,000 series of 2000, payable in annual installments of \$10,000 to \$20,000 until July 1, 2009, interest from 5% to 7.81%. 50,000

\$1,740,000 series of 2002, payable in annual installments of \$10,000 to \$130,000 until July 1, 2026, interest from 5% to 6%. 1,570,000

\$145,000 series of 2005, payable in annual installments of \$10,000 to \$20,000 until July 1, 2014, interest from 5% to 8%. 125,000

Total bonds payable 4,735,000

Loan for payment of legal settlement - On December 1, 2003, the Municipality obtained a loan from the Puerto Rico Treasury Department to pay a legal settlement related to the Federal Civil Case No. 01-2692 (JP). The face amount of the loan was \$2,000,000 at no interest. This note has an imputed interest rate of 3.00% and was originally recorded at its present value of \$1,635,177, net of an unamortized discount of \$364,823, at inception. 1,530,309

Financing of the excess of property tax advances over collections - On November 4, 1999 the Municipality entered into a financing agreement with the Puerto Rico Treasury Department to pay a debt related to the excess of property tax advances over collections made by the Puerto Rico Treasury Department prior to the creation of CRIM in 1993. 463,026

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<p>The Municipality entered into a financing agreement with the Puerto Rico Department of Labor for a total amount of \$657,139 for unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the Municipality. The agreement is payable in monthly installments of \$15,059, including interest of 11.08% and due on October 5, 2010.</p>	<p>\$ 572,502</p>
<p>On October 22, 2003, the Municipality acquired a parcel of land from the Puerto Rico Land Authority in the amount of \$250,000 for which the Municipality issue a note payable. The note bears no interest and has an imputed interest rate of 6.00. The note was originally recorded at its present value of \$135,020, net of an unamortized discount of \$114,980, at inception.</p>	<p>118,064</p>
<p>\$1,061,453 note payable that represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The repayment agreement is payable in annual aggregate principal installments of \$77,700 approximately, plus interest rate of 6.25% until July 1, 2032.</p>	<p>997,324</p>
<p>Note payable of \$178,730 represents a financing agreement with CRIM to the repayment of catastral digitalization. The agreement is due in semester payment of \$17,805 until November 28, 2011 at interest rate 6%.</p>	<p>69,663</p>
<p>Note payable of \$251,724 represents a financing agreement with CRIM to the repayment of bonds issued for the sale of delinquent accounts.</p>	<p><u>87,007</u></p>
<p style="padding-left: 40px;">Total notes payable</p>	<p><u>3,750,888</u></p>

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**Other Long-Term Debts**

Note payable to FEMA - This amount represent final disallowed costs as determined by an audit performed by the Governor's Authorized Representative (GAR) of FEMA funds related to Hurricane Georges. As of June 30, 2007, the outstanding balance amounts to \$750,467. The Municipality intends to pay the amount through a payment plan with FEMA which will be financed with unrestricted funds.

Compensated absences - Includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time, represents the Municipality's commitment to fund such costs from future operations. As of June 30, 2007, the outstanding balance amounts to \$1,206,095. This amount will be repaid with unrestricted funds.

Other claims and judgments - Represent the final costs of legal cases paid subsequent to June 30, 2007 and other claims outstanding as of that date. The awarded amounts will be paid with unrestricted funds. As of June 30, 2007, the outstanding balance amounts to \$64,524.

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As described in Note 6, the Municipality levies an annual special tax of 1.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM.

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable	\$ 4,624,000	\$ 335,000	\$ 224,000	\$ 4,735,000	\$ 280,000
Total long-term debt	4,624,000	335,000	224,000	4,735,000	280,000
<b>Other Long-Term Liabilities:</b>					
Treasury Department					
Loan for payment of legal settlement	1,632,728		102,419	1,530,309	105,534
Excess of property taxes	475,943		12,917	463,026	13,862
PR Labor Department	311,362	261,140		572,502	-
PR Land Authority	118,064			118,064	2,916
CRIM-Law 42	1,013,131		15,807	997,324	16,800
CRIM-LIMS	82,802		13,139	69,663	13,932
CRIM-Delinquent accounts	126,600		39,593	87,007	3,480
CRIM-Excess of property tax advances	56,138		56,138	-	
Payable to FEMA	750,467			750,467	
Compensated absences	1,095,516	110,579		1,206,095	75,000
Claims and judgments	64,524			64,524	
Obligation under capital leases	16,934		16,934	-	
Christmas bonus	183,370	198,039	183,370	198,039	198,039
Total other liabilities	5,927,579	569,758	440,317	6,057,020	429,563
Total noncurrent liabilities	<u>\$ 10,551,579</u>	<u>\$ 904,758</u>	<u>\$ 664,317</u>	<u>\$ 10,792,020</u>	<u>\$ 709,563</u>

