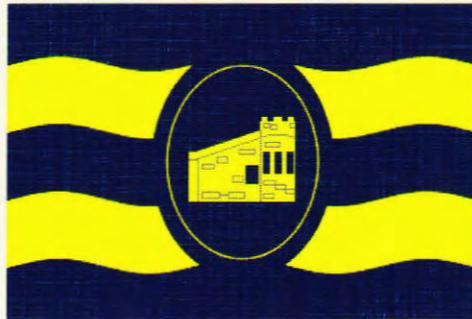


**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO**

***BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY
INFORMATION AND INDEPENDENT
AUDITOR'S REPORT***

***AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011***



***Hon. Martín Vargas Morales
Mayor***

***Mrs. Ivette Pacheco
Finance Director***

29 *OK*

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO**

TABLE OF CONTENTS

<u>FINANCIAL SECTION</u>	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-13
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Governmental Funds' Financial Statements:	
Balance Sheet – Governmental Funds	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	19
Notes to Basic Financial Statements	20-48
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	49
Notes to Required Supplementary Information - Budgetary Comparison Schedule – General Fund	50
FEDERAL AWARDS AND SINGLE AUDIT SECTION	
Supplementary Information	
Schedule of Expenditures of Federal Awards	51
Notes to Schedule of Expenditures of Federal Awards	52
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	53-54
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	55-56
Schedule of Findings and Questioned Costs	57-69
Summary Schedule of Prior Audit Findings	70

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Guánica, Puerto Rico**, as of and for the year ended June 30, 2011, which collectively comprise the Municipality of Guánica, Puerto Rico's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality of Guánica, Puerto Rico'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not implemented a methodology for the classification and reporting of the General Fund's fund balances. Accounting principles generally accepted in the United States of America require the classification of fund balances be presented as Non-spendable, Restricted, Committed, Assigned and Unassigned, based on the relative strength of the constraints that control how specific amounts can be spent. Such classification should be made for each appropriation within each fund and further classified by its intended activity. The amount by which this departure would affect the fund balances of the General Fund is not reasonably determinable.

In our opinion, except for the effects of not identifying the appropriate classification of the fund balances of the General Fund as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund of Municipality of Guánica, Puerto Rico, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the Commonwealth Legislature Resolutions Fund, the Debt Service Fund, the Section 8 Program Fund, the Loans Fund, and the aggregate remaining fund information of Municipality of Guánica, Puerto Rico, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

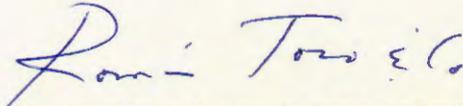
INDEPENDENT AUDITOR'S REPORT

(CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2012, on our consideration of the Municipality of Guánica, Puerto Rico's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 49 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Guánica, Puerto Rico's basic financial statements. The accompanying schedule of expenditures of federal awards on page 51 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.


ROMAN TORO & CO., CONTADORES
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Yauco, Puerto Rico
March 2, 2012

Stamp #E18570 was affixed to
the original of this report

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Management's Discussion and Analysis
For the Fiscal Year ended June 30, 2011

Our discussion and analysis of the Municipality of Guánica's financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2011. 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.

The new reporting model, required by Governmental Accounting Standards Board Statement No.34, was implemented during the fiscal year 2003-2004. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

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

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2011 by \$9,360,541 (net assets).
- Revenues increased by 2% and expenses increased only .32% when compared with fiscal year 2010.
- Net change in net assets amounted to \$480,992, an increase of approximately 5% with respect to the prior year's net change of \$304,199.

Highlights for Fund Financial Statements

The fund financial statements provide detailed information about the Municipality's most significant funds. These financial statements use the current financial resources measurement focus and modified accrual basis of accounting.

- A negative net change (decrease) in the fund balances of the Municipality's governmental funds for the amount of \$242,470 in the fiscal year 2011 resulted in reported ending fund balances of (\$2,623,626). This fund balance includes a net unassigned deficit for the amount of (\$4,338,691).
- For the year 2011 the General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of \$577,009 and an unassigned fund deficit of (\$4,325,888) as restated.

General Financial Highlights

- The investment in capital assets as of June 30, 2011 was \$23,686,780 (net of depreciation).
- Long-term debt decreased to \$11,977,613, or approximately a 3.08% decrease with respect to the prior year.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$564,110.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Management's Discussion and Analysis
For the Fiscal Year ended June 30, 2011

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 Municipality's 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.

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 view 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 assess the *overall health* of the Municipality of Guánica.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Management's Discussion and Analysis
For the Fiscal Year ended June 30, 2011

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 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

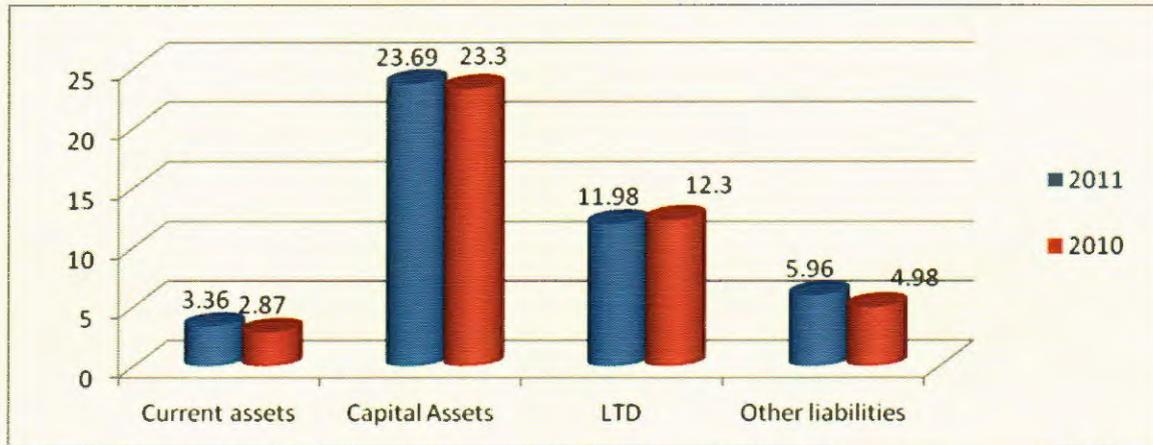
The Municipality's *combined* net assets increased from a year ago, from \$8,879,549 to \$9,360,541. Our analysis below focuses on the net assets (Table 1) and changes in net assets of the Municipality's governmental activities.

Table 1
NET ASSETS

	Governmental Activities	
	2011	2010 as restated
Current and other assets	\$ 3,609,087	\$ 2,870,429
Capital assets	<u>23,686,780</u>	<u>23,349,285</u>
Total assets	<u>27,295,867</u>	<u>26,219,714</u>
Current liabilities	5,957,713	4,981,585
Long-term liabilities	<u>11,977,613</u>	<u>12,358,580</u>
Total liabilities	<u>17,935,326</u>	<u>17,340,165</u>
Net assets:		
Invested in capital assets, net of related debt	16,702,587	16,936,480
Restricted for:		
Debt services	1,723,399	1,004,341
Capital project	292,334	341,815
Other specified purpose	226,507	426,662
Unrestricted (Deficit)	<u>(9,584,286)</u>	<u>(9,829,749)</u>
Net Assets	<u>\$ 9,360,541</u>	<u>\$ 8,879,549</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
 Management's Discussion and Analysis
 For the Fiscal Year ended June 30, 2011

Component of Net Assets



Net assets (assets over liabilities) of the Municipality's governmental activities increased by \$480,992 (\$8,879,549 in 2010 compared to \$9,360,541 in 2011). The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

Restricted net assets represent resources that are subject to external restrictions on how they may be used.

Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. As of June 30, 2011, the Municipality presented an unrestricted net assets deficit. This deficit primarily arises from long-term obligations such as compensated absences and debts to CRIM for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as invested in capital assets, net of related debt. Therefore, they are reported as part of the unrestricted net assets section.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Management's Discussion and Analysis
For the Fiscal Year ended June 30, 2011

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:

	2011	2010 (as restated)
Revenues:		
Program revenues:		
Operating grants and contributions	\$2,448,215	\$2,143,548
Charges for services	1,675,927	1,350,074
General revenues:		
Property taxes	1,865,928	1,537,321
Municipal license taxes	388,818	338,289
Sales and uses tax	827,260	938,567
Grants and contributions not restricted to specific program	4,864,976	4,871,817
State contributions	1,223,801	1,304,559
License and permits	634,510	990,351
Interests, fines and penalties	31,394	434,065
Miscellaneous	230,721	62,104
Total revenues	14,191,550	13,970,695
Expenses:		
General government	6,135,388	7,330,832
Public works and sanitation	1,010,551	1,003,766
Public safety	1,498,593	1,484,915
Culture and recreation	727,183	662,923
Health and sanitation	3,429,116	2,376,580
Human services and welfare	705,078	571,477
Interests	204,649	236,003
Total expenses	13,710,558	13,666,496
Net increase in net assets	480,992	304,199
Net assets-at the beginning of the year, as restated	8,879,549	8,575,350
Net assets- at end of the year	\$9,360,541	\$8,879,549

Revenues increased by \$220,855 from prior year, mainly in property taxes, in grants and contributions and miscellaneous.

