

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

MUNICIPIO DE GUAYAMA
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA



SINGLE AUDIT REPORT
Fiscal Year Ended
June 30, 2009

10/03/0578
10 MAR 31 AM 10:58
UNIDAD DE CORREO
SECRETARIA DEL COMISIONADO
DE ADMINISTRACION MUNICIPAL

Honorable
Glorimarie Jaime Rodríguez
Mayor

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
SINGLE AUDIT REPORT
June 30, 2009

TABLE OF CONTENTS

Independent Auditors' Report	1-2
Required Supplementary Information (Part I):	
Management's Discussion and Analysis	3-13
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	14-15
Statement of Activities.....	16
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Funds	17
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of – Governmental funds to the Statement of Activities.....	20
Notes to Basic Financial Statements	21-56
Required Supplementary Information (Part II):	
Schedule of Revenues and Expenditures-Budget vs. Actual Budgetary Basis- General Fund	57-58
Schedule of Revenues and Expenditures-Budget vs. Actual Budgetary Basis- Debt Service Fund.....	59-60
Schedule of Expenditures of Federal Awards	61-62
Notes to Schedule of Expenditures of Federal Awards.....	63
Internal Control and Compliance:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	64-65
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	66-68
Audit Findings and Questioned Costs:	
Schedule of Findings and Questioned Costs:	
Section I: Summary of Auditors' Results.....	69
Section II: Financial Statements Findings and Questioned Costs.....	70-74
Section III: Federal Awards Findings and Questioned Costs.....	75-107
Summary Schedule of Prior Audit Findings	108-110

Pedro C. Ortiz Ledée

Certified Public Accountant

INDEPENDENT AUDITORS' REPORT

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

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of **Guayama**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express opinions on these financial statements based on my audit.

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

As discussed in Note 6 to the financial statements, the Municipality did not have a complete, updated and accurate accounting records of capital assets in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the accompanying statement of net assets for \$99,585,204, net of accumulated depreciation of \$14,944,993, and accordingly, the amount by which this departure would affect the assets, net assets and expenses of the governmental activities is not reasonably determinable.

As discussed in Note 8 (e) to the financial statements, the Municipality did not comply with the requirements established by Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*, issued by the Governmental Accounting Standards Board and the regulations set forth by the U.S. Environment Protection Agency. At June 30, 2009, the accompanying statement of net assets does present the required liability for closure and post closure care costs of the Municipality's solid waste landfill using current costs allocated based on a study of the the actual landfill capacity used at June 30, 2009. The amount by which this departure would affect the liabilities, net assets and expenses of the governmental activities is not reasonably determinable.

In my opinion, because of the effects of the matter discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Municipality as of June 30, 2009, or the changes in financial position, thereof for the year then ended.

INDEPENDENT AUDITORS' REPORT

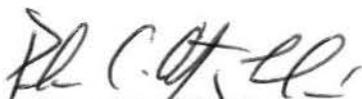
Page 2

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2009, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January, 3, 2010, on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis and budgetaries comparison informations on pages 3 through 13 and 57 through 60, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

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


Pedro C. Ortiz Ledée, CPA
License Number 5200,
Expires on December 1, 2011

Guayama, Puerto Rico
January 3, 2010



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

Management of the Municipality of Guayama of the Commonwealth of Puerto Rico (the Municipality) provides this *Management's Discussion and Analysis* (MD&A) for the readers of the Municipality's basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2009. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

In this statement the condensed Statements of Activities, Balance Sheet, and Statement of Operations for the fiscal year ended June 30, 2009 are presented in a comparative approach to financial statements of fiscal year ended June 30, 2009.

FINANCIAL HIGHLIGHTS

a) Government-Wide Highlights

- **Assets** – The Municipality has reported assets amounting to \$125.0 millions in the accompanying statement of net assets, of which the most significant are capital assets, and cash amounting to \$99.6 millions, and \$23.5 millions, respectively.
- **Liabilities** – The Municipality has reported liabilities amounting to \$44.4 millions in the accompanying statement of net assets, of which the most significant are bonds payable, estimated liability for municipal solid waste landfill closure and postclosure care costs, unearned revenues and compensated absences amounting to \$25.0 millions, \$8.5 millions, \$4.4 millions and \$2.9 millions, respectively.
- **Net assets** – The assets of the Municipality exceeded its liabilities by \$80.6 millions at June 30, 2009, which is presented as “net assets” in the accompanying statement of net assets. Restricted net assets and unrestricted deficit amounted to \$11.0 millions and \$9.0 millions, respectively. Net assets invested in capital assets amounted to \$78.5 millions.
- **Net change in net assets** – The Municipality's net assets increased by \$6.6 millions during fiscal year ended June 30, 2009. Net assets at June 30, 2009 amounted to \$80.6 millions.
- **Revenues** – The Municipality has reported total revenues amounting to \$42.4 millions in the accompanying statement of activities, of which the most significant are taxes, and grants and contributions, not restricted, amounting to \$19.66 millions and \$13.8 millions, respectively.
- **Expenses** – The Municipality has reported total expenses amounting to \$35.8 millions in the accompanying statement of activities.

b) Governmental Funds Highlights

- **Assets** – The Municipality's governmental funds have reported combined assets amounting to \$27.0 millions in the accompanying balance sheet – governmental funds, of which the most significant are cash and due from other funds amounting to \$23.5 millions, \$1.7 millions respectively.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

- **Liabilities** – The Municipality's governmental funds have reported combined liabilities amounting to \$11.0 millions in the accompanying balance sheet – governmental funds, of which the most significant are deferred revenues, accounts payable and accrued liabilities, matured bonds due and payable and due to other funds amounting to \$5.0 millions, \$1.8 millions, \$1.8 millions and \$1.7 millions, respectively.
- **Governmental fund balances** – The Municipality's governmental funds reported combined fund balances amounting to \$16.0 millions, of which \$12.0 millions and \$4.0 millions represent reserved and unreserved fund balances, respectively.
- **Net change in governmental fund balances** – The Municipality's governmental fund balances increased by \$2.6 millions during fiscal year ended June 30, 2009. Governmental fund balances at June 30, 2009 amounted to \$16.0 millions.
- **Revenues** – The Municipality's governmental funds have reported combined revenues amounting to \$41.7 millions in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, of which the most significant are grants and contributions, property taxes, intergovernmental revenues, and municipal license taxes amounting to \$14.0 millions, \$8.1 millions, 7.6 millions and \$7.5 millions, respectively.
- **Expenditures** – The Municipality's governmental funds have reported combined expenditures amounting to \$42.5 millions in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, of which the most significant are categorized as education, general government; capital outlays and health, sanitation and welfare amounting to \$11.1 millions, \$7.2 millions, \$6.5 millions and \$5.9 millions respectively.

USING THIS ANNUAL REPORT

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

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, and (3) the notes to the financial statements (collectively known as the basic financial statements). This report also contains additional required supplementary information (budgetary schedules) in addition to the basic financial statements themselves. These components are described below:

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009

and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2009 even if cash involved has not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Assets

The statement of net *assets* presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2009. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including, general government, public works, health, sanitation and welfare, and education, etc.

Fund Financial Statements

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

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

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes, the Municipality has four major funds: (1) General fund, (2) Head Start fund, (3) \$3,475,000 loan fund and (4) debt service fund.

Notes to the Basic Financial Statements

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

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund and debt service fund.

INFRASTRUCTURE ASSETS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, net assets (excess of assets over liabilities) amounted to \$80.6 millions at June 30, 2009 compared to \$73.8 millions (as restated) at the end of the previous year.

The largest portion of the Municipality's net assets is invested in capital assets net of their related debt (\$78.5 millions). The Municipality's net assets is also composed of net assets amounting to \$11.0 millions that are restricted for (1) future debt service payments, (2) the future acquisition or construction of capital assets and (3) other purposes, mainly the financing of federal and state assisted programs. In addition, the Municipality's net assets are reported net of unrestricted deficit of \$9.0 millions.