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The annual requirements for the amortization of bonds payable at June 30, 2007, are as follows:

	<i><b>Bonds Payable</b></i>	
	<u><b>Principal</b></u>	<u><b>Interest</b></u>
2008	\$ 280,000	\$ 270,019
2009	295,000	207,954
2010	320,000	253,254
2011	260,000	234,531
2012	285,000	214,796
2013-2017	1,225,000	854,707
2018-2022	935,000	512,538
2023-2027	1,135,000	180,629
	<u><u>\$ 4,735,000</u></u>	<u><u>\$ 2,728,428</u></u>

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 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 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007 was approximately \$232,932. The Municipality's payroll for employees covered by ERS was approximately \$2.5 million. The Municipality total payroll for all employees was approximately \$4.2 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2007, 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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. CONTINGENCIES**

- a. 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.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

**19. COMMITMENTS**

The Municipality of Guánica had several outstanding or planned construction projects as of June 30, 2007. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$2.1 million.

**20. SUBSEQUENT EVENT**

On July 29, 2007, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 80 (the "Act"), in order to make mandatory in all the municipalities of Puerto Rico the imposition of a uniform municipal tax of 1.5%, from which the municipalities shall collect 1% of the sales and use tax pursuant to what is established in Sections 2410 and 6189 of Act No. 117 of July 4, 2006, known as the "Taxpayer's Justice Act of 2006", which may be levied discretionary through municipal legislation, on food and food ingredients and to provide for the collection by the Secretary of the Treasury of the remaining .5% without including food and food ingredients to be used in accordance with the purposes established in the Act; to provide for the establishment of the Municipal Development Fund, the Municipal Redemption Fund, and the Municipal Improvement Fund, as well a for matters relative to the purposes, implementation and administration of said funds and to provide for the establishment of the necessary mechanisms for the collection of the municipal tax.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Sales Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

**21. RESTATEMENTS**

**a. Fund Balances**

The beginning fund balance of the general fund and Section 8 program was restated to correct and underestimate of account payable and overestimate of deferred revenues in the amount of \$164,497 and \$167,550, respectively.

	<u>General Fund</u>	<u>Section 8 Program</u>
Beginning fund balance, as previously reported	(\$1,354,452)	\$ 7,176
Underestimate of account payable	( 164,497)	-
Overstatement of deferred revenue	<u>-</u>	<u>167,550</u>
Beginning fund balance, as restated	<u>(\$1,518,949)</u>	<u>\$174,726</u>

**b. Net Assets**

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

Beginning balance of the year as previously reported	\$7,931,119
Correction of an error	<u>3,053</u>
Beginning balance of the year, as restated	<u>\$7,934,172</u>

**PART II - SINGLE AUDIT SECTION**

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

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<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>		
Pass-through State -Commissioner Office of Municipal Affairs - Community Development State Block Grant Program - SBGP	14.228	\$ 1,249,194
Section 8 Housing Choice Vouchers	14.871	220,101
Subtotal U.S. Department of HUD		<u>1,469,295</u>
<b>U.S. Department of Commerce</b>		
Grant for Public Works and Economic Development	11.300	144,210
Subtotal U.S. Department of Commerce		<u>144,210</u>
<b>U.S. Department of Agriculture</b>		
Passed through the Puerto Rico Department of Education:		
Child and Adult Care Food Program	10.558	7,502
Subtotal U.S. Department of Agriculture		<u>7,502</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Pass-through de Puerto Rico Department of Family - Families and Children Administration:		
Child Care and Development Block Grant	93.575	95,524
Subtotal U.S. Department of HHS		<u>95,524</u>
<b>U.S. Department of Homeland Security-Federal Emergency Management Agency (FEMA)</b>		
Pass-through de Puerto Rico Governor's Office (Governor's Authorized Representative - GAR):		
Hazard Mitigation Grant Program		
Subtotal U.S. Department of FEMA	97.039	160,153
<b>TOTAL</b>		<u>\$ 1,876,684</u>

See notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Guánica's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**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:

Expenditures as per basic financial statements:	
Included within other governmental funds	\$1,496,430
FEMA-Hazard Mitigation Grant Program	160,153
Section 8 Program	<u>220,101</u>
 Total federal expenditures per schedule	 <u>\$1,876,684</u>



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Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

**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 Guánica  
Guánica, 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 Guánica as of and for the year ended June 30, 2007, which collectively comprise the Municipality of Guánica's basic financial statements, and have issued our report thereon dated December 21, 2007. 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's internal control over financial reporting 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 significant deficiency is a control

deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting and include as items 07-A and 07-B.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-A and 07-B to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Guánica's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of 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*.