Expenses cover a range of services. The largest expenses are general government, which represents 45% of total expenses and health and sanitation which represents 25% of total expenses. Program revenues covered 30% of total expenses.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Management's Discussion and Analysis
For the Fiscal Year ended June 30, 2011

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 spendable resources. Such information is useful in assessing the Municipality's financial requirements. In particular, unreserved fund balance may serve as an 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:

	2011	2010 (as restated)
	<u> </u>	<u> </u>
Comparative Condensed Balance Sheet-Governmental funds:		
Total assets-major funds	\$ 5,940,511	\$ 5,304,095
Total assets-nonmajor funds	905,450	971,297
Total Fund Assets	<u>6,845,961</u>	<u>6,275,392</u>
Total liabilities-major funds	7,973,352	7,048,049
Total liabilities-nonmajor funds	1,496,235	1,608,499
Total liabilities	<u>9,469,587</u>	<u>8,656,548</u>
Fund Balances:		
Restricted-major funds	2,293,047	2,004,925
Restricted-nonmajor funds	93,199	97,779
Assigned-major funds	12,803	
Unassigned-major funds	(4,338,691)	(3,748,879)
Unassigned-non-major funds	(683,984)	(734,981)
Total Fund Balance	<u>(2,623,626)</u>	<u>(2,381,156)</u>
Comparative Condensed Statement of Operations-Governmental funds:		
Total revenues-major funds	12,495,406	12,808,524
Total revenues-nonmajor funds	1,696,144	1,162,172
	<u>14,191,550</u>	<u>13,970,696</u>
Total expenditures-major funds	12,731,166	14,026,369
Total expenditures-nonmajor funds	1,702,854	1,629,897
	<u>14,434,020</u>	<u>15,656,266</u>
Net changes in fund balances	<u>\$ (242,470)</u>	<u>\$ (1,685,570)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Management's Discussion and Analysis
For the Fiscal Year ended June 30, 2011

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental Activities

Total revenues of Municipality's governmental activities increased by \$220,854 while total expenses decreased by (\$1,122,646) for a net change of \$242,470 for fiscal year 2011. The most significant increases were reported in Property Taxes and Grants and contributions not restricted for specific programs, operating grants and contributions, sales and use tax, license and permits and miscellaneous while all other revenues decreased.

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balances may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2011, the governmental funds reported ending fund balance deficit of (\$2,623,626), a net increase of \$242,470 in comparison with the prior year. Of the total fund balances, (\$4,338,691) constitutes an unassigned fund balance deficit. The remainder of the fund balances is reserved to indicate that is not available for new spending.

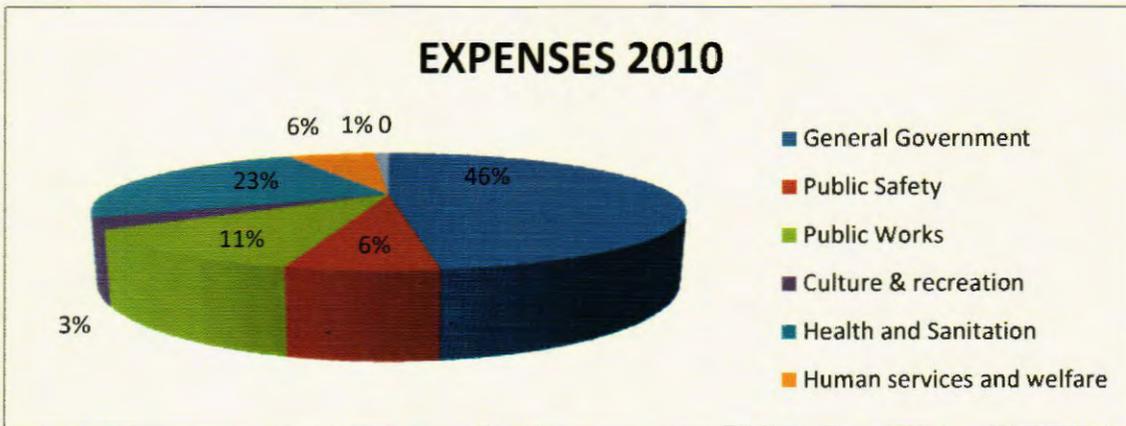
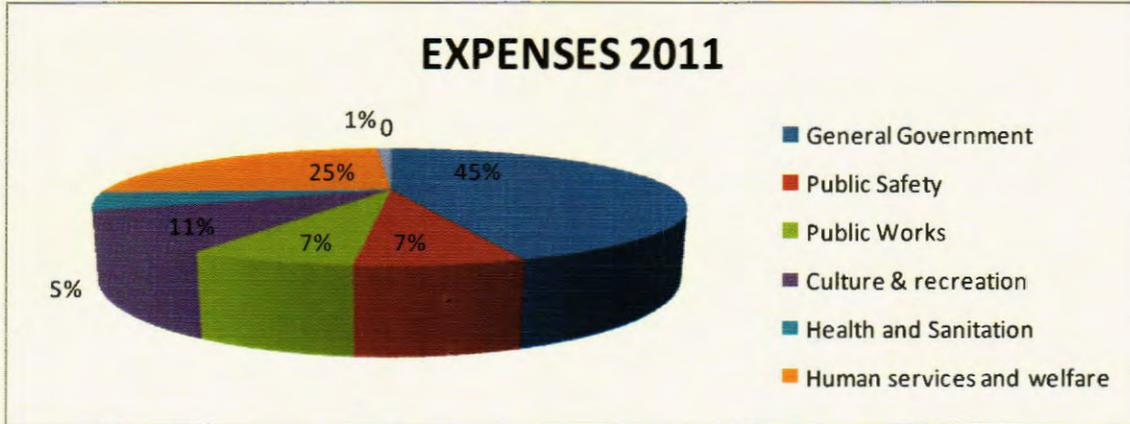
The general fund is the operating fund of the Municipality. There was an unassigned fund deficit in the general fund for the amount of \$4,338,691. For the year ended June 30, 2011, the fund balance deficit of the general fund increased by \$577,009. The beginning fund balance deficit was restated as a result of transferring \$567,309 of current debt to long-term installment plan agreement to the statement of net assets.

Expenditures during the fiscal year ended June 30, 2011 were the following:

Table 2
Governmental Activities

	Total expenditures	
	2011	2010 (as restated)
General Government	\$ 5,872,568	\$ 6,773,938
Public Safety	909,937	901,734
Public works	1,164,314	1,177,950
Culture and recreation	528,727	454,463
Health and sanitation	3,416,908	2,333,724
Human services and welfare	682,987	571,477
Debt service	783,027	1,260,641
Capital outlays	1,075,552	2,182,339
Totals	\$14,434,020	\$15,656,266

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Management's Discussion and Analysis
For the Fiscal Year ended June 30, 2011



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Management's Discussion and Analysis
For the Fiscal Year ended June 30, 2011

Table 3
Governmental Activities

	General Revenues by major sources	
	2011	2010 (as restated)
Property taxes	\$ 1,865,928	\$ 1,537,321
Municipal license taxes	388,818	338,289
Sale tax	827,260	938,568
Others	896,625	1,486,519
Grants and contributions	<u>6,088,777</u>	<u>6,176,376</u>
Totals	<u>\$10,067,408</u>	<u>\$10,477,073</u>

The major sources of general revenue are property taxes, municipal license taxes, sales tax and grant and contributions not restricted, which in total represent (93%) and (83%) of all revenues in 2011 and 2010, respectively.

Table 4
Governmental Activities

	Program Revenues by major sources	
	2011	2010
Charges for service	\$1,675,927	\$1,350,074
Operating Grants and Contribution	<u>2,448,215</u>	<u>2,143,548</u>
Totals	<u>\$4,124,142</u>	<u>\$3,493,622</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Management's Discussion and Analysis
For the Fiscal Year ended June 30, 2011

BUDGETARY HIGHLIGHTS

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

Table 5	Final Budget	Actual Amounts	Variance
Total revenues	\$12,134,067	\$10,025,138	\$(2,108,929)
Total expenditures, encumbrances and other financing uses	(12,134,067)	(10,628,968)	1,505,099
Transfer in	-	39,720	39,720
Deficiency	\$ -	\$(564,110)	\$(564,110)

The original and the final budget of the General Fund for the fiscal year ended June 30, 2011 and 2010 amounted to \$12,029,886 and \$11,090,298, respectively. Even though actual revenues fell short by \$2,108,929 over projected revenues, management was able to control expenses which were \$1,505,099 less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2011 amounted to \$23,686,780 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles and equipment, and infrastructure. **Table 6** present the major classes of capital assets.

Table 6		Accumulated depreciation	Capital Assets Net of Depreciation
Capital Assets	Amount		
Construction in progress	\$ 221,662	\$ -	\$ 221,662
Land	741,684	-	741,684
Buildings and building improvements	17,647,921	3,637,233	14,010,688
Infrastructure	9,250,131	2,240,630	7,009,501
Land improvement	2,892,996	2,425,520	467,476
Vehicles	2,074,174	1,603,567	470,607
Machinery and equipment	2,006,921	1,241,759	765,162
Total Assets	\$34,835,489	\$11,148,709	\$23,686,780

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Management's Discussion and Analysis
For the Fiscal Year ended June 30, 2011

LONG-TERM DEBT

At June 30, 2011, the Municipality had total of \$11,977,613 in general obligations and others outstanding debts, as shown in **Table 7**. Of this amount, \$7,310,000 comprises debt backed by the full faith and credit of the government and \$4,667,613 is other obligations.

Table 7	
Long Term Debts	Amount
General obligations bonds and notes	\$ 7,310,000
Others	<u>4,667,613</u>
Total Long Term Debts	<u>\$ 11,977,613</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

All of these factors were considered in preparing the Municipality's budget for the 2012 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at Municipality of Guánica, PO Box 785, Guánica, P.R. 00653.