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

The portion of the Municipality's net assets invested in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets, are used by the Municipality to provide services to its citizens; consequently these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the debt service fund, since the capital assets themselves cannot be used to liquidate these liabilities.

THIS SPACE HAS BEEN LEFT IN BLANK INTENTIONALLY

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

The following is a condensed presentation of the Municipality's financial position, as reported in the government-wide financial statements:

**Comparative Condensed Statement of Net Assets
Governmental Activities
June 30,**

	2009	2008, (as restated)
Assets:		
Current assets	\$ 25,414,336	\$ 21,865,031
Noncurrent assets:		
Capital assets, net	99,585,204	94,837,369
Total assets	\$ 124,999,540	\$ 116,702,400
Liabilities:		
Current liabilities	7,264,227	8,468,381
Long-term liabilities due within one year	3,538,842	2,190,168
Long-term liabilities due after one year	33,628,076	32,063,877
Total liabilities	44,431,145	42,722,426
Net assets (liabilities):		
Invested in capital assets, net of related debt	\$ 78,509,159	\$ 71,827,264
Restricted	11,009,334	11,633,240
Unrestricted	(8,950,098)	(9,480,530)
Total net assets	\$ 80,568,395	\$ 73,979,974

Changes in Net Assets

The Municipality's net assets increased by \$6.6 millions. Approximately 47 percent of the Municipality's total revenues came from taxes, while 39 percent resulted from grants and contributions including federal financial assistance. The Municipality's expenses cover a range of services. The largest expenses were for education (31 percent), general government (23 percent) and health, sanitation and welfare (16 percent).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

The following is a condensed presentation of the Municipality's results of operations, as reported in the government-wide financial statements:

**Statement of Activities
Governmental Activities
Fiscal Years Ended June 30,**

	2009	2008 (as restated)
Program revenues:		
Program-specific operating grants and contributions	\$ 11,371,788	\$ 14,295,873
Program-specific capital grants and contributions	1,483,600	3,455,195
Charges for services	500,174	431,515
Total programs revenues	13,355,562	18,182,583
General revenues:		
Total general revenues	29,007,963	22,622,673
Total revenues	42,363,525	40,805,256
 Program expenses:		
Total expenses	35,775,104	37,138,781
 Net increase in assets	6,588,421	3,666,475
Net assets, at beginning of fiscal year, (as restated)	73,979,974	70,313,499
Net assets, at end of fiscal year	\$ 80,568,395	\$ 73,979,974

THIS SPACE HAS BEEN LEFT IN BLANK INTENTIONALLY

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS

**Comparative Condensed Balance Sheet - Governmental Funds
June 30,**

	2009	2008 (as restated)
Assets:		
Total assets - major and other governmental funds	\$ 26,957,520	\$ 22,465,736
Liabilities:		
Total liabilities - major and other governmental funds	11,001,618	9,124,084
Fund balances:		
Reserved - major and other governmental funds	11,931,207	11,752,222
Unreserved - major and other governmental funds	4,024,695	1,589,430
Combined total fund balances	15,955,902	13,341,652
Total liabilities and fund balances	\$ 26,957,520	\$ 22,465,736

Analysis of Financial Position of Governmental Funds

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balance of *spendable resources*. Such information is useful in assessing the Municipality's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of fiscal year.

At June 30, 2009, the total assets of governmental funds increased by \$4.5 millions (20 percent). Total liabilities of governmental funds increased by \$2 millions (22 percent).

For a detailed explanation of the individual fluctuations of total assets and total liabilities of governmental funds, please refer to the previous financial analysis of the government-wide financial statements included in this management's discussion and analysis, where a detailed discussion of most of these fluctuations has been made.

At the end of the current fiscal year, total unreserved fund balances of the governmental funds amounted to \$4.0 millions while total fund balance reached \$16.0 millions. The total fund balances increased by \$2.6 millions during the current fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

The following is a detailed financial analysis of the Municipality's governmental funds:

Major Governmental Funds

General fund – The General fund (GF) is the principal operating fund of the Municipality. The GF's total assets amounted to \$9,603,572 at June 30, 2009. Such assets consist mainly of: (1) unrestricted cash and cash equivalents (\$7,183,651) and (2) due from other funds (\$1,317,381).

The GF's total liabilities amounted to \$4,743,254. Such liabilities are composed mainly of deferred revenues (\$3,992,536).

At the end of the current fiscal year, unreserved fund balance of the GF's amounted to \$4,024,695, while total fund balance reached \$4,860,318. As a measure of the GF's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20 percent of the total GF's expenditures, while total fund balance represents 24 percent of that same amount.

Head Start fund – The Head Start special revenue fund (HSSRF) total assets amounted to \$379,669, which consist of cash in commercial banks. The HSSRF's total liabilities amounted to \$379,699.

\$3,475,000 loan fund – The \$3,475,000 loan fund (LF) total assets amounted to \$3,414,440, which consist of restricted cash in fiscal agent. The LF's total liabilities amounted to \$96,375 composed of due to other funds. At the end of the current fiscal year, LF's total and reserved fund balance reached \$3,318,065.

Debt service fund – The debt service fund (DSF) total assets amounted to \$2,896,549, which consist of restricted cash in fiscal agent (\$2,640,812) and restricted property taxes receivable (\$255,737). The DSF's total liabilities amounted to \$2,341,262, which composed of: (1) matured bonds due and payable (\$1,750,000), (2) matured interest due and payable (\$591,262). At the end of the current fiscal year, DSF's total and reserved fund balance reached \$555,287.

Other governmental funds – The other governmental funds (OGF) total assets amounted to \$10,663,290, which consist mainly of restricted cash in fiscal agent and commercial banks (\$9,567,379). The OGF's total liabilities amounted to \$3,441,058, which are composed mainly of due to other funds (\$1,571,458) and accounts payable and accrued liabilities (\$1,155,771). At the end of the current fiscal year, OGF's total fund balance reached \$7,222,232.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

**Condensed Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
Fiscal Year Ended June 30,**

	2009	2008 (as restated)
Revenues:		
Total revenues - major and non major governmental funds	\$41,681,069	\$40,799,266
Expenditures:		
Total expenditures - major and non major governmental funds	42,541,819	43,437,319
Excess of expenditures over revenues	(860,750)	(2,638,053)
Other financing sources (uses), net:		
Other financing sources (uses), net - major and non major governmental funds	3,475,000	-
Net change in fund balance	2,614,250	(2,638,053)
Fund balance at beginning of fiscal year	13,341,652	15,979,705
Fund balance, at end of fiscal year	\$15,955,902	\$13,341,652

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The accompanying statement of net assets reported total gross capital assets, at cost, amounting to \$114.5 millions. The related accumulated depreciation and amortization of capital assets amounted to \$14.9 millions. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Actual costs incurred to purchase or construct capital assets were \$6.6 millions for the year ended June 30, 2009. Depreciation and amortization charges for the year totaled \$1.8 millions.

The Municipality finances a significant portion of its construction activities through bond issuances and state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be use for any other purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

Debt Administration

The laws and regulations of the Commonwealth of Puerto Rico have established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledge.

The applicable laws and regulations also require that in order for a municipality to be able to issue additional general obligation bonds and notes, the municipality must have sufficient "payment capacity". Act No. 64 of July 3, 1996 as amended, provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if deposits in Municipality's Redemption fund and the annual amounts to be collected through the Municipality's Special Additional Tax (as defined below), as projected by the Government Development Bank for Puerto Rico, will be sufficient to service the maturity of the Municipality's outstanding general obligation debt and any additional proposed general obligation debt ("Payment Capacity").