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

This report is intended solely for the information and use of the management, Commissioner Office of Municipal Affairs, 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 21, 2007

The stamp 2299735 was affixed  
to the original of this report.



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CPA Zoraida Cruz Claudio

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Management Consulting  
Services Division

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO 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 Guánica  
Guánica, Puerto Rico

**Compliance**

We have audited the compliance of Municipality of Guánica with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Municipality of Guánica's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Guánica's management. Our responsibility is to express and opinion on Municipality of Guánica's compliance based on our audit.

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

In our opinion, the Municipality of Guánica, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ended June 30, 2007. 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 is described in the accompanying schedule of findings as questioned costs as items 07-1 and 07-2.

#### Internal Control over Compliance

The management of Municipality of Guánica 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 Guánica's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

This report is intended solely for the information 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.

*Ortiz, Rivera, Rivera & Co.*

San Juan, Puerto Rico  
December 21, 2007

The stamp 2299736 was affixed  
to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Municipality of Guánica.
- b. There were no significant deficiencies on internal controls.
- c. Instances of noncompliance material to the financial statements of Municipality of Guánica were disclosed during the audit.
- d. There were significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Guánica express an unqualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Guánica are reported in number 3 of this schedule.
- g. The programs tested as major programs are:
  - SBGP - CFDA No. 14.228
  - Section 8 Voucher - CFDA No. 14.871
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Guánica was determined to be a high-risk auditee.

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**07-A: General Fund Deficit**

Condition

As of June 30, 2007, the Municipality closed the general fund with an accumulated deficit of \$1.9 million. For the fiscal year ended, the Municipality reported a net change in general fund balance of \$419,759.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Cause

The deficit is caused by the overestimation of budgeted revenues and by the incurrence of obligations without the proper consideration of current and future available resources. The mayor and the Finance Director did not follow adequate budgeting procedures.

Criteria

Article 7.011(a) of Autonomous Municipal Act (Law 81 of August 30, 1991), as amended, establishes that municipalities with deficits at their closing dates must provide for sufficient resources during the next fiscal year period in order to cover such deficit.

Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that special care must be provided for the estimation of future revenues in order to avoid budget appropriations in excess of available resources.

Recommendation

The continuing deficit reported by the Municipality of Guánica may harm the basic governmental services provided to its citizens. We strongly recommend that the necessary measures are taken in order to stop this trend. The Municipality must work on increasing actual revenues and/or substantially reducing expenditures.

**07-B: Estimated Revenue Shortfall**

Condition

As of June 30, 2007, the Municipality did not meet certain projected revenues by significant amounts, causing an increase in its General Fund deficit (see Finding 07-A). The following deficiencies were noted based on our comparison of budgeted revenues versus final operating results:

- a. For licenses and permits, the Municipality failed to meet its expectations by \$605,070.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

- b. For charges for services and rent, the Municipality failed to meet its expectations by \$16,569.

Criteria

Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that special care must be provided for the estimation of future revenues in order to avoid budget appropriations in excess of available resources.

Cause

The Mayor and the Finance Director did not follow adequate budgeting procedures for establishing reasonable estimates.

Recommendation

The Municipality should revise and amend the budget as current information related to collections of budgeted revenues became available.

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

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

● **Condition 07-1**

The Municipality has excess cash in bank for an unreasonable period on time after transfer of funds by the pass-through entity. The Municipality maintained an average monthly excess of cash of \$45,444 during the fiscal year 2006-2007.

Criteria

Program funds are requested to the pass through entity based on incurred costs. The Municipality should minimize the time elapsing between the transfer of funds from the U. S. Treasury and the corresponding disbursements. Also, the 24 CFR 85.20 (b) (7) establishes that the federal

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Cause

Program accounting controls were not adequate and there were no proper procedures established to determine excess cash available. Also, they not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its incurred cost.

Effect

The Municipality has excess cash on hand account which not permit compliance with requirement to reduce time elapsing between the transfer of funds from the U. S. Treasury and the corresponding disbursements. The continued occurrence of this condition may expose the Municipality to assessment of interest cost relating to the excess cash on hand which would be paid from local funds.

Recommendation

The Municipality should establish specific procedures to assure that disbursements are issued soon at the related deposits are made because federal funds should only be requested when they are going to be disbursed immediately after receipt or within three (3) business days.

Questioned Costs

-0-

**b. Section 8 Voucher - CFDA No. 14.871**

● **Condition 07-2**

The program did not comply with the procedures require for minimizing the time elapsing between the transfer of federal funds and the disbursement by grantees. In addition, the program maintains a high balance in bank.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Criteria

The 24 CFR 85.20 (b) (7) establishes that the federal funds recipient should adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements of expenditures.