BASIC FINANCIAL STATEMENTS

**Commonwealth of Puerto Rico
Municipality of Guánica
Statement of Net Assets
June 30, 2011**

	Governmental Activities
ASSETS:	
Cash and investments	\$ 789,315
Cash with fiscal agent	2,189,906
Receivables:	
Intergovernmental	416,643
Federal grants	208,790
Others	4,433
	3,609,087
Capital assets:	
Land, improvements, and construction in progress	963,346
Other capital assets, net of depreciation	22,723,434
Total capital assets	23,686,780
TOTAL ASSETS	27,295,867
 LIABILITIES:	
Accounts payable and accrued liabilities	2,514,895
Accrued interests	117,945
Due to governmental units	2,492,758
Deferred revenues:	
Municipal license taxes	222,263
Federal grants	609,852
Long-term liabilities:	
Due within one year	1,059,824
Due in more than one year	10,917,789
	17,935,326
TOTAL LIABILITIES	17,935,326
 NET ASSETS	
Invested in capital assets, net of related debt	16,702,587
Restricted for:	
Debt service	1,723,399
Other purposes	226,507
Capital projects	292,334
Unrestricted (deficit)	(9,584,286)
	9,360,541
TOTAL NET ASSETS	\$ 9,360,541

The notes to the financial statements are an integral part of this statement.

**Commonwealth of Puerto Rico
Municipality of Guánica
Statement of Activities
For the Year Ended June 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
General government	\$ 6,135,388	\$ 57,138			\$ 6,078,250
Public safety	1,010,551		14,785		995,766
Public works	1,498,593		70,000		1,428,593
Culture and recreation	727,183				727,183
Health and sanitation	3,429,116	1,618,789	749,355		1,060,972
Human services and welfare	705,078		1,614,075		(908,997)
Interest on long-term debt	204,649				204,649
Total governmental activities	\$ 13,710,558	\$ 1,675,927	\$ 2,448,215	\$ -	\$ 9,586,416
 General revenues:					
Property taxes					\$ 1,865,928
Municipal license tax					388,818
Sales and use tax					827,260
Other local taxes					634,510
Intergovernmental revenue					1,223,801
Grant and contributions not restricted to specific programs					4,864,976
Interest and investment earnings					31,394
Miscellaneous					230,721
Total general revenues					10,067,408
Change in net assets					480,992
Net assets - beginning-as restated					8,879,549
Net assets - ending					\$ 9,360,541

The notes to the financial statements are an integral part of this statement

Commonwealth of Puerto Rico
Municipality of Guánica
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Commonwealth Legislature Resolutions	Debt Service	Section 8 Program	Loans Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and investments	\$ 58,852	\$ 106,067	\$ -	\$ 232,667	\$ 114,504	\$ 277,225	\$ 789,315
Cash with fiscal agent			1,832,928		325,809	31,169	2,189,906
Receivables:							
Intergovernmental	408,227		8,416				416,643
Federal grants						208,790	208,790
Others				4,433			4,433
Due from other funds	1,500,935	1,348,036		99		387,804	3,236,874
Total assets	\$ 1,968,014	\$ 1,454,103	\$ 1,841,344	\$ 237,199	\$ 440,313	\$ 904,988	\$ 6,845,961
Liabilities and Fund Balances							
Liabilities :							
Accounts payable and accrued liabilities	2,200,122	32,121		6,335	166,232	110,085	2,514,895
Bonds and notes payable			275,000				275,000
Accrued interests			117,945				117,945
Due to governmental units	2,455,104				37,446	208	2,492,758
Due to other funds	1,416,413	836,602		4,357	203,874	775,628	3,236,874
Deferred revenues:							
Municipal license taxes	222,263						222,263
Federal grants						609,852	609,852
Total liabilities	6,293,902	868,723	392,945	10,692	407,552	1,495,773	9,469,587
Fund balances:							
Restricted		585,380	1,448,399	226,507	32,761	93,199	2,386,246
Assigned	12,803						12,803
Unassigned	(4,338,691)					(683,984)	(5,022,675)
Total fund balances (deficit)	(4,325,888)	585,380	1,448,399	226,507	32,761	(590,785)	(2,623,626)
Total liabilities and fund balances	\$ 1,968,014	\$ 1,454,103	\$ 1,841,344	\$ 237,199	\$ 440,313	\$ 904,988	\$ 6,845,961

The notes to the financial statements are an integral part of this statement

Commonwealth of Puerto Rico
Municipality of Guánica
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Commonwealth Legislature Resolutions	Debt Service	Section 8 Program	Loans Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
Property taxes	\$ 1,182,636		\$ 683,292				\$ 1,865,928
Municipal license taxes	388,818						388,818
Sales and use taxes	289,388						289,388
Municipal development	26,370		511,502				537,872
Federal grants and contributions		10,320		242,404		1,441,671	1,694,395
Intergovernmental revenues	6,383,446	238,632				220,519	6,842,597
Charges for services	1,641,254	900				33,773	1,675,927
Licenses and permits	633,678	832					634,510
Interest, fines and penalties	23,852	129	1,125	129	5,978	181	31,394
Other revenues	205,051			25,670			230,721
Total revenues	10,774,493	250,813	1,195,919	268,203	5,978	1,696,144	14,191,550
Expenditures							
Current:							
General government	\$ 4,717,801	474,415				680,352	5,872,568
Public safety	909,937						909,937
Public works	1,164,314						1,164,314
Culture and recreation	528,727						528,727
Health and sanitation	3,416,908						3,416,908
Human Services and Welfare	227,035			283,994		171,958	682,987
Capital outlay		103,476			121,532	850,544	1,075,552
Debt service:							
Principal			578,378				578,378
Interest and other charges			204,649				204,649
Total expenditures	10,964,722	577,891	783,027	283,994	121,532	1,702,854	14,434,020
Excess (deficiency) of revenues over (under) expenditures	(190,229)	(327,078)	412,892	(15,791)	(115,554)	(6,710)	(242,470)
Other financing sources (uses)							
Transfers in	39,720		426,500				466,220
Transfers out	(426,500)		(335)		(5,978)	(33,407)	(466,220)
Total other financing sources (uses)	(386,780)	-	426,165	-	(5,978)	(33,407)	-
Net change in fund balances	(577,009)	(327,078)	839,057	(15,791)	(121,532)	(40,117)	(242,470)
Fund balance (deficit), beginning-as restated	(3,748,879)	912,458	609,342	242,298	154,293	(550,668)	(2,381,156)
Fund balance (deficit), ending	(4,325,888)	\$ 585,380	\$ 1,448,399	\$ 226,507	\$ 32,761	\$ (590,785)	\$ (2,623,626)

The notes to the financial statements are an integral part of this statement

Commonwealth of Puerto Rico
Municipality of Guánica
Reconciliation of the Governmental Funds Balance Sheet to
the Statement of Net Assets

June 30, 2011

Total Fund Balance- Governmental Funds \$ (2,623,626)

Amounts Reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital assets	963,346	
Infrastructure assets	9,250,131	
Other depreciable assets	24,622,012	
Accumulated depreciation	<u>(11,148,709)</u>	
Total capital assets		23,686,780

Bonds and notes payable are reported in the funds when principal payment are due, but are reported in the governmental activities when the debt is incurred. 275,000

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

General Bonds and notes payable	7,310,000	
Revenue Department- loan for payment of legal settlement	974,775	
Revenue Department- repayment of excess property taxes	617,292	
Department of labor	314,123	
Puerto Rico water and sewer agency	204,000	
Compensated absences	1,496,799	
Property Tax debt- Law 42	923,518	
LIMS repayment plan	17,106	
Claims and judgement	<u>120,000</u>	
Total long-term-liabilities		<u>(11,977,613)</u>

Net Assets of governmental activities \$ 9,360,541

COMMONWEALTH OF PUERTO RICO
Municipality of Guánica
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2011

Net change in fund balances-total governmental funds \$ (242,470)

Amounts reported for governmental activities in the statement of activity 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. In the current period, these amounts are:

Capital assets additions	1,166,432	
Depreciation Expense	<u>(828,937)</u>	
Total		337,495

Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, the repayments were:

General obligation bonds and notes	275,000	
Other long-term liabilities	<u>547,683</u>	
Total		822,683

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Compensated absences	(92,724)	
Judgement and claims	(120,000)	
Water and sewer agency	(216,000)	
Department of Labor	<u>(7,992)</u>	
Total		<u>(436,716)</u>

Change in net assets of governmental activities \$ 480,992

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Guánica of the Commonwealth of Puerto Rico (the "Municipality") was founded in 1771. The Municipality is a local government with full legislative, fiscal and administrative powers to operate as a government under Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Law No. 81)*.

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

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

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

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

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

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2011, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

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

The required supplementary information, which consists of a management discussion and analysis (MD&A), is information presented along with, but separate from, the Municipality's basic financial statements. The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2011, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

A. FINANCIAL REPORTING ENTITY

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. The decision to include any potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14, *The Financial Reporting Entity*, as amended by GASB 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB 14*.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of the financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unit of the Municipality if all of the following criteria are met:

- The Mayor appoints a voting majority of an organization’s governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on the Municipality.
- The economics resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

The Municipality’s management has concluded that based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2011. Accordingly, these basic financial statements present only the Municipality as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2011, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

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

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

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

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

- ❖ Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2011, has been reported only in the government-wide financial statements.

C. FINANCIAL STATEMENT PRESENTATION

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The Statement of Net Assets presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- ❖ Invested in Capital Assets, Net of Related Debt – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ❖ Restricted Net Assets – These results when constraints are placed on net assets use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ❖ Unrestricted Net Assets – These consists of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The Statement of Activities is focused on both the gross and net costs per functional category, and reflects the direct expenses of each functional category or identifiable activity, which are supported by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity, and the Municipality generally does not allocate indirect expenses. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not included in program revenues are reported instead as general revenues.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The fund financial statements (the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

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

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

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

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

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

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignments by Legislature Resolutions. The primarily objectives of this assignment is the development of construction projects on communities.