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

ECONOMIC FACTORS AND NEXT BUDGETS AND RATES

The Municipality relies primarily on property and municipal license taxes, as well as, federal and state grants to carry out the governmental activities. Historically, property and municipal license taxes have been very predictable with increases not generally exceeding ten percent. Federal grant revenues may vary if new grants are available but the revenue is also very predictable.

Those factors were considered when preparing the Municipality's budget for the 2008-2009 fiscal year. There were no significant changes between the budget for fiscal year 2007-2008 and the one for fiscal year 2008-2009.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all of the Municipality's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Municipality's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Municipality's Director of Finance, Mr. Esteban Ortíz, at PO Box 360, Guayama, Puerto Rico, 00785.

BASIC FINANCIAL STATEMENTS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
STATEMENT OF NET ASSETS
JUNE 30, 2009

Assets	<u>Governmental activities</u>
Current assets:	
Cash in commercial banks	\$ 7,183,651
Account receivables:	
Taxes:	
Property taxes	255,736
Sales tax	94,110
Intergovernmental	795,466
Grants and contributions	740,749
Restricted assets:	
Cash in commercial banks	6,641,531
Cash in fiscal agent	9,703,093
Total current assets	<u>25,414,336</u>
Noncurrent assets:	
Capital assets:	
Depreciable capital assets	59,631,900
Nondepreciable capital assets	54,898,297
Accumulated depreciation and amortization	<u>(14,944,993)</u>
Capital assets, net of accumulated depreciation	<u>99,585,204</u>
Total noncurrent assets	<u>99,585,204</u>
Total assets	<u><u>\$ 124,999,540</u></u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
STATEMENT OF NET ASSETS
JUNE 30, 2009

Liabilities and net assets

	Governmental activities
Current liabilities (due within one year):	
Accounts payable	\$ 1,824,073
Intergovernmental payables	117,384
Accrued employees' christmas bonus	351,255
Accrued interest payable on long-term debt	591,263
Unearned revenues	4,380,252
Current portion of long-term obligations:	
Bonds payable	\$ 1,777,000
Notes payable	445,269
Compensated absences	1,316,573
Total current portion of long-term obligations	3,538,842
Total current liabilities	10,803,069
 Noncurrent liabilities, excluding current portion (due in more than one year):	
Bonds payable	23,252,105
Notes payable	291,557
Landfill closure and postclosure costs	8,516,770
Compensated absences	1,567,644
Total noncurrent liabilities	33,628,076
Total liabilities	44,431,145
 Net assets (deficit):	
Invested in capital assets, net of related debt	78,509,159
Restricted for:	
Debt service	\$ 555,287
Capital projects	3,318,065
Other specified purposes	7,135,982
Total restricted net assets	11,009,334
Unrestricted	(8,950,098)
Total net assets	\$ 80,568,395

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2009

Function/programs	Expenses including depreciation and amortization of \$1,818,408	Program revenues			Net (expenses) and changes in net assets
		Charges for services	Program-specific operating grants and contributions	Program-specific capital grants and contributions	
Governmental activities:					
General government	\$ 8,123,948	\$ 285,427	\$ -	\$ -	\$ (7,838,521)
Public safety	2,373,854	-	201,770	-	(2,172,084)
Public works	4,747,473	-	65,490	1,483,600	(3,198,383)
Culture and recreation	2,191,513	214,747	-	-	(1,976,766)
Health, sanitation and welfare	5,883,611	-	1,038,723	-	(4,844,888)
Education	11,194,368	-	10,065,805	-	(1,128,563)
Interest on long-term obligations	1,260,337	-	-	-	(1,260,337)
Total governmental activities	\$ 35,775,104	\$ 500,174	\$ 11,371,788	\$ 1,483,600	(22,419,542)
General revenues					
Taxes:					
Property taxes					8,790,687
Municipal license taxes					7,500,573
Construction excise taxes					252,472
Sales tax					3,284,670
Total taxes					19,828,402
Grants and contributions, not restricted to specified programs					8,667,374
Unrestricted interest on deposits					297,477
Miscellaneous					214,710
Total general revenues					29,007,963
Net change in net assets					6,588,421
Net assets at beginning of fiscal year, as restated					73,979,974
Net assets at end of year					\$ 80,568,395

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>Major governmental funds</u>					Total governmental funds
	General fund	Head Start fund	\$ 3,475,000 Loan fund	Debt service fund	Other governmental funds	
Assets						
Cash in commercial banks	\$7,183,651	\$ -	\$ -	\$ -	\$ -	\$ 7,183,651
Account receivable, net of allowance of uncollectible accounts						
Taxes:						
Property taxes	-	-	-	255,737	-	255,737
Sales tax	94,110	-	-	-	-	94,110
Grants and contributions	-	-	-	-	740,748	740,748
Due from governmental entities	666,105	-	-	-	-	666,105
Due from other funds	1,317,381	-	-	-	355,163	1,672,544
Restricted assets:						
Cash in commercial banks	342,325	379,669	-	-	5,919,537	6,641,531
Cash in fiscal agent	-	-	3,414,440	2,640,812	3,647,842	9,703,094
Total assets	\$9,603,572	\$379,669	\$ 3,414,440	\$2,896,549	\$ 10,663,290	\$ 26,957,520
Liabilities and Fund balances						
Liabilities						
Accounts payable and accrued liabilities	\$ 628,623	\$ 39,678	\$ -	\$ -	\$ 1,155,771	\$ 1,824,072
Intergovernmental payable	117,384	-	-	-	-	117,384
Due to other funds	4,711	-	96,375	-	1,571,458	1,672,544
Deferred revenues	3,992,536	339,991	-	-	713,829	5,046,356
Matured bonds due and payable	-	-	-	1,750,000	-	1,750,000
Accrued interest payable	-	-	-	591,262	-	591,262
Total liabilities	4,743,254	379,669	96,375	2,341,262	3,441,058	11,001,618
Fund balances						
Reserved for:						
Debt service	-	-	-	555,287	-	555,287
Capital projects	-	-	3,318,065	-	-	3,318,065
Other specified purposes	342,325	-	-	-	7,222,232	7,564,557
Encumbrances	493,298	-	-	-	-	493,298
Unreserved	4,024,695	-	-	-	-	4,024,695
Total fund balances	4,860,318	-	3,318,065	555,287	7,222,232	15,955,902
Total liabilities and fund balances	\$9,603,572	\$379,669	\$ 3,414,440	\$2,896,549	\$ 10,663,290	\$ 26,957,520

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

The amounts of governmental activities reported in the statement of net assets and the balance sheet-governmental funds, are different for the following reasons:

Total fund balance reported in the balance sheet - governmental funds	\$ 15,955,902
Add (Deduct):	
Capital assets used in governmental funds activities are not financial resources, therefore are not reported in the governmental funds	99,585,204
Deferred (unavailable) revenues in the governmental funds that are recognized as revenues in the statements of activities	666,105
Intergovernmental receivables related to Christmas bonus that are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds.	129,357
The following liabilities are not due (mature) in the current fiscal year, therefore are not reported in the governmental funds:	
Accrued employees' Christmas bonus	(351,255)
Bonds payable	(23,279,105)
Notes payable	(736,826)
Compensated absences	(2,884,217)
Solid waste landfill closure and postclosure cares costs	(8,516,770)
Net assets - governmental activities reported in statement of net assets	\$ 80,568,395

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FISCAL YEAR ENED JUNE 30, 2009