Cause

The program does not have an effective control procedures for cash management.

Effect

The program does not comply with the cash management requirement.

Recommendation

The Municipality should establish a control procedures, in order to make disbursements after received the federal funds. In addition, the Municipality should identify the purpose of the balance in bank, in order to avoid a surplus on the bank account.

Questioned Costs

-0-

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>SBGP CFDA No. 14.228</b>	<b>Condition 2006 III-1</b>  The Municipality has excess cash in bank for an unreasonable period on time after transfer of funds by the pass-through entity.	Condition still prevails.
<b>SBGP CFDA No. 14.228</b>	<b>Condition 2006 III-2</b>  Our tests over monitoring made by the Municipality over two construction activities financed with CDBG funds disclosed the following: 1. Payrolls obtained from contractors were received by program personnel weeks or months after the wages have been paid. 2. In one of the cases payrolls interviews were dated before the starting date of the construction activity. No reasonable explanation was obtained from program personnel.	Condition was corrected.
<b>SBGP CFDA No. 14.228</b>	<b>Condition 2006 III-3</b>  A complete general ledger has not been maintained by the Municipality. Grant receivables and payables are not recognized.	Condition was corrected.
<b>Grants for Public Works and Economic Development CFDA No. 11.300</b>	<b>Condition 2006 III-4</b>  The Municipality did not comply with requirements applicable to progress and financial reports.	Condition was corrected.
<b>Grants for Public Works and Economic Development CFDA No. 11.300</b>	<b>Condition 2005 III-1</b>  In 2 instances during the year the Municipality has excess cash in bank for unreasonable periods of time after transfer of funds by the grantor agency.	Condition was corrected.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>Grants for Public Works and Economic Development CFDA No. 11.300</b>	<b>Condition 2005 III-2</b>  Our tests over procedures related to the construction activity financed with EDA funds disclosed that: 1. There is no evidence supporting the dates the payrolls were submitted by the contractor. The Federal Programs Director stated that generally the payrolls are received monthly. 2. There is no evidence supporting that the Municipality is performing on-site visits and employee's interviews.	Condition was corrected.
<b>Grants for Public Works and Economic Development CFDA No. 11.300</b>	<b>Condition 2005 III-3</b>  A complete general ledger has not been maintained by the Municipality. Grant receivables and payables are not recognized.	Condition was corrected.
<b>SBGP CFDA No. 14.228</b>	<b>Condition 2005 III-4</b>  The Municipality has excess cash in bank for an unreasonable period of time after transfer of funds by the pass-through entity. In several cases checks were issued before the corresponding requisitions were made and send to the pass-through agency.	Condition was partially corrected.
<b>SBGP CFDA No. 14.228</b>	<b>Condition 2005 III-5</b>  Our tests over monitoring made by the Municipality over two construction activities financed with CDBG funds disclosed that we did not found evidence of payroll reviews.	Condition was corrected.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUÁNICA  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>SBGP CFDA No. 14.228</b>	<b>Condition 2005 III-6</b>  A complete general ledger has not been maintained by the Municipality. Grant receivables and payables are not recognized.	Condition was corrected.
<b>Hazard Mitigation Grant CFDA No. 97.039</b>	<b>Condition 2005 III-7</b>  The Municipality did not comply with requirements applicable to progress and financial reports.	Condition was corrected.

**CORRECTIVE ACTION PLAN**

ESTADO LIBRE ASOCIADO DE PUERTO RICO  
MUNICIPIO DE GUANICA  
OFICINA DEL ALCALDE

*¡El futuro es Nuestro!*

*Con. Martin Vargas Morales  
Alcalde*

CORRECTIVE ACTION PLAN

March 17, 2008

Cognizant or Oversight Agency for Audit:

Municipality of Guánica respectfully submits the following corrective action plan for the year ended June 30, 2007.

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, 2007

The findings from the June 30, 2007 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

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

**Finding 07-01: SBGP-CFDA No. 14.228**

Reportable Condition: See Condition 07-1

Recommendation

The Municipality should establish specific procedures to assure that disbursements are issued soon at the related deposits are made because federal funds should only be requested when they are going to be disbursed immediately after receipts or within three (3) business days.

**Action Taken**

The Director of Finance and the Director of Federal Programs agreed to maintain an effective communication and to give the employees of Finance Department specific instructions of communicating immediately to the Bookkeeper of the Federal Program Controller when deposits are done.