Debt Service Fund – This is the fund used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Housing Choice Voucher Sec 8 Program – This fund accounts for revenues related to federal program HUD-Section 8. The purpose of the program is to provide rental assistance to very low income families to help afford decent, safe and sanitary housing.

Loans Fund – This is the fund used to account for all financial resources and transactions related to the loans for construction purposes and capital outlays of the Municipality, which is financed by loans from the Government Development Bank of Puerto Rico.

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the Government-Wide Statement of Net Assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL REPORTING PRESENTATION

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

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

Special Revenue Fund– This is the fund used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or state statutes.

Debt Service Fund – This is the fund used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund – This is the fund used to account for financial resources used for the acquisition or construction of major capital facilities. The uses and limitations of each capital projects fund are specified by Municipality ordinances or state statutes.

E. FUND BALANCES

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of resources reported in governmental funds.

Pursuant to the provisions of GASB 54, the fund balances amounts are reported as non-spendable, restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- ❖ **Non-spendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.
- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by similar law, ordinance or resolution, no later than the end of the fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. FUND BALANCES (CONTINUED)

- ❖ **Assigned** – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- ❖ **Unassigned** – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When both restricted and unrestricted resources are available for use, it is the Municipality's policy to use externally restricted resources first, then unrestricted resources-committed, assigned and unassigned-in order and as needed.

At June 30, 2011, the accompanying fund financial statements reported fund balances as restricted, assigned and unassigned.

F. BUDGETARY DATA

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

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

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

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message;
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature;

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. BUDGETARY DATA (CONTINUED)

3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law;
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. BUDGETARY DATA (CONTINUED)

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

G. CASH, CASH EQUIVALENT AND INVESTMENT

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

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

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

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

H. RECEIVABLES

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

I. INVENTORIES

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. CAPITAL ASSETS

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Other costs incurred for repairs and maintenance is expensed as incurred.

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

Capital Assets	Years
Buildings and building improvements	20-50
Land improvement	20
Infrastructure	25-50
Vehicles	5-15
Machinery and equipment	5-20

K. LONG-TERM OBLIGATIONS

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

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

L. COMPENSATED ABSENCES

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. COMPENSATED ABSENCES (CONTINUED)

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2011.

<u>BALANCE</u> <u>JULY 1, 2010</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u>	<u>BALANCE</u> <u>JUNE 30, 2011</u>
\$1,450,437	\$92,724	\$46,362	\$1,496,799

M. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

N. INTERFUND TRANSACTIONS

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

- ❖ **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- ❖ **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ❖ **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. CLAIMS AND JUDGMENTS

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

P. USE OF ESTIMATES

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

Q. ACCOUNTING FOR PENSION COSTS

For the purpose of applying the requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers (GASB No. 27), amended by GASB Statement No. 50, Pension Disclosures. The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions. The state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

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

R. RISK FINANCING

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2011 amounted to \$154,209. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$209,545 for workers compensation insurance covering all municipal employees.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following accounting standards that have effective dates after June 30, 2011:

- ❖ GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. This Statement is effective for periods beginning after June 30, 2012;
- ❖ GASB Statement No. 59, Financial Instruments Omnibus. This statement is effective for periods beginning after June 30, 2011;
- ❖ GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. This statement is effective for periods beginning after December 31, 2012;
- ❖ GASB Statement No. 61, The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34. This statement is effective for periods beginning after June 30, 2013;
- ❖ GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements. This statement is effective for periods beginning after December 31, 2012;
- ❖ GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. This statement is effective for periods beginning after December 31, 2012;
- ❖ GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53). This statement is effective for periods beginning after June 30, 2013;

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

NOTE 2 – CASH AND CASH EQUIVALENTS

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2011.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2011, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. Therefore, the Municipality's management has concluded that at June 30, 2011, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2011.

The Municipality's bank balances in commercial banks of \$58,852 in the General Fund, \$106,067 in the State Assignment Fund \$232,667 in Section 8 Fund, \$114,504 in the Loan Fund and \$277,225 in other governmental funds, were fully collateralized at June 30, 2011. The deposits at GDB of \$1,832,928 in the Debt Service Fund, \$325,809 in Loans Fund and \$31,169 in other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 3 – RECEIVABLES

A. Amounts due from governmental entities as of June 30, 2011 follows:

	<i>Commonwealth Government</i>	<i>Federal Government</i>
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	\$ 8,415	\$ -
Office of Commissioner of Municipal Affairs – CDBG	-	207,585
Department of Health	406,324	-
Others	1,904	1,205
	<u>\$416,643</u>	<u>\$208,790</u>

B. Interfund transactions

Due from/to other funds:

Amounts due from/to other funds represent temporary advances to other funds for payroll and payroll taxes expenditures and to record the overdrawn of pool cash by the general fund to other special funds as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Major fund – State Legislative Joint Resolutions	\$ 497,861
General Fund	Capital Improvement loan fund	65,950
General Fund	Other governmental funds –others	932,867
General Fund	Section 8	4,357
Other governmental funds –others	Major Fund – State Legislative Joint Resolutions	319,426
Major Fund – State Legislative Joint Resolutions	General Fund	1,134,554
	Other governmental funds	95,880
Other governmental funds –others	CDR	167,649
Other governmental funds –others	Other minor funds	18,330
Total		<u>\$3,236,874</u>

Operating transfers:

Transfers between individual funds were made for operational purposes. Transfers includes: interest earned on restricted cash with fiscal agents in the debt service fund and operating and capital improvement loans in other governmental funds which is transferred to the general fund; principal and interest payments of general long term debt transferred from the general fund to the debt service fund; and transfers of funds from general fund to other special funds for matching purposes or to finance unreimbursable funds from governmental agencies.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 4 – CAPITAL ASSETS

Capital assets and depreciation as of and for the year ended June 30, 2011 is as follows:

Capital Assets activity for the year ended June 30, 2011

<u>Primary Government</u>	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassifications</u>	<u>Balance June 30, 2011</u>
Capital Assets not being depreciated:					
Land	\$ 593,684	\$ 148,000			\$ 741,684
Construction in progress	6,142,254	300,781	(6,221,373)		221,662
Total Capital Assets not being depreciated:	<u>6,735,938</u>	<u>448,781</u>	<u>(6,221,373)</u>		<u>963,346</u>
Capital Assets being depreciated:					
Building, Structures and building improvements	10,617,168	6,795,675	-	235,708	17,647,921
Infrastructure	9,250,131				9,250,131
Land improvements	2,892,996				2,892,996
Licensed vehicles	1,934,662	58,269	-	81,243	2,074,174
Machinery and equipment	2,194,588	85,083	-	(316,321)	1,963,350
Equipment under capital leases	43,571		-		43,571
Total Capital Assets being depreciated:	<u>26,933,116</u>	<u>6,939,027</u>	<u>-</u>	<u>-</u>	<u>33,872,143</u>
Less accumulated depreciation for:					
Building, Structures and building improvements	3,340,037	219,436	-	77,760	3,637,233
Infrastructure	1,968,476	272,154			2,240,630
Land improvements	2,338,559	86,961			2,425,520
Licensed vehicles	1,447,609	127,337	-	28,621	1,603,567
Machinery and equipment	1,187,021	123,049	-	(106,381)	1,203,689
Equipment under capital leases	38,070				38,070
Total accumulated depreciation	<u>10,319,772</u>	<u>828,937</u>	<u>-</u>	<u>-</u>	<u>11,148,709</u>
Total capital assets, being depreciated, net	<u>16,613,344</u>	<u>6,110,090</u>	<u>-</u>	<u>-</u>	<u>22,723,434</u>
Governmental activities capital assets, net	<u>\$ 23,349,282</u>	<u>\$ 6,558,871</u>	<u>\$ (6,221,373)</u>	<u>\$ -</u>	<u>\$ 23,686,780</u>

Depreciation and amortization of capital assets was charge to functions/activities in the accompanying government-wide statement of activities as follows:

General Government	\$161,289
Public Safety	100,612
Public Works	289,795
Public Housing and Welfare	22,092
Culture and education	198,456
Health and sanitation	12,208
Urban and economic development	<u>44,485</u>
	<u>\$828,937</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 5 – LIABILITIES

Due to governmental units

Amounts due to other agencies as of June 30, 2011 follows:

	Commonwealth Entities
Puerto Rico – Land Authority	\$ 229,562
Puerto Rico Telephone Company	72,397
Puerto Rico Treasury Department	697,880
Puerto Rico Employee Retirement System Administration	72,118
Puerto Rico Industrial Development Corporation (PRIDCO)	211,084
FEMA	853,203
Other entities	294,387
Social Security Administration	62,127
	<u>\$2,492,758</u>

Deferred revenues

The Municipality reports deferred revenues on its GFFS and GWFS as follows:

	<i>Revenues not available</i>	<i>Revenues received before allowable cost are incurred</i>
EDA Fund	\$ -	\$ 22,855
Unearned volume of municipal license taxes	222,263	-
Federal Emergency Management Agency	-	71,851
Others	-	37,916
Rural Development Corporation	-	339,839
ADFAN	-	6,132
Homelessness Prevention Program	-	10,325
Solid Waste Authority Fund	-	4,067
SBGP – Fund	-	116,867
	<u>\$222,263</u>	<u>\$609,852</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 5 – LIABILITIES, CONTINUED

Long-term liabilities

a. Long-term liabilities activity for the year ended June 30, 2011 was as follows:

<u>Description</u>	<u>Balance June 30, 2010</u>	<u>Adjustments</u>	<u>Balance June 30, 2010 as restated</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>	<u>Due within one year</u>
Bonds payable	\$ 7,705,000	\$ (120,000)	\$ 7,585,000	\$ -	\$(275,000)	\$ 7,310,000	\$ 435,000
Puerto Rico Treasury Department	1,174,775	-	1,174,775	-	(200,000)	974,775	300,000
Excess of property tax	663,492	-	663,492	-	(46,200)	617,292	46,200
Puerto Rico Labor Department	351,309	-	351,309	7,992	(45,178)	314,123	91,081
CRIM	943,689	-	943,689	-	(20,171)	923,518	21,437
LIMS	33,238	-	33,238	-	(16,132)	17,106	17,106
Puerto Rico Water and Sewer Authority	-	-	-	216,000	(12,000)	204,000	144,000
Compensated absences	1,450,437	-	1,450,437	92,724	(46,362)	1,496,799	-
Claims and judgments	161,640	-	161,640	120,000	(161,640)	120,000	-
Other long-term liabilities	4,778,580	-	4,778,580	436,716	(547,683)	4,667,613	619,824
Total	<u>\$12,483,580</u>	<u>\$(120,000)</u>	<u>\$12,363,580</u>	<u>\$436,716</u>	<u>\$(822,683)</u>	<u>\$11,977,613</u>	<u>\$1,054,824</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 5 – LIABILITIES, CONTINUED

Long-term liabilities, continued

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service.