	<u>Major governmental funds</u>					<u>Total governmental funds</u>
	<u>General fund</u>	<u>Head Start fund</u>	<u>\$ 3,475,000 loan fund</u>	<u>Debt service fund</u>	<u>Other governmental funds</u>	
Revenues:						
Taxes:						
Property taxes	\$ 6,611,463	\$ -	\$ -	\$ 1,513,119	\$ -	\$ 8,124,582
Municipal license taxes	7,500,573	-	-	-	-	7,500,573
Licenses and permits	252,472	-	-	-	-	252,472
Sales tax	2,484,289	-	-	477,301	323,080	3,284,670
Intergovernmental revenues	3,914,839	-	-	-	3,712,514	7,627,353
Grants and contributions	-	10,065,805	-	-	3,829,604	13,895,409
Charges for services	285,427	-	-	-	214,747	500,174
Interest on deposits	75,011	-	-	994	221,472	297,477
Miscellaneous	40,587	-	-	-	157,772	198,359
Total revenues	\$ 21,164,661	\$ 10,065,805	\$ -	\$ 1,991,414	\$ 8,459,189	\$ 41,681,069
Expenditures:						
Current:						
General government	6,976,507	-	13,037	-	189,284	\$ 7,178,828
Public safety	2,298,597	-	-	-	32,298	2,330,895
Public works	3,965,841	-	-	-	310,809	4,276,650
Culture and recreation	1,534,730	-	-	-	199,479	1,734,209
Health, sanitation and welfare	4,626,553	-	-	-	1,248,646	5,875,199
Education	-	9,929,692	-	-	1,190,947	11,120,639
Debt service:						
Principal	439,168	-	-	1,776,000	-	2,215,168
Interest	55,668	-	-	1,204,670	-	1,260,338
Capital outlays	21,900	136,113	143,898	-	6,247,982	6,549,893
Total expenditures	\$ 19,918,964	\$ 10,065,805	\$ 156,935	\$ 2,980,670	\$ 9,419,445	\$ 42,541,819
Excess (deficiency) of revenues over (under) expenditures	1,245,697	-	(156,935)	(989,256)	(960,256)	(860,750)
Other financing sources (uses):						
Transfers-in from other funds	747,841	-	-	28,172	633,048	1,409,061
Transfers-out to other funds	(28,172)	-	-	-	(1,380,889)	(1,409,061)
Proceeds from issuance of bonds	-	-	3,475,000	-	-	3,475,000
Total other financing sources (uses), net	719,669	-	3,475,000	28,172	(747,841)	3,475,000
Net change in fund balance	1,965,366	-	3,318,065	(961,084)	(1,708,097)	2,614,250
Fund balance (deficit) at beginning of fiscal year, as restated	2,894,952	-	-	1,516,371	8,930,329	13,341,652
Fund balance at end of fiscal year	\$ 4,860,318	\$ -	\$ 3,318,065	\$ 555,287	\$ 7,222,232	\$ 15,955,902

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENED JUNE 30, 2009**

Governmental activities' amounts reported in the statements of activities and the statement of revenues, expenditures and changes in fund balances - governmental funds are difference because:

Net change in fund balances reported in statement of revenues, expenditures and changes in fund balance - governmental funds.	\$ 2,614,250
Add (Deduction)	
The following revenues recorded in the statement of activities do not provide current financial resource, therefore are deferred in the governmental funds:	
Increase in Property tax deferred revenues	666,105
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives as amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization expense.	4,747,836
Repayment of principal of long term obligation is an expenditure in the governmental funds but the repayment reduces long term liabilities in the statement of net assets.	2,215,168
Some expenses reported in the statement of activities do not required the use of current financial resources, therefore are not reported as expenditures in the governmental funds.	228,062
The landfill closure and postclosures care cost do not required the use of current financial resources and therefore are not reported as expenditures in the funds financial statement.	(408,000)
Proceeds from issuance of bond provide current financial resources to governmental fund, but issuing such debt increases long term liabilities in the statement of net assets.	<u>(3,475,000)</u>
Net change in net assets as reported in the accompanying statement of activities	<u>\$ 6,588,421</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. Summary of Significant Accounting Policies

The Municipality of Guayama (the Municipality) is a local municipal government constituted on 1736 in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, the Municipality's governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power of the Municipality is exercised by the Municipal Legislature, whose members are also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power in the Municipality.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban development, economic development, and many other fiscal, general and administrative services

a) Financial Reporting Model

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2009 in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI is information presented along with, but separate from, the Municipality's basic financial statements. RSI is composed of the following elements: (1) Management's Discussion and Analysis (MD&A), (2) Budgetary Comparison Schedule- General Fund, (3) Budgetary Comparison Schedule- Debt Service Fund.

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 fiscal year ended June 30, 2009, 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 GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

b) *Financial Reporting Entity*

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity* (GASB No. 14), as amended, has set forth criteria to be considered in determining financial accountability for financial reporting purposes. These criteria include appointing a voting majority of an organization's governing body and: (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

On July 1, 2003, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units.

According to GASB No. 39, a legally separate tax-exempt organization should be reported as a discretely presented component unit of a reporting entity if all of the following criteria are met:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14.

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, 2009.

c) *Government-wide Financial Statements*

The accompanying GWFS are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements do not report fund information but rather report information of all of the Municipality's governmental activities. These statements are aimed at presenting a broad overview of the Municipality's finances through reporting its financial position and results of operations as a whole, using methods that are similar to those used by most private businesses.

The focus of the GWFS is not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability), but on operational accountability information about the Municipality as a single economic unit. Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net assets provides short-term and long-term information about the Municipality's financial position and condition by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). This statement assists management in assessing the level of services that can be provided by the Municipality in the future, and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets, including infrastructure, and discloses legal and contractual restrictions on resources.

Net assets are classified in the accompanying statement of net assets within the following three categories:

- **Invested in capital assets, net of related debt** – These consist of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets have been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net assets** – This net asset category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designations of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

The Municipality has reported the following types of restricted net assets in the accompanying statement of net assets:

- (1) **Debt service** – Represent net resources available to cover future debt service payments of bonds and notes payable.
 - (2) **Capital projects** – Represent net resources available to finance the acquisition, construction or improvement of major capital assets under contracts and other commitments.
 - (3) **Other specified purposes** – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs. Also, represent net resources available for the payment of certain accounts payable and commitments approved by the Government Development Bank for Puerto Rico (GDB), a component unit of the Commonwealth and fiscal agent of the Municipality.
- **Unrestricted deficit** – This category consists of the excess of liabilities over related assets that are neither externally nor legally restricted, neither invested in capital assets. However, assets reported within unrestricted deficit often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

The accompanying statement of activities presents the results of the Municipality's operations by showing how the Municipality's net assets changed during the year ended June 30, 2009, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

contributes to or draws from the Municipality's general revenues (such as property taxes, sales taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) public safety, (3) public works, (4) culture and recreation, (5) health, sanitation and welfare and (6) education. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

- Municipal legislature
- Mayor's office
- Department of finance
- Department of human resources
- Department of public relations
- Department of municipal secretary
- Department of internal audit
- EDP Department

Public safety:

- Department of emergency management
- Department of municipal police

Public works:

- Department of public works
- Department of transportation
- Department of land use

Culture and recreation:

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

Health, sanitation and welfare

- Department of health
- Department of sanitation
- Department of elderly affairs
- Department of citizen affairs

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

- **Charges for services** – These generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific capital and operating grants and contributions** – These consist of transactions that are either mandatory or voluntary nonexchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Capital grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Restricted capital and operating grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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

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

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

The Municipality classifies all of its activities as *governmental activities* in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

other nonexchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the GFFS.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

d) Governmental Fund Financial Statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

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

These financial statements report the financial position and results of operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- **General fund** – The general fund is the Municipality's main operating and major fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Special revenue funds** – The special revenue funds are nonmajor funds, as defined below, used by the Municipality to account for revenues derived from grants or other revenue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

sources (other than major capital projects) that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

- **Debt service fund** – The debt service fund is a major fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds and notes for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) general long-term debt for which the Municipality is being accumulating financial resources in advance, to pay principal and interest payments maturing in future years. Principal and accrued interest due on July 1 of the following fiscal year related to long-term debt for which debt service payments are accounted for in the debt service fund, are recorded as debt service fund's liabilities at June 30, if resources are available at June 30 for its payment.