**Finding 07-2: Section 8 Voucher –CFDA NO. 14.871**

**Reportable Condition:** See Condition 07-2

**Recommendation**

The Municipality should establish a control procedures, in order to make disbursements after received the federal funds. In addition, the Municipality should identify the purpose of the balance in bank, in order to avoid a surplus on the bank account.

**Action Taken**

The Director of Finance and Director of Federal Program work to what amount correspond to Administrative expense and Voucher Program expense. The Director of Finance will have to identify if the Voucher Program owes to General Fund to proceed to collect the aforementioned debt. Once identified the amount corresponding to the Federal Voucher Program, the Municipality inform to the Agency to determine what use would be do with the surplus in the Bank account..

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mr. David Alicea at (787) 821-2777

Cordially,



David Alicea

Temporary Director of Finance

FORM **SF-SAC**  
(5-2004)

U.S. DEPT. OF COMM. - Econ. and Stat. Adm. - U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**RETURN TO**

**Federal Audit Clearinghouse  
1201 E. 10th Street  
Jeffersonville, IN 47132**

**PART I GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)**

<b>1. Fiscal period ending date for this submission</b> Month Day Year 06 / 30 / 2006 Fiscal Period End Dates Must Be In 2004, 2005, or 2006		<b>2. Type of Circular A-133 audit</b> 1 <input checked="" type="checkbox"/> Single audit    2 <input type="checkbox"/> Program-specific audit	
<b>3. Audit period covered</b> 1 <input checked="" type="checkbox"/> Annual    2 <input type="checkbox"/> Biennial    3 <input type="checkbox"/> Other - <input type="text"/> Months		<b>4. FEDERAL GOVERNMENT USE ONLY</b> Date received by Federal clearinghouse	
<b>5. Auditee Identification Numbers</b>			
<b>a. Primary Employer Identification Number (EIN)</b> 66 - 0433496		<b>b. Are multiple EINs covered in this report?</b> 1 <input type="checkbox"/> Yes    2 <input checked="" type="checkbox"/> No	
<b>d. Data Universal Numbering System (DUNS) Number</b> 09 - 105 - 9964		<b>e. Are multiple DUNS covered in this report?</b> 1 <input type="checkbox"/> Yes    2 <input checked="" type="checkbox"/> No	
		<b>f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.</b>	

**6. AUDITEE INFORMATION**

**a. Auditee name**  
MUNICIPALITY OF GUANICA

**b. Auditee address (Number and street)**  
P.O. BOX 785  
City  
GUANICA  
State ZIP + 4 Code  
PR 00653 -

**c. Auditee contact Name**  
MR. LUIS A. PACHECO-SANTIAGO  
Title  
FINANCE DIRECTOR

**d. Auditee contact telephone**  
(787) 821 - 0633

**e. Auditee contact FAX**  
(787) 821 - 1748

**f. Auditee contact E-mail**

**7. AUDITOR INFORMATION (To be completed by auditor)**

**a. Auditor name**  
RODRIGUEZ, RIVERA & TORO, LLP

**b. Auditor address (Number and street)**  
P.O. BOX 1080  
City  
MAYAGUEZ  
State ZIP + 4 Code  
PR 00681 - 1080

**c. Auditor contact Name**  
MR. JOSE A. TORO-MERCADO, CPA  
Title  
MANAGING PARTNER

**d. Auditor contact telephone**  
(787) 834 - 3100

**e. Auditor contact FAX**  
(787) 831 - 2909

**f. Auditor contact E-mail**  
JTORO@RRLLP.COM

**g. AUDITEE CERTIFICATION STATEMENT** - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official Date  
Month Day Year  
03 / 21 / 2007

Printed Name of certifying official  
LUIS A. PACHECO-SANTIAGO

Printed Title of certifying official  
FINANCE DIRECTOR

**g. AUDITOR STATEMENT** - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor Date  
Month Day Year  
3 / 20 / 07



ESTADO LIBRE ASOCIADO DE PUERTO RICO  
MUNICIPIO DE GUANICA  
OFICINA DE AUDITORIA INTERNA

*¡Viva Guánica!*

*Sra. Linnette Ortiz Vélez*  
*Auditor Interno*

March 25, 2008

OCAM  
PO Box 70167  
San Juan, PR 00936-8167

To whom it may concern:

Accompanied herewith please find (1) copy of our Financial Statements and Report of Independent Certified Public Accountants with Additional Reports required under the OMB Circular A-133 for Municipality of Guánica for the year ended June 30, 2007.

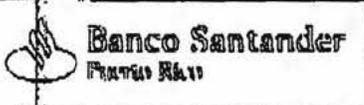
Should you have question regarding to the above mentioned, please let us know.