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2011, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2011 are as follows:

Bonds

\$530,000 series of 2002, general obligation bonds payable in annual installments \$10,000 to \$40,000 until July 1, 2026, interest from 2.7% to 5.6%	415,000
\$1,310,000 series of 2005, general obligation bond payable in annual installments of \$35,000 to \$105,000 until July 1, 2025, interest from 4.23% to 5.33%	1,110,000
\$335,000 series of 2007, general obligation bond payable in annual installments of \$60,000 to \$80,000 until July 1, 2011, interest from 6.6% to 7.5%	80,000
\$710,000 series of 2008, general obligation bond payable in annual installments of \$10,000 to \$60,000 until July 1, 2032, interest from 7% to 7.5%	680,000
\$1,125,000 series of 1995, general obligation bond payable in annual installments of \$20,000 to \$110,000 until July 1, 2016 interest from 4.7% to 6.63%	535,000
\$1,740,000 series of 2002, operational obligation bond payable in annual installments of \$10,000 to \$130,000 until July 1, 2026, interest from 5% to 6%	1,375,000
\$1,270,000 series of 2008, special obligation bond payable in annual installments of \$15,000 to \$110,000 until July 1, 2032, interest from 7% to 7.5%	1,235,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 5 – LIABILITIES, CONTINUED

Long-term liabilities, continued

\$805,000 series of 2008, special obligation bond payable in annual installments of \$10,000 to \$70,000 until July 1, 2032, interest from 7% to 7.5%	780,000
\$1,210,000 series of 2008, special obligation bond payable in annual installments of \$85,000 to \$210,000 until July 1, 2017, interest from 7% to 7.5%	1,035,000
\$145,000 series of 2005, operational purpose bond payable in annual installments of \$10,000 to \$20,000 until July 1, 2014, interest from 5% to 8%	<u>65,000</u>
Total bonds payable	<u>\$7,310,000</u>

b. Other long-term liabilities:

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.

\$974,775

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.

617,292

The Municipality entered into a financing agreement with the Puerto Rico Department of Labor for a total amount of \$429,377 for unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the Municipality. The agreement is payable in monthly installments of \$14,637, including interest, due on July 2012.

314,123

\$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 \$18,979 approximately, plus interest rate of 6.25% until July 1, 2032.

923,518

Note payable of \$187,730 represents a financing agreement with CRIM to the repayment of catastral digitalization. The agreement is due in semester payments of \$17,873 until November 28, 2012 at interest rate of 6%.

17,106

On May 25, 2011 the Municipality entered into a financing with the Puerto Rico Water and Sewer Agency for the amount of \$216,000 payable in monthly installments of \$12,000, due on November 15, 2012.

204,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 5 – LIABILITIES, CONTINUED

Long-term liabilities, continued

b. Other long-term liabilities:

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, 2011, the outstanding balance amounts to \$1,450,437. This amount will be repaid with unrestricted funds. 1,496,799

Other claims and judgments – Represent the final costs of legal cases paid subsequent to June 30, 2011 and other claims outstanding as of that date. The awarded amounts will be paid with unrestricted funds. As of June 30, 2011, the outstanding balance amounts to \$161,640. 120,000

Total \$4,667,613

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.

The annual requirements for the amortization of bonds payable at June 30, 2011 are as follows:

	<u>Bonds Payable</u>		<u>Other Liabilities</u>		<u>Total Principal Interest</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 435,000	\$ 221,430	\$ 619,825	\$ 57,583	\$ 1,054,825	\$ 279,013
2013	380,000	435,972	550,426	55,469	930,426	491,441
2014	405,000	439,618	484,516	54,037	889,516	493,655
2015	440,000	410,534	134,213	52,515	574,213	463,049
2016	500,000	374,259	73,555	50,898	573,555	425,157
2017-2021	1,840,000	1,426,058	395,822	226,447	2,235,822	1,652,505
2022-2026	1,795,000	856,759	378,824	167,738	2,173,824	1,024,497
2027-2031	1,050,000	349,487	303,154	88,117	1,353,154	437,604
2032-2036	465,000	35,436	110,476	6,905	575,476	42,341
Unmatured	-	-	<u>1,616,799</u>	-	<u>1,616,799</u>	-
	<u>\$7,310,000</u>	<u>\$4,549,553</u>	<u>\$4,667,610</u>	<u>\$759,709</u>	<u>\$11,977,610</u>	<u>\$5,309,262</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 6 – REVENUES

Property taxes

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

The tax rates in force as of June 30, 2011 are 8.78% for real property (of which 8.58% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department) and 6.58% for personal property (of which 6.38% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department). For both tax rates 1.03% belongs to the Commonwealth and 7.75% and 5.75%, respectively, belongs to the Municipality. Of the portion belonging to the Municipality, 6% on real property and 4% on personal property represents the Municipality's portion which is appropriated for general purposes and accounted in the general fund. The remaining portion of 1.75% on both tax rates belonging to the Municipality is restricted for debt service and accounted in the debt service fund.

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

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The Municipality has a net payable to the CRIM of \$17,106 resulting from the final settlement for fiscal year 2004-2005. The total amount is recorded as a long term debt in the government-wide statement since will not be paid with expendable available resources.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 6 – REVENUES, CONTINUED

Sales and use tax

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

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

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 (“Act 80”) which amend Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007, 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 6 – REVENUES, CONTINUED

Municipal license taxes

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes on all trade or business activities operated by any natural or legal person within the territorial area of Guánica. This is a self-assessed tax generally based on the business volume measured by gross sales. The Municipality establishes the applicable tax rates. At June 30, 2005, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers. Any taxpayers that have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60% and 90% under standard rates.

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax return to be filed every April 15 based on the actual volume of business generated in the preceding calendar year. Taxpayers with a sales volume of \$3 millions or more must include audited financial statements with their tax returns. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5% discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future period) are recorded as deferred revenues. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$222,263 at June 30, 2011, which represents municipal licenses collected in advance for the taxable year 2010-2011.

Intergovernmental Revenues

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

General Fund	<u>Amount</u>
Amount of municipal equalization fund and subsidy send by CRIM	\$4,288,332
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,223,801
Reimbursement from Commonwealth Government - Christmas Bonus expenditures	121,958
State Grant from PR Health Department	<u>749,355</u>
 Total general fund	 6,383,446
 Commonwealth Legislative Resolutions	 238,632
Other Governmental Fund	<u>220,519</u>
 Total	 <u>\$6,842,597</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM

Description of the Plan

Employees of the Municipality participate in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Government under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Government and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

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

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of their monthly gross salary. The Municipality is required by Act No. 447 to contribute 9.275% of its employees' gross salaries.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the ERS effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, for all years of creditable services, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable services.

Law Number 305 was enacted on September 24, 1999, amended the Act Number 447 for the purpose of establishing a new program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system (ERS) as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 7 – EMPLOYEES RETIREMENT SYSTEM, CONTINUED

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 the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Government. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% up to a maximum of 10%) of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employees' contributions (9.275% of the employees' salary) will be used to fund the current plan.

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

Annual Contribution

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

<u>Fiscal year ended</u>	<u>Law No. 447</u>	<u>System 2000</u>
2011	<u>\$60,134</u>	<u>\$168,959</u>
2010	<u>\$94,923</u>	<u>\$256,042</u>

These amounts represented the 100% of the required contribution for year 2010-2011. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of Puerto Rico provides additional information of the ERS and System 2000. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 8 – RISK MANAGEMENT

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

NOTE 9 – CONTINGENCIES

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

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.

NOTE 10 – COMMITMENTS

The Municipality of Guánica had several outstanding or planned construction projects as of June 30, 2011. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$278,960.