General long-term debts for which debt service payments do not involve the advance accumulation of resources (such as obligations under capital leases, compensated absences, claims and judgments, and notes payable, among others) are accounted for in the accompanying statement of net assets. The debt service payments of such debts are generally accounted for in the general fund.

- **Capital projects funds** – Capital projects funds are major and nonmajor funds, as defined below, used to account for the financial resources used in the acquisition or construction of major capital facilities, other assets and permanent improvements. Significant capital outlays financed from general obligation bond proceeds are accounted for also in the capital projects funds.

The use of the capital projects funds has been reserved for major capital acquisitions or construction activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as certain vehicles and other minor capital assets) have been reported in the fund from which financial resources were used for the purchase.

The focus of the GFFS is on major governmental funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate ~~governmental funds between major and nonmajor categories within the GFFS.~~ Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all nonmajor governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is considered a major governmental fund if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

forementioned major fund criteria, no eliminations of interfund balances have been made. Total revenues for these purposes means all revenues, including operating and nonoperating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes, means all expenditures, including operating and nonoperating expenditures, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) general fund, (2) Head Start fund, (3) \$3,475,000 loan fund, (4) and the debt service fund

The accompanying GFFS are accompanied by other statements and schedules required by GAAP: (1) the schedule of revenues and expenditures – budget and actual – budgetary basis – general fund, (2) the reconciliation of the balance sheet – governmental funds to the statement of net assets, and (3) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

e) Measurement Focus and Basis of Accounting

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest income) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include fees for licenses and permits, charges for services, and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from nonexchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB No. 33), which the Municipality adopted on July 1, 2002. GASB No. 33 established accounting and reporting standards for nonexchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a nonexchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its nonexchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed nonexchange revenues, (c) government mandated nonexchange transactions, and (d) voluntary nonexchange transactions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

In the case of derived tax revenue transactions (such as municipal license taxes), which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred (that generally is when the taxpayers' net sales or revenues subject to tax take place).

In the case of imposed nonexchange revenue transactions (such as property taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes are generally recorded as revenues (net of amounts considered not collectible) in the period when resources are required to be used or the first period that the use of the resources is permitted.

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

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

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

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are generally considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Municipality considers most revenues to be available if collected within 90 days after June 30, 2009, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred revenues at June 30, 2009.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, sales taxes, intergovernmental grants and contributions and interest

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

income. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from nonexchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for nonexchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred).

Interest income is recorded when earned only if collected within 90 days after year-end since these would be considered both measurable and available.

As previously discussed the Municipality adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), which modifies the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting and clarifies a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities.

Pursuant to the provisions of GASBI No. 6, expenditures and related liabilities are generally recorded in the accompanying governmental fund financial statements in the accounting period in which the liability is incurred, as under the accrual basis of accounting, but only to the extent that they are normally expected to be liquidated with expendable financial resources.

Modifications to the accrual basis of accounting in accordance with GASBI No. 6 include:

- Employees' accumulated vacation, sick leave and compensatory time (compensated absences) is recorded as expenditure when consumed. The amount of the unpaid compensated absences has been reported only in the accompanying statements of net assets.
- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due), except for principal and interest due in July 1 of the following fiscal year, which are recorded when resources are available in the debt service fund (generally June 30).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

- Obligations under capital leases, amounts subject to claims and judgments under litigation and other long-term obligations are recorded only when they mature (when payment is due).
- Accounts payable and accrued liabilities not expected to be liquidated with available and expendable financial resources are recorded in the accompanying statement of net assets but not in the governmental funds.
- Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.) since these liabilities normally are paid in a timely manner and in full from current financial resources.

The measurement focus of the GFFS is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities, but are not recorded in the accompanying GFFS.

Under the financial reporting model established by GASB No. 34, all general capital assets and the unmatured long-term liabilities (determined using the modified accrual basis of accounting) are no longer reported in account groups within the governmental fund balance sheet but are incorporated into the accompanying statement of net assets.

f) Stewardship, Compliance and Accountability

Budgetary Control

According to the Autonomous Municipalities Act of the Commonwealth of Puerto Rico, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source for both funds. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

The Mayor must submit an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of Puerto Rico (the Commissioner) and the Municipal Legislature no later than each May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before each June 13.

The Municipal Legislature has 10 business days, up to June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue making payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance and Budget has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budgets are prepared under the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at year-end. Other appropriations, mainly capital projects 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 accompanying budgetary comparison schedule provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2009. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2009, which is prepared by the Municipality's Department of Finance and Budget. Copies of that report may be obtained by writing to the Municipality's Director of Finance.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP. Accordingly, the accompanying budgetary comparison schedule is accompanied by a reconciliation of the differences between the budgetary basis and GAAP actual amounts.

The Municipality does not legally adopt budgets for the state legislative joint resolutions capital fund. The financial resources received by these funds are not subject to budgeting by the Municipality since the resources received each year from the respective grantors varies from year to year, and the respective amounts are granted at their discretion.

g) *Unrestricted and Restricted Deposits*

The Municipality's deposits are composed of cash on hand and demand deposits in: (1) commercial banks, and (2) the Government Development Bank for Puerto Rico (GDB), a governmental bank and a major component unit of the Commonwealth, who is statutorily designated as fiscal agent of the Municipality, and (3) Municipal Revenue Collection Center (CRIM), in spanish acronym, a governmental entity responsible for the imposition and collection of property taxes on behalf of all municipalities of Puerto Rico.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements. 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 Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Secretary of the Treasury of the Commonwealth, but not in the Municipality's name.

Cash with fiscal agent in the debt service funds consists of property tax and sales tax collections amounting to \$2,640,812, which are restricted for the payment of the Municipality's debt service, as required by law. Cash in fiscal agent in the \$3,475,000 loan fund amounting to \$3,414,440, which are restricted for the payment certain accounts payable and specific commitments, previously agreed with and approved by GDB. Cash in fiscal agent recorded in the nonmajor

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

governmental funds amounting to \$3,647,842, which is restricted for: (1) the acquisition, construction or improvement of major capital assets and (2) the operations of federal and state funded programs.

Restricted cash in commercial banks for the Head Start fund, the General fund and the Other governmental funds, amounting to \$379,669, \$342,325 and \$5,919,537 respectively, restricted to: (1) finance the operations of the Head Start program, (2) finance the operations of all other federal and state funded programs recorded in the General fund and nonmajor special revenue funds, (3) finance the acquisition, construction and improvement of major capital assets.

h) Unrestricted and Restricted Accounts and Notes Receivable

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2009. Major receivable balances for the governmental activities include municipal license taxes, property taxes, sales taxes and intergovernmental receivables.

Tax receivables in the general fund represent uncollected property taxes and sales taxes. Restricted tax receivables in the debt service fund consist of uncollected property taxes, which are restricted for the payment of the Municipality's debt service, as established by law.

Intergovernmental receivables are composed of amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federal and state funded programs (recorded in the general fund, special revenue funds and capital project funds).

The accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the GFFS, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

i) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net assets. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost of \$500 or more at the date of acquisition or construction, and with useful lives extending beyond one year. All assets with individual costs under \$500 or with useful lives not

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

exceeding one year, are charged directly to expense in the accompanying statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net assets, all capital assets are recorded at cost, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Estimated historical cost if actual cost was unavailable based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002. The method to deflate the current costs using an approximate price index was used only in the case of certain items for which their historical cost documentation was not available. Actual historical costs were used to value the infrastructure, land, building, structures, building improvements, construction in progress, machinery and equipment and licensed vehicles constructed or acquired during or after the year ended June 30, 2003.