Cordially yours,

Iris N. Quiñones González  
Auxiliar Internal Auditor

Attached Data Collection Form

*Apartado 785 Guánica, Puerto Rico 00653*  
*Tel. 787-821-5016 Fax 787-821-5016*



# ESTADO DE CUENTA

MUNICIPIO DE GUANICA  
FONDOS FEDERAL SBGP 1991  
PO BOX 785  
GUANICA PR 00853-0785

BR 0058

Página 1  
Número de cuenta 0058961138  
Desde 30 Abr 2008  
Hasta 30 May 2008

Total de depósitos en el Banco	\$ 3,772.64
Total de préstamos en el Banco	\$ 0.00

Para preguntas llamar a



BANCO EN CASA (787)281-2000 ó 1-800-726-8263

Todo reemplazo o tarjeta adicional de tarjeta de débito tendrá un costo de \$3  
(Este cargo no aplica a renovaciones automáticas).

## CORRIENTE COMERCIAL

Número de cuenta 0058961138

Balance inicial		\$	22,464.65
Depósitos y otros créditos	4	+	139,721.83
Cheques pagados y otros retiros	17	-	158,413.84
Balance final		\$	3,772.64

### Resumen de depósitos

Fecha	Cantidad	Fecha	Cantidad
05/01	20,114.73	05/23	9,157.88
05/07	110,448.29		

### Resumen de créditos

Fecha	Descripción	Cantidad
05/01	030 Dias-int 0058961138	0.93

### Resumen de cheques pagados

Número de Cheque	Cantidad	Día pagado	Número de Cheque	Cantidad	Día pagado
1926	855.00	05/08	1935	22,746.57	05/08
1927	885.00	05/14	1936	88,955.62	05/08
1928	958.75	05/14	1937	202.87	05/16
1929	256.90	05/05	1938	41.85	05/13
1930	16,957.23	05/05	1939	140.90	05/16
1931	8,395.30	05/08	1940	374.98	05/28
1932	4,540.88	05/08	1941	116.00	05/28
1933	8,495.88	05/05	1943*	8,850.88	05/27
1934	18,839.25	05/08			

\* Indica un cambio en la secuencia del número de cheque en el estado

### Resumen de balance diario de la cuenta

Fecha	Balanco	Fecha	Balanco	Fecha	Balanco
05/01	42,580.31	05/13	8,144.14	05/27	4,263.62
05/05	19,870.30	05/14	4,300.39	05/28	3,772.64
05/07	130,318.59	05/16	3,956.62	05/30	3,772.64
05/08	6,185.99	05/23	13,114.50		

**PART II FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report

Mark either: 1  Unqualified opinion **OR**  
any combination of: 2  Qualified opinion 3  Adverse opinion 4  Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1  Yes 2  No

3. Is a reportable condition disclosed? 1  Yes 2  No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1  Yes 2  No

5. Is a material noncompliance disclosed? 1  Yes 2  No

**PART III FEDERAL PROGRAMS (To be completed by auditor)**

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1  Yes 2  No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b))

3. Did the auditee qualify as a low-risk auditee? (§ .530) 1  Yes 2  No

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1  Yes 2  No -SKIP to Item 6

5. Is any reportable condition reported as a material weakness? (§ .510(a)(1)) 1  Yes 2  No

6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1  Yes 2  No

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1  Yes 2  No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)

- |  |  |   |  |
|--|--|---|--|
| 96 <input type="checkbox"/> U.S. Agency for International Development      | 83 <input type="checkbox"/> Federal Emergency Management Agency      | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration   |
| 10 <input type="checkbox"/> Agriculture                                    | 39 <input type="checkbox"/> General Services Administration          | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> U.S. Department of State         |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input type="checkbox"/> Health and Human Services                | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation                   |
| 11 <input checked="" type="checkbox"/> Commerce                            | 97 <input type="checkbox"/> Homeland Security                        | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input type="checkbox"/> Housing and Urban Development            | 07 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense  | 03 <input type="checkbox"/> Institute of Museum and Library Services | 47 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 15 <input type="checkbox"/> Interior                                 | 09 <input type="checkbox"/> Small Business Administration                 | 00 <input type="checkbox"/> None                             |
| 81 <input type="checkbox"/> Energy   | 16 <input type="checkbox"/> Justice                                  |   | <input type="checkbox"/> Other - Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 17 <input type="checkbox"/> Labor                                    |   | <input type="text"/>   |
|  | 09 <input type="checkbox"/> Legal Services Corporation               |   | <input type="text"/>   |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives .....
- and, if not marked above, the Federal cognizant agency .....

Count total number of boxes marked above and submit this number of reporting packages .....