NOTE 11 – FUND DEFICITS

The Municipality has accumulated deficits in the following individual funds:

Major governmental fund – General Fund	<u>\$(4,325,888)</u>
Non-major governmental funds:	
Law 52 & 82	\$(608,616)
ADFAN	(41,173)
Others	<u>(34,195)</u>
	<u>\$(683,984)</u>

The budget project does not address the cumulative general fund deficit. The non-major governmental fund deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As requires by current standards, the Municipality recorded intergovernmental revenues for reimbursement-based (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available. These deficits will be covered with future budgetary appropriations of the general fund, if necessary.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 12 – ACCOUNTING CHANGES AND RESTATEMENTS

A. Governmental Fund Financial statements

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	Governmental Funds					Other Governmental Funds	Total
	General Fund	Commonwealth Legislative Resolutions	Debt Service	Section 8	Loans		
Fund Balance Beginning	\$ (4,316,188)	\$ 912,458	\$ 609,342	\$ 242,298	\$ 154,293	\$ (637,202)	\$ (3,034,999)
To reclassify from General Fund Financial Statement to the Statement of Net Assets the following accounts payable due to a long-term agreement entered by the municipality:							
1. Amount due to the Department of Labor	351,309						351,309
2. Amount due to P.R. Water and Sewer Authority	216,000						216,000
To correct special fund balance						86,534	86,534
Fund Balance, beginning as restated	\$ (3,748,879)	\$ 912,458	\$ 609,342	\$ 242,298	\$ 154,293	\$ (550,668)	\$ (2,381,156)

B. Governmental Wide Financial Statements

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

Net assets beginning balance	\$ 8,100,655
To adjust special funds balance	86,585
To adjust beginning balance Bonds Payable	125,000
To record the transfer from the general fund of the following long term agreements entered by the municipality	
1. Amount due to the Department of Labor	351,309
2. Amount due to P.R. Water and Sewer Authority	216,000
Total	<u>\$ 8,879,549</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO
Notes to Basic Financial Statements

NOTE 13 – FUND BALANCE

As of June 30, 2011 the fund balance distribution is as follows:

Fund Balance	General Fund	Commonwealth Legislature Resolutions	Debt Service	Section 8	Loans Fund	Other Governmental Funds	Total
Restricted for:							
General government	\$ -	\$ 585,380	\$ -	\$ -	\$ -	\$ -	\$ 585,380
Public safety						2	2
Public works						2,213	2,213
Culture and recreation						65,208	65,208
Human services and welfare				226,507		25,760	252,267
Capital outlays					32,761	16	32,777
Debt service			1,448,399				1,448,399
Unassigned	(4,325,888)					(683,984)	(5,009,872)
	\$ (4,325,888)	\$ 585,380	\$ 1,448,399	\$ 226,507	\$ 32,761	\$ (590,785)	\$ (2,623,626)

NOTE 14 – SUBSEQUENT EVENTS

The Governmental Bank for Puerto Rico (GDB) issued the following loans:

- ❖ On July 13, 2011 the GDB issued a special bond in the amount of \$1,440,000 at a variable rate (prime +1.50% with a minimum of 6%).
- ❖ On July 13, 2011 the GDB issued a special bond in the amount of \$80,000 at a variable rate (prime +1.50% with a minimum of 6%).
- ❖ On October 25, 2011 the GDB issued a special obligation bond in the amount of \$95,000 at a variable rate (prime +1.50% with a minimum of 6%).
- ❖ On October 25, 2011 the GDB issued a special obligation bond in the amount of \$325,000 at a variable rate (prime +1.50% with a minimum of 6%).

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 5,481,857	\$ 5,586,038	\$ 5,470,968	\$ (115,070)
Municipal license tax	356,000	356,000	388,818	32,818
Sale and use tax	310,000	310,000	289,388	(20,612)
Municipal development	340,000	340,000	26,370	(313,630)
Charges for services	1,815,000	1,815,000	1,641,254	(173,746)
Licenses, permits and other local taxes	500,000	500,000	633,678	133,678
Interest, fines and forfeitures	95,000	95,000	23,852	(71,148)
Intergovernmental	1,586,969	1,586,969	1,345,759	(241,210)
Other	1,545,060	1,545,060	205,051	(1,340,009)
Total revenues	<u>12,029,886</u>	<u>12,134,067</u>	<u>10,025,138</u>	<u>(2,108,929)</u>
EXPENDITURES:				
Current:				
General government	5,749,334	5,432,463	4,560,783	871,680
Public safety	994,629	963,958	912,085	51,873
Public works	1,290,374	1,275,817	1,253,740	22,077
Culture and recreation	534,158	643,447	528,727	114,720
Health and sanitation	2,496,976	2,862,620	2,548,855	313,765
Human services and welfare	440,415	431,762	398,278	33,484
Total expenditures	<u>11,505,886</u>	<u>11,610,067</u>	<u>10,202,468</u>	<u>1,407,599</u>
Excess (deficiency) of revenues over (under) expenditures	<u>524,000</u>	<u>524,000</u>	<u>(177,330)</u>	<u>(701,330)</u>
Other financing sources (uses)				
Transfers in			39,720	39,720
Transfers out	(524,000)	(524,000)	(426,500)	97,500
Total other financing sources (uses)	<u>(524,000)</u>	<u>(524,000)</u>	<u>(386,780)</u>	<u>137,220</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (564,110)</u>	<u>\$ (564,110)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA, PUERTO RICO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

June 30, 2011

**NOTE A – EXPLANATION OF DIFFERENCE BETWEEN BUDGETARY INFLOWS AND OUTFLOWS
AND GAAP REVENUES AND EXPENSES**

Explanation of differences:

Sources/inflows of resources:

Actual amounts (budgetary basis) “available for appropriation” from the budgetary comparison schedule	\$10,025,138
Differences-budget to GAAP – Intergovernmental transfer from other funds	<u>749,355</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$10,774,493</u>

Uses/outflows of resources:

Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$10,202,468
Differences-budget to GAAP:	
Accrual adjustments to expenditures	(100,366)
Prior year expenditure are not outflows of budgetary resources, but are expenditure for financial purposes	(12,803)
Transfer from other funds	<u>875,423</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$10,964,722</u>

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary control

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

The Municipality prepares its annual budget including the operations of the general fund.

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2011 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2011.

MUNICIPALITY OF GUANICA, PUERTO RICO

SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2011

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (Note B)	Pass-Through Entity Identifying Number (Note C)	Federal Expenditures (Note A)
<u>U.S. Department of Agriculture</u>			
Passed through the P.R. Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	\$ 19,758
Direct Program:			
Rural Housing Preservation Grants	10.433	DR-36	<u>70,000</u>
Subtotal U.S. Department of Agriculture			<u>89,758</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Office of Commissioner of Municipal Affairs:			
Community Development Block Grant - State's Program	14.228	AF - 25	845,219
ARRA - Community Development Block Grant - State Program	14.255		152,666
NSP 1 - Neighborhood Stabilization Program	14.228		<u>255,000</u>
Subtotal Community Development Block Grant			<u>1,252,885</u>
Passed through the P.R. Department of Family - Families and Children Administration:			
ARRA - Homelessness Prevention and Rapid Rehousing	14.257		<u>88,769</u>
Direct Program:			
Section 8 Housing Choice Vouchers	14.871	N/A	<u>283,994</u>
Total U.S. Department of Housing and Urban Development			<u>1,625,648</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the P.R. Department of Family - Families and Children Administration:			
Child Care and Development Block Grant	93.575	2003-030	97,531
ARRA - Child Care Development Block Grants	93.713		<u>12,642</u>
Subtotal U.S. Department of Health and Human Services			<u>110,173</u>
Total Expenditures of Federal Awards			<u>\$1,825,579</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2011

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations". Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - FEDERAL CFDA NUMBER

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

NOTE C - PASS-THROUGH ENTITY IDENTIFYING NUMBER

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

NOTE D - RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Section 8 Fund	Other Governmental Funds
10.558	\$ -	\$ 19,758
10.433	-	70,000
14.228	-	845,219
14.255	-	152,666
14.256	-	255,000
14.257	-	88,769
14.871	283,994	-
93.575	-	97,531
93.713	-	12,642
Total federal awards expenditures	283,994	1,541,585
Total nonfederal awards expenditures and changes in basis of accounting	-	161,269
Total expenditures, fund statements	<u>\$ -</u>	<u>\$1,702,854</u>

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Guánica, Puerto Rico, as of and for the year ended June 30, 2011, which collectively comprise the Municipality of Guánica, Puerto Rico's basic financial statements and have issued our report thereon dated March 2, 2012. The report on the General Fund's financial statements was qualified because the Municipality had not classified its fund balance amounts as required by generally accepted accounting principles. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Guánica, Puerto Rico's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Guánica, Puerto Rico's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Guánica, Puerto Rico'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

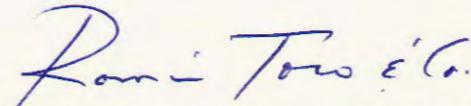
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, items 2011-II-1, 2011-II-2, 2011-II-3, and 2011-II-4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Guánica, Puerto Rico's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2011-II-1, 2011-II-2, 2011-II-3, 2011-II-4 and 2011-III-2.

The Municipality of Guánica, Puerto Rico's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Municipality of Guánica, Puerto Rico's response and, accordingly, we express no opinion on it.

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


ROMAN TORO & CO., CONTADORES
PUBLICOS AUTORIZADOS, CSP
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
March 2, 2012

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the original of this report

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

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

Compliance

We have audited the compliance of **Municipality of Guánica, Puerto Rico** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect to each of its major federal programs for the year ended June 30, 2011. The Municipality of Guánica, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality of Guánica, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of Guánica, Puerto Rico's compliance based on our audit.

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

In our opinion, the Municipality of Guánica complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-III-1, 2011-III-2, 2011-III-3 and 2011-III-4.

Internal Control Over Compliance

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

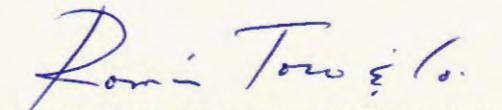
Internal Control Over Compliance, continued

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-III-1, 2011-III-2, 2011-III-3 and 2011-III-4. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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


ROMAN TORO & CO., CONTADORES
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Yauco, Puerto Rico
March 2, 2012

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the original of this report

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for Major Programs:

Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes No

Identification of Major Programs:

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

Dollar threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes No

END OF SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENTS FINDINGS

2011-II-1

Type of finding: Financial statement finding.
Situation: Material weakness over financial reporting
Prior-Year(s) Audit Finding(s): 2010-II-1.
Questioned Costs: N/A

Condition:

The Municipality's financial reporting system does not provide sufficient resources to produce GAAP-oriented governmental financial statements free of material misstatements. The system also lacks proper closing and review controls in order to detect material misstatements in the financial information used to compile the financial statements. Its current financial reporting system has not been updated sufficiently to meet the Municipality's growth in structure and in operations, or to cope with more stringent financial reporting changes in federal and local regulations, requiring significant amount of adjustments (in terms of both volume and dollar amounts) to most records in order to fully reconcile with the financial statements.