Major outlays for capital assets and improvements are capitalized in the statement of net assets as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction-in-progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight – line method, except for machinery and equipment held under capital leases, which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Buildings, structures and building improvements	15 to 40
Infrastructure	15 to 40
Licensed vehicles	5
Furniture, fixtures and work of arts	5 to 10
Machinery, equipment and computers	3 to 10

Depreciation and amortization expense on capital assets are recorded as direct expenses of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

j) Deferred Revenues

The Municipality reports deferred revenue on its GFFS and GWFS. In the GFFS, deferred revenue arises when:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period. As previously discussed, available is defined as due (or past due) at June 30, and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30, or;

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

- The Municipality receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

k) *Compensated Absences*

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2009 and (2) is not contingent on a specific event (such as illness) that is outside the control of the Municipality and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and medicare taxes).

The vacation policy of the Municipality is established by law and provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment with the Municipality before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. Upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed. After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is reported in the statement of net assets. A liability for compensated absences is reported in the GFFS only if they have matured, for example, as a result of employee resignations and retirements.

l) *Long-term Debt*

The long-term liabilities reported in the accompanying statements of net assets include the Municipality's bonds, notes, obligation under capital leases, compensated absences, estimated for landfill closure and postclosure care costs and legal claims and judgments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due in July 1 of the following fiscal year are recorded as fund liabilities in the GFFS when resources are available in the debt service fund (generally at June 30). In the GFFS, the face amount of debt issued is reported as other financing sources when issued.

In the GWFS debt issuance costs are reported as deferred charges and are amortized under the straight-line method over the life of the debt while in the GFFS such costs are recognized as expenditures during the current period.

m) Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers (GASB No. 27), the 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, the two retirement systems in which the employees of the Municipality participate. Accordingly, 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 part of the financial reporting entity of the Commonwealth. 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 account for the total amount of the net pension obligation of ERS, including any amount that may be allocated to the Municipality.

According to GASB No. 27, 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.

n) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department (the Treasury Department) on behalf of all municipalities of Puerto Rico. The Treasury Department pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments deducted from the Municipality's gross property tax collections made by CRIM.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. ~~This insurance is obtained through the Automobile Accidents Compensation Administration ("ACAA", by its Spanish acronym), a discretely component unit of the Commonwealth.~~ This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation ("CFSE" by its Spanish acronym), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a quarterly basis.

The Municipality also obtains medical insurance coverage for its employees. The current insurance policies have not been canceled or terminated at June 30, 2009. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

o) Reservations of Fund Balances

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

- ***Debt Service*** – Represent fund balances available to finance future debt service payments.
- ***Capital Projects*** – Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- ***Other Specified Purposes*** – Represent resources set aside for use in federal and state grant programs accounted for in the special revenue funds.
- ***Encumbrances*** – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts represent reservations of unexpired appropriations and generally will become liabilities in future periods as the goods or services are received.

p) Interfund Activities

~~Permanent reallocations of resources among the Municipality's funds are classified as interfund transfers. The Municipality has the following types of activities recorded among funds in the accompanying GFFS:~~

- ***Operating Transfers*** – Represent legally required transfers that are reported when incurred as "operating transfers-in" by the recipient fund and as "operating transfer-out" by the disbursing fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

- ***Intra-entity Activities*** – Represent transfers among funds that are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
- ***Advances*** – Represent amounts advanced among funds, which are not considered to be currently available financial resources.

In the GFFS, interfund activity has not been eliminated, as permitted by GAAP.

q) *Use of Estimates*

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

r) *Municipal Solid Waste Landfill Closure and Postclosure Care Costs*

Municipal solid waste landfill closure and postclosure care costs are accounted for under the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, issued by GASB (GASB No. 18).

The estimated liability for municipal solid waste landfill closure and postclosure care costs (including monitoring and maintenance) includes an estimate of all costs to be incurred near or after the close of the Municipality's solid waste landfill. In the government-wide statement of net assets, this liability is recognized under the accrual basis of accounting over the useful life of the landfill, even though such costs will only be incurred near or after the close of the landfill.

The estimates of closing and postclosing costs include: (1) the cost of equipment and/or facilities that will be acquired near the time the landfill stops accepting waste or after for the purposes of postclosure care and monitoring, (2) the cost of applying the final cover and (3) the cost of postclosure maintenance and monitoring. These cost estimates are made using current costs (costs that would be incurred if these services would have been obtained during the current period) allocated in the accompanying statement of net assets based on the landfill capacity used through June 30, 2009. The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

Any changes in the estimated total current costs that occur before the landfill stops accepting solid waste are reported in the period of the changes, and an adjustment is made to the calculation, which is accounted for prospectively as a change in accounting estimate. On the other hand, the accounting for a horizontal expansion of the landfill has no effect in the factors used to calculate the accrued liability for the closure and postclosure costs of the original landfill. In this case, a separate calculation of the closure and postclosure care costs for the expanded portion of the landfill is made for each financial reporting period.

Changes in the estimated total current costs for landfill closure and postclosure care costs may also occur after the date that the landfill stops accepting solid waste. These changes may include

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

changes due to inflation (or deflation), changes in technology, changes in closure and postclosure care requirements, corrections of errors in estimation, and changes in the extent of environmental remediation that is required. Changes in these estimates would be reported in the period in which the change is probable and reasonably estimable.

In the GFFS, municipal solid waste landfill closure and postclosure care costs are recorded in the accounting period in which they are due (when they mature) under the modified accrual basis of accounting.

2. DEPOSITS

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

The balances deposited in commercial banks are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. Under the laws and regulations of the Commonwealth, public funds deposited in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance. All 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, 2009.

THIS SPACE HAS BEEN LEFT IN BLANK INTENTIONALLY

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Cash and cash equivalents as of June 30, 2009, are classified in the accompanying financial statement as follows:

	<u>Major governmental funds</u>					<u>Total governmental funds</u>
	<u>General fund</u>	<u>Head Start</u>	<u>3,475,000 Loan fund</u>	<u>Debt service fund</u>	<u>Other governmental funds</u>	
Unrestricted:						
Cash in commercial banks	\$7,183,651	-	-	-	-	\$ 7,183,651
Total unrestricted deposits	<u>7,183,651</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,183,651</u>
Restricted:						
Cash in commercial banks	342,325	379,669	-	-	5,919,537	6,641,531
Cash in GDB, as fiscal agent	-	-	3,414,440	2,640,812	3,647,842	9,703,094
Total restricted deposits	<u>342,325</u>	<u>379,669</u>	<u>3,414,440</u>	<u>2,640,812</u>	<u>9,567,379</u>	<u>16,344,625</u>
Total carrying amount of deposits	<u>\$7,525,976</u>	<u>379,669</u>	<u>3,414,440</u>	<u>2,640,812</u>	<u>9,567,379</u>	<u>\$ 23,528,276</u>

Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico, the Municipality may invest in obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

3. MUNICIPAL LICENSE TAXES

The Municipality is authorized by Law No. 113 of July 10, 1974, as amended 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 Guayama. 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, 2009, 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 million 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 \$3,326,431 at June 30, 2009, which represents municipal licenses collected in advance for the taxable year 2008-2009.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

4. MUNICIPAL SALES AND USE TAX

The State Public Law No. 117 of July 4, 2006 establish a local sales and use tax of 1.5% over the sale of goods and services made within the Municipalities boundaries. Under this Law, every business doing retail sales is required to register in the Puerto Rico Treasury Department (PRTD) to obtain a Retailer's Registration Certificate. The retailers are required to file monthly sales tax returns by the 20th day following the month in which the tax was collected.

On July 29, 2007, the State Public Law No. 80 establishes that the municipalities may collect only 1.0% of its sales and use tax and the PRTD the other 0.5%. Resources collected would be use for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs by the Municipality.