FORM SF- SAC (5-2004)

**PART III FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
Federal Agency Prefix <sup>1</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)	If yes, type of audit report <sup>3</sup> (h)		
1	0	.558	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 2,604 .00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	O	N/A
1	1	.300	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	GRANT FOR PUBLIC WORKS AND ECONOMIC DEVELOPMENT	\$ 144,210 .00	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	O	N/A
1	4	.228	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT-STATES PROGRAM	\$ 1,016,893 .00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Q	2006 III-1, 2006 III-2, 2006 III-3
1	4	.871	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM	\$ 176,644 .00	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	O	N/A
9	3	.575	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 101,917 .00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	O	N/A
9	7	.036	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	DISASTER GRANTS-PUBLIC ASSISTANCE	\$ 24,046 .00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	O	N/A
9	7	.039	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	HAZARD MITIGATION GRANT PROGRAM	\$ 352,736 .00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Q	L
9	7	.053	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	CITIZEN CORPS PROGRAM	\$ 1,211 .00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	O	N/A
			<input type="checkbox"/> Yes <input type="checkbox"/> No		\$ .00	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No		
			<input type="checkbox"/> Yes <input type="checkbox"/> No		\$ .00	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No		
<b>TOTAL FEDERAL AWARDS EXPENDED</b> →					\$ 1,820,261 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

<sup>3</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

<sup>4</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

- |                                    |  |  |                                 |
|------------------------------------|--|--|---------------------------------|
| A. Activities allowed or unallowed | E. Eligibility                             | I. Procurement and suspension and debarment            | L. Reporting                    |
| B. Allowable costs/cost principles | F. Equipment and real property management  | J. Program income                                      | M. Subrecipient monitoring      |
| C. Cash management                 | G. Matching, level of effort, earmarking   | K. Real property acquisition and relocation assistance | N. Special tests and provisions |
| D. Davis - Bacon Act               | H. Period of availability of Federal funds |  | O. None                         |
- <sup>5</sup> N/A for NONE

Page 3

**PART I** Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N	/	A			21	-			41	-		
2						22	-			42	-		
3						23	-			43	-		
4						24	-			44	-		
5						25	-			45	-		
6						26	-			46	-		
7						27	-			47	-		
8						28	-			48	-		
9						29	-			49	-		
10						30	-			50	-		
11						31	-			51	-		
12						32	-			52	-		
13						33	-			53	-		
14						34	-			54	-		
15						35	-			55	-		
16						36	-			56	-		
17						37	-			57	-		
18						38	-			58	-		
19						39	-			59	-		
20						40	-			60	-		

f. List the multiple DUNS covered in the report.

1	N	/	A			21	-		
2						22	-		
3						23	-		
4						24	-		
5						25	-		
6						26	-		
7						27	-		
8						28	-		
9						29	-		
10						30	-		
11						31	-		
12						32	-		
13						33	-		
14						34	-		
15						35	-		
16						36	-		
17						37	-		
18						38	-		
19						39	-		
20						40	-		

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.

FORM **SF-SAC**  
(5-2004)

U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO

**Federal Audit Clearinghouse**  
1201 E. 10th Street  
Jeffersonville, IN 47132

**PART I**

**GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)**

<b>1. Fiscal period ending date for this submission</b> Month Day Year 06 / 30 / 2007 Fiscal Period End Dates Must Be In 2004, 2005, or 2006		<b>2. Type of Circular A-133 audit</b> 1 <input checked="" type="checkbox"/> Single audit    2 <input type="checkbox"/> Program-specific audit	
<b>3. Audit period covered</b> 1 <input checked="" type="checkbox"/> Annual    2 <input type="checkbox"/> Biennial    3 <input type="checkbox"/> Other - <input type="text"/> Months		<b>4. FEDERAL GOVERNMENT USE ONLY</b> Date received by Federal clearinghouse	
<b>5. Auditee Identification Numbers</b>			
<b>a. Primary Employer Identification Number (EIN)</b> 66 - 0433496		<b>b. Are multiple EINs covered in this report?</b> 1 <input type="checkbox"/> Yes    2 <input checked="" type="checkbox"/> No	
<b>d. Data Universal Numbering System (DUNS) Number</b> <input type="text"/> - <input type="text"/> - <input type="text"/>		<b>e. Are multiple DUNS covered in this report?</b> 1 <input type="checkbox"/> Yes    2 <input type="checkbox"/> No	
<b>c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.</b>		<b>f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.</b>	