Context:

While the Municipality invests significant resources in terms of personnel and a third-party CPA accountant firm in order to comply with regulatory reporting requirements, the financial statement reporting process is mostly segregated between various automated and manual records, and the process is ineffective, inefficient and unreasonably delayed. The Municipality depends on three basic accounting "systems". The first is the computerized and automated OCAM system, which was required as the only system by the Puerto Rico state government until 2009, and was designed in the early 1990s to comply with pre-GASB 34 reporting models. The second is a manual accounting system consisting of handwritten ledgers and MS Office documents used by municipal accounting staff. These two systems provide the all information used by a third-party CPA firm to prepare the third system: a set of manual accounting records and documents which compile the complete financial statements.

During this year's audit, the Municipality provided the information for the financial statements to the third-party service provider in uncompleted form and significantly after the closing date of the fiscal year, requiring additional accounting work in order to produce GAAP-compliant trial balances. This process culminated in providing us with the unaudited trial balance schedules and worksheets of funds December 20, 2011, more than five months after the fiscal year closing date at June 30, 2011. The documentation provided to us consisted of various spreadsheets used to compile the financial statements, and contained misstatements which were detected and reported for correction and adjustment. These included:

1. Unrecorded cash balances and transactions totaling \$82,642 in the Fund Financial Statements.
2. Difference in Debt Service Fund between cash accounts and their financial statement balances totaling \$331,978. Other similar, but otherwise minor differences were detected and corrected in other funds.
3. First copy received of the budget closing report, known in Spanish as the "*Liquidación Presupuestaria*", did not include \$435,359 in General Fund revenues collected.
4. First copy received of the "*Liquidación Presupuestaria*", contained mathematical errors due to incomplete formulas within the spreadsheet it was prepared in.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENTS FINDINGS (Continued)

2011-II-1, continued

Context, continued:

When auditing the financial statements with the OCAM and manual accounting systems, we discovered various deficiencies in the recording and accumulation of transactions and balances which are necessary for an effective and efficient financial statement preparation process. These included:

1. Cash accounts were not timely reconciled with their respective system accounts and differences between bank balances, accounting balances, and financial statements remained as June 30, 2011.
2. Receivables and payables were not reconciled with their respective subsidiary ledgers, and required extensive work by the CPA accountant to determine the final balances at year end.
3. Transactions between different funds and the remaining asset and liability balances at year end were not correctly recorded at the time of their origination, but by correcting adjustments during the financial statement preparation process.
4. Capital assets details used for financial reporting purposes (including depreciation) were not reconciled with respective asset balances on financial statements and inventories, requiring revisions and reclassifications to the details (see finding 2011-II-4).
5. Appropriations were not identified by restrictions and assignments in order to properly identify each fund's remaining fund balance classification as required by GASB Statement No.54. Additionally, the Municipality had not adopted policies and procedures to classify appropriations as per GASB No. 54 as they are obtained (See finding 2011-II-3).

The combination of these two situations leads to the conclusion that the Municipality's financial reporting process does not allow for the effective, efficient, and timely preparation and compilation of financial statements.

Criteria:

Law #81 of August 30, 1991, otherwise known as the Autonomous Municipalities Law, as amended, requires in Article 8.010(a) and (b) that the Municipality must maintain a computer system and accounting procedures designed so as to enable the Municipality to carry out their tasks, to maintain uniform municipal accounting, provide a complete picture of the results of operations, be in accordance with generally accepted accounting principles, and comply with the accounting standards set forth by the Governmental Accounting Standards Board (GASB).

Cause:

The OCAM system's self-balancing set of accounts and ledgers are not fully utilized by the Municipality's accounting staff to account for all assets, liabilities, and residual balances and changes there in, required to provide a comprehensive picture of the financial operations, positions, and results of the Municipality's funds. Automatic year-end closing procedures in this system are currently limited to three basic areas: cash, revenues and expenditures. They are not performed to account for all potential transactions in modified-accrual basis accounting for all funds. Meanwhile, the manual accounting system does not provide for a self-balancing set of accounts for each fund, but does provide more detail to assist in preparing budget to actual results reports, and account for receipts, encumbrances, and disbursements.

Both systems are dependent on each other to provide a comprehensive accounting of the Municipality financial operations, but a compilation of all this information has to be done manually to report complete financial information. This process is not done continually by the accounting staff, but at year end by an external CPA firm. Any errors or omissions which are not detected during the year have to be detected and corrected during the compilation process before the audit starts, delaying the issuance of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENTS FINDINGS (Continued)

2011-II-1, continued

Effect:

The Municipality cannot produce GAAP-oriented financial statements, free from material misstatements, in a timely manner for the Municipality's management; and, although the system has provided for complying with federal and local financial reporting deadlines, there is significant risk involved that future compliance with more stringent reporting requirements will not be met unless the system is improved considerably soon.

Auditor's Recommendation:

The Municipality has managed to modify its internal control system and procedures in order to cope with the limitations of its financial reporting system, including the addition of new personnel and the investment of additional time by the third-party provider. However, the time it takes the Municipality to prepare its accounting systems for the third-party service provider, and the time it takes the third-service provider to finally compile GAAP-financial statements, present the possibility that reports are not due in time if this situation continues to worsen.

The Municipality financial reporting system must be modified or changed significantly in order to avoid this situation from worsening and to improve the timing of the availability of information for the compilation and auditing of the financial statements. The Municipality should consider which resources can be obtained to improve this situation, including changing the OCAM system to an improved and centralized accounting system to incorporate both the automated accounting and the manual accounting in one system, or an accounting system that can at least produce financial statements on their own in a reasonable timeframe, even if they would still require the review of a third-party service provider for technical issues, complicated matters, and final compilation.

Views of responsible officials and corrective actions:

We will take into consideration the auditor's recommendations and implement the necessary measures to correct the reported situation.

Audit finding status:

Unresolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

2011-II-2

Type of finding: Financial statement.

Situation: Material weakness over financial reporting; Compliance of local regulations

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: Not applicable.

Condition:

The Municipality's General Fund has used restricted resources from other funds in order to fund its operations.

Context:

The Municipality's General Fund has used cash resources from the Municipality's State Legislative Joint Resolutions Fund for its own operations, which has created, as of June 30, 2011, an outstanding liability totaling \$1,134,554. The State Legislative Joint Resolutions Fund consists of grants and contributions from the State Legislature which are restricted by Joint Resolutions of both the State House of Representatives and Senate.

Criteria:

Local laws and regulations prohibit Municipalities from the use of restricted funds to cover the costs of unauthorized activities. Additionally, each State Legislative Joint Resolutions grants and contribution is individually restricted to their use by the Resolution passed by the State Legislature, and any other use not previously included in the Resolution requires strict and expressive consent by the State Legislature. This is specifically mentioned in the Municipal Administration Manual in Chapter III, Section 2, as issued by the Puerto Rico Commissioner's Office for Municipal Affairs.

Cause:

The Municipality's General Fund cash resources have been decreasing significantly over the course of several years due to excess expenditures over revenues, and the Municipality's management decided to use restricted resources of other funds in order to avoid decreases in the General Fund's activities and expenditures.

Effect:

The Municipality's State Legislative Joint Resolutions Fund was left without sufficient resources to comply with the activities intended by the State Legislature for which such appropriations were restricted.

Auditor's Recommendation:

The Municipality's General Fund should reimburse all funds obtained from the State Legislative Joint Resolutions Fund as immediate as resources become available. The Municipality should revise its controls to assure that General Fund's operations do not infringe on the resources and appropriations of other funds whose use are restricted.

Views of responsible officials and corrective actions:

The situation described in the context of these finding will be evaluated by our personnel and all positive steps will be taken in order to avoid repeating the same.

Audit finding status:

Unresolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

2011-II-3

Type of finding: Financial statement.

Situation: Material weakness over financial reporting; Compliance of local regulations

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: Not applicable.

Condition:

The Municipality did not classify General Fund's fund balances as required by GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

Context:

In February 2009, the Governmental Accounting Standards Board (GASB) issued its Statement No. 54, which required governments to classify and report each fund's amounts in the appropriate fund balance classifications by applying their own accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies the Municipality used to determine such classifications in the notes to the financial statements was also required. The implementation of this new requirement applied for periods beginning after June 15, 2010, which in the case of the Municipality of Guánica, was the same period which ended in June 30, 2011.

The Municipality did not adopt a methodology and internal control process to identify appropriations for its General Fund, which would be used to classify its fund balances at year end by the new classification types described by GASB Statement No. 54. It reported the General Fund's entire fund balance as of June 30, 2011 under the "unassigned" classification, even though the General Fund may have contained encumbrances, commitments, and other restrictions over certain appropriations and fund balances which would require individual identification and classification over their respective level of restriction.

Additionally, detailed disclosure about the General Fund's fund balance's classifications was not provided in the notes to the financial statements as of June 30, 2011. While the note disclosures of the Municipality's financial statements state the accounting policies applicable to comply with this new GASB requirement, they were not implemented to the General Fund's amounts because of the situation described above.