The tax collected by PRTD will be distributed to the municipalities in three separate funds: Municipal Development Fund, Municipal Redemption Fund and Municipal Improvements Fund. The Municipal Development Fund will be based on 0.2% of the 0.5% collected but will be distributed within all municipalities by formula based on total amounts collected, operational budgets and population. Another 0.2% will be deposit on a Municipal Redemption Fund in the Government Development Bank for Puerto Rico (GDB) and use only for the repayment of future municipal loans to GDB. The other 0.1% will be deposit in a Municipal Improvements Fund in GDB and assigned by the State Legislature for construction and permanent improvements projects to the municipalities.

THIS SPACE HAS BEEN LEFT IN BLANK INTENTIONALLY

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

5. INTERFUND BALANCES

On July 1, 2001, the Municipality adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures, issued by the Governmental Accounting Standards Board*. This statement requires the disclosure of the flow of resources between funds and to assess the collectibility of interfund balances. Interfund balances at June 30, 2009 consisted of the following:

Transfers to:	Transfers from:					
	Major funds					
	General fund	Head start fund	\$ 3,475,000 loan fund	Debt service fund	Other governmental funds	Total governmental funds
Major funds:						
General fund	\$ -	-	-	28,172	-	\$ 28,172
Head start fund	-	-	-	-	-	-
\$ 3,475,000 loan fund	-	-	-	-	-	-
Debt service fund	-	-	-	-	-	-
Nonmajor funds:						
Other governmental fund	747,841	-	-	-	633,048	1,380,889
Total	\$ 747,841	-	-	28,172	633,048	\$ 1,409,061
	Due from:					
	Major funds					
	General fund	Head start fund	\$ 3,475,000 loan fund	Debt service fund	Other governmental funds	Total governmental funds
Due to:						
Major funds:						
General fund	\$ -	-	-	-	4,711	\$ 4,711
Head start fund	-	-	-	-	-	-
\$ 3,475,000 loan fund	-	-	-	-	96,375	96,375
Debt service fund	-	-	-	-	-	-
Nonmajor funds:						
Other governmental fund	1,317,381	-	-	-	254,077	1,571,458
Total	\$1,317,381	-	-	-	355,163	\$ 1,672,544

At June 30, 2009, all amounts due to among funds are considered collectible by the Municipality's management.

THIS SPACE HAS BEEN LEFT IN BLANK INTENTIONALLY

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>Balance at beginning of fiscal year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at end of fiscal year</u>
Governmental activities				
Cost basis:				
Capital assets, not being depreciated/amortized:				
Land	\$ 41,742,851	\$ 129,000	\$ -	\$ 41,871,851
Construction in progress	8,177,126	4,849,320	-	13,026,446
Total capital assets, not being depreciated/amortized	<u>49,919,977</u>	<u>4,978,320</u>	<u>-</u>	<u>54,898,297</u>
Capital assets, being depreciated/amortized:				
Buildings, structures, and improvements	41,770,634	-	-	41,770,634
Infrastructure and infrastructure improvements	12,753,393	879,428	-	13,632,821
Equipment	1,075,688	487,173	-	1,562,861
Computers	219,831	39,228	-	259,059
Works of art	7,400	-	-	7,400
Furnitures	878,965	40,102	-	919,067
Licensed vehicles	1,338,065	141,993	-	1,480,058
Total capital assets, being depreciated/amortized	<u>58,043,976</u>	<u>1,587,924</u>	<u>-</u>	<u>59,631,900</u>
Total cost basis of capital assets	<u>107,963,953</u>	<u>6,566,244</u>	<u>-</u>	<u>114,530,197</u>
Less: accumulated depreciation and amortization:				
Buildings, structures, and improvements	3,560,018	1,044,118	-	4,604,136
Infrastructure and infrastructure improvements	6,607,343	436,997	-	7,044,340
Equipment	851,339	137,864	-	989,203
Computers	189,962	24,349	-	214,311
Works of art	2,224	740	-	2,964
Furnitures	821,799	23,300	-	845,099
Licensed vehicles	1,093,899	151,041	-	1,244,940
Total accumulated depreciation and amortization, as restated	<u>13,126,584</u>	<u>1,818,409</u>	<u>-</u>	<u>14,944,993</u>
Net capital assets	<u>\$ 94,837,369</u>	<u>4,747,835</u>	<u>-</u>	<u>\$ 99,585,204</u>

Depreciation and amortization expense for the fiscal year ended June 30, 2009 was charged to functions/programs as follow:

Governmental activities	
General government	\$ 765,185
Public Safety	42,958
Public Works	470,823
Culture and recreation	457,303
Health and Welfare	8,412
Education	73,728
Total depreciation and amortization expense	<u>\$ 1,818,409</u>

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2009. In addition, the infrastructure assets recorded in the accompanying statement of net assets are not supported adequately in the accounting records of the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

7. Employees' Retirement Systems

a) Plan Description

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed.

ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

- **Retirement Annuity**

ERS members are eligible for a retirement annuity upon reaching the following age:

Policemen and firemen:	Other employees:
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

ERS members are eligible for monthly benefit payments determined by the application of the stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a member is eligible, is limited to a minimum of \$300 per month and a maximum of 75 percent of the average compensation.

- **Merit Annuity**

ERS members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65 percent and a maximum of 75 percent of the average compensation.

- **Deferred Retirement Annuity**

A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.

- **Coordinated Plan**

On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- i. \$165 per month, if retired with 55 years of age and 30 years of credited service
- ii. a \$110 per month, if retired with less than 55 years of age and 30 years of credited service

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

- iii. All other between \$82 and \$100 per month.
- iv. Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

- ***Non-Coordinated Plan***

On the non-coordinated plan the participating employee and does not have any change on the pension benefits upon receiving social security benefits.

- ***Reversionary Annuity***

An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than \$240 per year or greater than the annuity payments being received by the retiree.

- ***Occupational Disability Annuity***

A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50 percent of the compensation received at the time of the disability.

- ***Nonoccupational Disability Annuity***

A participating employee, totally and permanently disabled for causes not related to his/her occupation and with no less than 10 years of credited service, is eligible for an annuity of 1.50 percent of the average compensation of the first 20 years of credited services, increased by 2 percent for every additional year of credited service in excess of 20 years.

- ***Death Benefits***

Occupational:

(a) **Surviving spouse** – annuity equal to 50 percent of the participating employee's salary at the date of the death.

(b) **Children** - \$10 per month for each child, minor or student, up to a maximum benefit per family of \$100.

Nonoccupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Post-retirement:

Beneficiary with surviving spouse age 60 or over and a child, 18 or under, up to 30 percent (60 percent, if not covered under Title II of the Social Security Act) (increased to 50 percent effective January 1, 2004) of retiree's pension or otherwise the excess, if any, of the

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of \$750.

- ***Refunds***

A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.

- ***Cost of Living Adjustment for Pension Benefits***

Public Act No. 10 of May 21, 1992 (Act No. 10) provided for increases of 3 percent every three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years subject to the presentation of actuarial studies regarding its costs and the source of financing. To protect the financial health of ERS, the increase granted during 2001 and the one granted on January 1, 2004 are being financed by the Municipality and the other participating employers.

To avoid any economic impact on ERS, the employers are responsible for contributing to ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the participants covered until the participants reach the normal retirement age.

- ***Amendment to Act No. 447 effective January 1, 2000 to create a Defined Contribution Plan***

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as *System 2000*, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula ~~which assumes that each fiscal year the employee's contribution (with a minimum of 8.28~~ percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

Historically, the Commonwealth has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

• ***Amendments to Act No. 447***

In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following certain benefits to retirees:

- (a) Increase in minimum monthly pension payments to \$300, effective January 1, 2004.
- (b) Triennial 3 percent increase in all pensions, effective January 1, 2004.
- (c) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2004.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective November 17, 2003, an increase in the amount granted on personal loans to participating employees from \$3,000 to \$5,000.

b) Funding Policy

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	9.28 percent of applicable payroll
Employees:	
Coordination plan:	5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent of gross salary in excess of \$6,600.
Supplementation plan:	8.28 percent of gross salary. This is the only choice available to police officers, firefighters and majors.