**6. AUDITEE INFORMATION**

a. Auditee name  
**MUNICIPALITY OF GUANICA**

b. Auditee address (Number and street)  
**PO BOX 785**  
City  
**GUANICA**  
State                      ZIP + 4 Code  
**PR**                              **00653 - 0785**

c. Auditee contact  
Name  
**DAVID ALICEA**  
Title  
**INTERIM FINANCE DIRECTOR**

d. Auditee contact telephone  
**(787) 821 - 1777**

e. Auditee contact FAX  
**(787) 821 - 0092**

f. Auditee contact E-mail

**7. AUDITOR INFORMATION (To be completed by auditor)**

a. Auditor name  
**ORTIZ, RIVERA, RIVERA & CO.**

b. Auditor address (Number and street)  
**SUITE 152 PO BOX 70250**  
City  
**SAN JUAN**  
State                      ZIP + 4 Code  
**PR**                              **00936 - 7250**

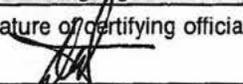
c. Auditor contact  
Name  
**MARCO A RIVERA**  
Title  
**PARTNER**

d. Auditor contact telephone  
**(787) 756 - 8524**

e. Auditor contact FAX  
**(787) 274 - 0562**

f. Auditor contact E-mail  
**MRIVERA@CPAORR.COM**

**9. AUDITEE CERTIFICATION STATEMENT** - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

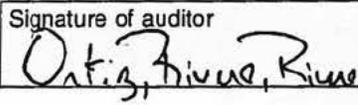
Signature of certifying official  


Date  
Month Day Year  
**3 / 24 / 2008**

Printed Name of certifying official  
**David Alicea**

Printed Title of certifying official  
**Interim Finance Director**

**9. AUDITOR STATEMENT** - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor  


Date  
Month Day Year  
**3 / 18 / 08**

**PART II**

**FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report

Mark either: 1  Unqualified opinion **OR**  
any combination of: 2  Qualified opinion 3  Adverse opinion 4  Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1  Yes 2  No

3. Is a reportable condition disclosed? 1  Yes 2  No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1  Yes 2  No

5. Is a material noncompliance disclosed? 1  Yes 2  No

**PART III**

**FEDERAL PROGRAMS (To be completed by auditor)**

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1  Yes 2  No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ .530) 1  Yes 2  No

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1  Yes 2  No -SKIP to Item 6

5. Is any reportable condition reported as a material weakness? (§ .510(a)(1)) 1  Yes 2  No

6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1  Yes 2  No

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1  Yes 2  No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)

- |  |  |   |  |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development      | 83 <input type="checkbox"/> Federal Emergency Management Agency      | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration   |
| 10 <input type="checkbox"/> Agriculture                                    | 39 <input type="checkbox"/> General Services Administration          | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> U.S. Department of State         |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input type="checkbox"/> Health and Human Services                | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation                   |
| 11 <input type="checkbox"/> Commerce                                       | 97 <input type="checkbox"/> Homeland Security                        | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 07 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense  | 03 <input type="checkbox"/> Institute of Museum and Library Services | 47 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 15 <input type="checkbox"/> Interior                                 | 09 <input type="checkbox"/> Small Business Administration                 | 00 <input type="checkbox"/> None                             |
| 81 <input type="checkbox"/> Energy   | 16 <input type="checkbox"/> Justice                                  |   | <input type="checkbox"/> Other - Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 17 <input type="checkbox"/> Labor                                    |   | <input type="text"/>   |
|  | 09 <input type="checkbox"/> Legal Services Corporation               |   | <input type="text"/>   |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives .....
- and, if not marked above, the Federal cognizant agency .....

Count total number of boxes marked above and submit this number of reporting packages . . . . 2

FORM SF-SAC (5-2004)

**PART II FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
Federal Agency Prefix <sup>1</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)	if yes, type of audit report <sup>3</sup> (h)		
1	4	.228	STATE BLOCK GRANT PROGRAM	\$ 1,249,194 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	C	07-1
1	4	.871	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 220,101 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	C	07-2
1	1	.300	GRANT FOR PUBLIC AND ECONOMIC DEVELOPMENT	\$ 144,210 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	0	.558	CHILD AND ADULT CARE FOOD PROGRAM	\$ 7,502 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3	.575	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 95,524 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	7	.039	HAZARD MITIGATION GRANT PROGRAM	\$ 160,153 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
		.		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		.		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		.		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		.		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				\$ 1,876,684 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.  
<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)  
<sup>3</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.  
<sup>4</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

A. Activities allowed or unallowed	E. Eligibility	I. Procurement and suspension and debarment	L. Reporting
B. Allowable costs/cost principles	F. Equipment and real property management	J. Program income	M. Subrecipient monitoring
C. Cash management	G. Matching, level of effort, earmarking	K. Real property acquisition and relocation assistance	N. Special tests and provisions
D. Davis - Bacon Act	H. Period of availability of Federal funds		O. None
<sup>5</sup> N/A for NONE			P. Other