Criteria:

Law 81 of 1991, known as the Autonomous Municipalities Law, requires that the Municipality's accounting and financial reporting comply with the generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (Article 8.010; 21 L.P.R.A. § 4360). The specific accounting requirement is GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

Cause:

The Municipality did not have sufficient accounting resources to perform the classification of all appropriations based on their level of restriction, and, as discussed more fully in finding 2011-II-1, does not have sufficient resources to produce financial reporting information that complies with GASB standards in an efficient and timely manner.

Effect:

The Municipality's fund financial statement pertaining to the General Fund was misleading in presenting its fund balance deficit as "unassigned", instead of a complete and classified presentation of its balance.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

2011-II-3, continued

Auditor's Recommendation:

The Municipality must provide sufficient resources for the accounting work required to fully comply with GASB 54 and any future accounting pronouncements, and prepare financial statements in a timely manner.

Views of responsible officials and corrective actions:

In the future the Municipality will implement the classification of General Fund balances as required by GASB Statement No. 54.

Audit finding status:

Unresolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

2011-II-4

Type of finding: Financial statement.

Situation: Material weakness over financial reporting; Compliance of local regulations

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: Not applicable.

Condition:

The Municipality does not maintain proper recordkeeping of documentation in relation to its capital assets and its related debt as required by local regulations.

Context:

During our substantive audit tests and tests of internal controls over the Municipality's capital assets, we found that the Municipality does not maintain a centralized archive of all property records, including vendor invoices, purchase orders, receiving reports and payment analysis for the acquisition of property and construction in progress, requiring extensive work in order to substantiate the items within the property subsidiary ledgers and its balances. Among the issues found:

1. Capital assets inventoried as required by federal, state, and local regulations are not regularly reconciled with the subsidiary ledgers which support the balances in the financial statements
2. Infrastructure and motor vehicle assets incorrectly classified as machinery and equipment
3. Unrecorded land acquired during the year for \$148,000 (see finding 2011-III-2)
4. Missing dates of acquisition, property numbers, and other information of certain items

The Municipality also does not maintain documentation of the loans used to acquire or construct municipal property, the property acquired with such loans, and the available balance of such loans, if any. This does not allow a simple tracing of capital assets to their debt and determine their net investment to report as required by GAAP, requiring significant work to trace such debt.

Criteria:

Chapter VII, Section 15(1) of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM) requires that all records concerning municipal property be under the custody of the person in-charge of property, under supervision of the Finance Director.

Cause:

The Municipality's personnel in charge of property management has not maintained copies of all property transactions documentation in a centralized archive.

Effect:

The Municipality's financial statement preparation process requires significant work in order to assure of all property transactions and balances are accounted for.

Auditor's Recommendation:

The Municipality should maintain a centralized archive of all property documentation required for the management of property, and instruct its employees to facilitate all documents regarding the acquisition, transfer, disposal, and any other transaction involving municipal property to the person in-charge of property.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

2011-II-4, continued

Views of responsible officials and corrective actions:

Instructions were given to the person in charge of property record keeping to inventory, reconcile, classify and record transactions related to the acquisition of capital assets following the instructions of the “*Manual del Módulo de Propiedad*” made by OCAM. Also, instructions were given to maintain a well organized filing system to account for all capital assets purchased and or constructed by the Municipality.

Audit finding status:

Unresolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS

2011-III-1

Type of finding: Financial statement.

Situation: Significant deficiency; Compliance of local regulations

Federal Program: Community Development Block Grant - State's Program (CFDA 14.228)

Compliance Requirements: Procurement (I).

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: None.

Condition:

The Municipality awarded construction contracts with federal funds which exceeded the small acquisition threshold without using a formal bidding process.

Context:

During our review of construction contracts awarded under the CDBG program, we found three (3) construction contracts which were procured under the federal small acquisition method when the amounts of the contracts were between \$143,193 and \$189,531.

Criteria:

24 CFR § 85.36(d) states four methods of procurement should be followed, recommending that sealed bids be used for construction contracts in excess of the small purchase threshold set by 41 U.S.C. 403(11) at \$100,000.

Cause:

Puerto Rico Law 148 of 2009 increased the minimum threshold requiring bids for construction contracts from \$100,000 to \$200,000. The Municipality's personnel believed they could use this new threshold without considering that, since the federal small purchase limit is \$100,000, all federally-funded construction contracts were required to comply with that lower threshold.

Effect:

Construction contracts were awarded without going through a formal bidding process, increasing the risk of not obtaining better competing offers and bids.

Auditor's Recommendation:

The Municipality should review the federal purchasing standards whenever a significant procurement is made to assure their procedures comply with such requirements, and not to depend on local laws and regulations as the only guidance because they may not adhere or consider federal thresholds and limitations.

Views of responsible officials and corrective actions:

Management have issued instructions to follow the federal purchasing standard for all purchases made with federal funds exceeding \$100,000.00.

Audit finding status:

Unresolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS (continued)

2011-III-2

Type of finding: Financial statement.

Situation: Significant deficiency, Compliance of local regulations

Federal Program: Community Development Block Grant - State's Program (CFDA 14.228)

Compliance Requirements: Equipment and Real Property Management (E).

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: None.

Condition:

As discussed in finding 2011-III-02, the Municipality has certain deficiencies in the recordkeeping of capital assets, which during the year caused one newly acquired federal property to be left out the Municipality's main capital assets records.

Context:

As discussed more fully in finding 2011-II-02, the Municipality does not maintain a proper archive of equipment and real property records for its items. During our review of the Municipality's current year acquisitions, we found a vacant parcel of land acquired with CDBG funds for \$148,000 in November 8, 2010 which had not been recorded within Municipality's main property records. While federal programs coordinators maintain a record of program income and other federally-funded properties, local laws and regulations require that all properties' records be safeguarded and maintained by personnel in-charge of property, because such records are used for financial reporting, inventorying, and insurance purposes.

Criteria:

Chapter VII, Section 15(1) of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM) requires that all records concerning municipal property be under the custody of the person in-charge of property, under supervision of the Finance Director.

Cause:

The Municipality's personnel in charge of property management has not maintained copies of all property transactions documentation in a centralized archive.

Effect:

The Municipality's financial statement preparation process requires additional work in order to assure of all property transactions and balances are accounted for.

Auditor's recommendation:

The Municipality should maintain a centralized archive of all property documentation required for the management of property, and instruct its employees to facilitate all documents regarding the acquisition, transfer, disposal, and any other transaction involving municipal property to the person in-charge of property.

Views of responsible officials and corrective actions:

The property custodian was instructed to record the property acquired in the Municipality's records.

Audit finding status:

Unresolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS (continued)

2011-III-3

Type of finding: Federal Award.

Situation: Significant deficiency, Compliance of local regulations

Federal Program: Community Development Block Grant - State's Program (CFDA 14.228)

Compliance Requirements: Cash Management (C).

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: None.

Condition:

The Municipality did not minimize the time elapsed between the receipt of federal funds and the disbursements to construction contractors when amounts for work performed were already due.

Context:

During our audit of the program's cash receipts, we found six (6) fund requests for a total of \$157,748 between the Municipality and the pass-through agency which, after receiving and depositing the amounts, were kept idle for between 14 and 22 days before finally disbursing the funds.

Criteria:

The program's grant contract with the state's pass-through agency requires compliance with 31 CFR § 205, which states that programs must minimize the time elapsing between the transfer of funds from the United States Treasury and the program's payout of funds for Federal assistance program purposes.

Cause:

The Municipality's staff did not measure the time it took from the receipt of funds to the final disbursement for program liabilities and costs.

Effect:

Federal funds were left idle in the Municipality's accounts for extended periods.

Auditor's recommendation:

The Municipality should revise its controls and inform its staff about the importance of requesting funds and disbursing them once received as quickly as reasonably possible. Planning of cash flow needs is necessary before requesting funds, including if they are requested and received during employee break periods (Christmas, holy week, spring break, etc.).

Views of responsible officials and corrective actions:

In order to correct the condition described above, as soon as federal funds are received and deposited, the federal program office will be notified, so disbursements are made to suppliers in a timely manner.

Audit finding status:

Unresolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS (continued)

2011-III-4

Type of finding: Federal Award.

Situation: Significant deficiency; compliance with federal regulations.

Federal Program: Section 8 Housing Choice Voucher Program (CFDA 14.871)

Compliance Requirements: Reporting.

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: None.

Condition:

The Municipality did not correctly report required information of participating tenants family income in Form 50058 for the Section 8 voucher program.

Context:

Out of ten (10) participant files observed, we found three (3) participant files containing third-party evidence of family income from excluded benefits which, although not considered in the determination of assistance, was not reported in Form 50058.

Criteria:

Generally, the Municipality must obtain and document third party verification of all the components of the reported total family annual income, as per 24 CFR 5.659. The total family income, which includes items that are excluded for HAP assistance, is part of the data fields required to be submitted in correct format on Form 50058 as per 24 CFR 908.104(c).

Cause:

The Municipality's program staff did not fully review the information it was submitting to assure all relevant data was correctly included.

Effect:

The Municipality submitted incomplete information about participating families' incomes to HUD via Form 50058.

Auditor's recommendation:

The Municipality's program personnel should adequately review its participant files with draft versions of its Form 50058 before the submission of such reports, in order to assure that all information is complete and accurate.

Views of responsible officials and corrective actions:

In accordance with the auditor's recommendation, our staff would adequately review its participant files with draft versions of its Form 50058 before submission of such reports. However, we disagree on it been a significant deficiency since it does not affect the Housing Assistance Payment calculation.

Audit finding status:

Unresolved.

END OF SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUANICA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Year	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
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(1) Prior Audit Findings, fully corrected or not noted during our audit:

None.

(2) Prior Audit Findings, not corrected or partially corrected:

None.

(3) Corrective action taken is significantly different from corrective action previously reported:

None.

(4) Prior Audit Findings, are no longer valid:

None.

END OF SCHEDULE