8. LONG-TERM DEBT

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:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

- 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, 2009, the Municipality is in compliance with the debt limitation requirements. The general long-term debt activity for the year ended June 30, 2009 was as follows:

	Balance at June 30, 2008	Borrowings or additions	Payments or deductions	Balance at June 30, 2009	Balance due within one year
Bonds payable:					
Public Improvements Bonds	\$ 1,405,105	-	501,000	904,105	\$ 542,000
Municipal General Obligation Bonds	21,260,000	-	900,000	20,360,000	965,000
Municipal General Obligation Notes	120,000	-	55,000	65,000	65,000
Special Obligation Bonds	245,000	-	20,000	225,000	20,000
Special Obligation Notes	-	3,475,000	-	3,475,000	185,000
	23,030,105	3,475,000	1,476,000	25,029,105	1,777,000
Notes payable:					
Puerto Rico Treasury Department:					
Property tax advances	676,428	-	338,214	338,214	338,214
CRIM:					
LIMS	372,061	-	98,632	273,429	104,587
Law 42	127,505	-	2,322	125,183	2,468
Compensated absences	3,334,176	-	449,959	2,884,217	1,316,573
Estimated liability for municipal solid waste landfill closure and postclosure care costs	8,108,770	408,000	-	8,516,770	-
Total	\$35,649,045	3,883,000	2,365,127	37,166,918	\$ 3,538,842

a) Bonds Payable

The Municipality issues general and special (public improvements) obligations bonds and notes to provide for the acquisition and construction of major capital facilities and equipment, as well as, to cover certain operating needs. Bonds and notes payable at June 30, 2009 is composed of the following debts:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

	<u>Outstanding Amount</u>
Public Improvement Bonds:	
1994 serial bonds, original amount of \$4,765,000, due in annual principal installments ranging from \$175,000 to \$515,000; plus interest due in semiannual installments rates not to exceed 7.71% through July 1, 2009	\$ 515,000
1995 serial bonds, original amount of \$27,000, due in annual principal installments ranging from \$1,000 to \$2,000; plus interest due in annual installments at a rate of 4.50% through January 1, 2020	15,000
1995 serial bonds, original amount of \$550,000, due in annual principal installments ranging from \$3895.94 to \$55,105.40; plus interest due in annual installments at a rate of 4.50% through January 1, 2020	374,105
Total public improvement bonds	<u>904,105</u>
General Obligation Bonds:	
1995 serial bonds, original amount of \$27,000, due in annual principal installments ranging from \$1,000 to \$2,000; plus interest due in annual installments at a rate of 4.50% through January 1, 2020	330,000
1996 serial bonds, original amount of \$5,105,000, due in annual principal installments ranging from \$70,000 to \$450,000; plus interest due in semiannual installments at rates not to exceed 6.63% through July 1, 2020	3,660,000
1999 serial bonds, original amount of \$4,590,000, due in annual principal installments ranging from \$65,000 to \$385,000; plus interest due in semiannual installments rates not to exceed 7.81% through July 1, 2024	3,765,000
1999 serial bonds, original amount of \$3,840,000, due in annual principal installments ranging from \$110,000 to \$370,000; plus interest due in semiannual installments rates not to exceed 7.81% through July 1, 2017	2,520,000
2003 serial bonds, original amount of \$705,000, due in annual principal installments ranging from \$10,000 to \$60,000; plus interest due in semiannual installments rates not to exceed 5.31% through July 1, 2027	620,000
2003 serial bonds, original amount of \$2,450,000, due in annual principal installments ranging from \$40,000 to \$190,000; plus interest due in semiannual installments rates not to exceed 5.31% through July 1, 2027	2,160,000
2004 serial bonds, original amount of \$1,810,000, due in annual principal installments ranging from \$45,000 to \$150,000; plus interest due in semiannual installments rates not to exceed 5.25% through July 1, 2023	1,540,000
2005 serial bonds, original amount of \$1,810,000, due in annual principal installments ranging from \$85,000 to \$170,000; plus interest due in semiannual installments rates not to exceed 4.73% through July 1, 2019	1,450,000
2005 serial bonds, original amount of \$4,745,000, due in annual principal installments ranging from \$100,000 to \$325,000; plus interest due in semiannual installments rates not to exceed 5.02% through July 1, 2029	4,315,000
Total general obligation bonds	<u>20,360,000</u>
General Obligation Notes:	
2002 serial bonds, original amount of \$355,000, due in annual principal installments ranging from \$40,000 to \$65,000; plus interest due in semiannual installments rates not to exceed 5.00% through July 1, 2009	65,000
Special Obligation Bonds:	
1997 serial bonds, original amount of \$400,000, due in annual principal installments ranging from \$10,000 to \$40,000; plus interest due in semiannual installments rates not to exceed 8.00% through July 1, 2016	225,000
Special Obligation Notes:	
2009 serial bonds, original amount of \$3,475,000, due in annual principal installments ranging from \$185,000 to \$420,000; plus interest due in semiannual installments at rates not to exceed 7.50% through July 1, 2020	3,475,000
Total bonds and notes payable	<u>\$ 25,029,105</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

The General Obligation Bonds and the Public Improvements Bonds are payable from the ad valorem property tax of 1.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

The laws and regulations of the Commonwealth provide that public debt of the Municipality will constitute a first claim on the available revenue of the Municipality. Public debt includes bonds and notes payable. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of the bonds and notes payable.

Interest rates on serial bonds subject to variable rates are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper in the U.S. taxable and tax-exempt markets, in the Eurodollar market and to corporations that have tax exemption under the Commonwealth's Industrial Incentives Act and qualify for benefits provided by the U.S. Internal Revenue Code Section 936.

Annual debt service requirements of maturity for bonds and notes payable are as follows:

Year ending June 30,	Principal	Interest	Total
2010	1,777,000	1,189,646	2,966,646
2011	1,293,000	1,260,788	2,553,788
2012	1,384,000	1,170,663	2,554,663
2013	1,476,000	1,094,773	2,570,773
2014	1,477,000	1,015,627	2,492,627
2015-2019	8,593,000	3,707,071	12,300,071
2020-2024	6,031,105	1,461,813	7,492,918
2025-2029	2,673,000	370,124	3,043,124
2029-2033	325,000	8,158	333,158
Totals	<u>\$25,029,105</u>	<u>\$11,278,662</u>	<u>\$36,307,768</u>

b) Property Tax Advances

On October 27, 1994, the Municipality entered into a financing agreement with the Puerto Rico Treasury Department to pay the debt related to the excess of property tax advances over collection made by the Puerto Rico Treasury Department. Outstanding balance at June 30, 2009 is \$338,214.

c) Notes Payable to CRIM

LIMS – On 2001, the Municipality entered into a financing agreement with CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by CRIM on behalf of all municipalities, for the management of a digital database of taxpayers properties located in Puerto Rico. The face amount of the loan was \$889,671. It is due in annual

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

principal installments ranging from \$33,194 to \$57,938; plus interest due in semiannual installments at a rate of 5.95% through November 28, 2011. At June 30, 2009, the balance of this note amounted to \$273,429. The principal and interest maturities are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	104,587	14,736	119,323
2011	110,903	8,421	119,324
2012	57,939	1,724	59,663
Total	<u>\$ 273,429</u>	<u>\$ 24,881</u>	<u>\$ 298,310</u>

Law 42 – On 2002, the Municipality entered into a financing agreement with CRIM for the repayment of bonds issued for the sale of delinquent accounts. The face amount of the loan was \$138,029. It is due in semiannual principal installments ranging from \$817 to \$4,935; plus interest due in semiannual installments at a rate of 6.19% through July 1, 2032. At June 30, 2009, the balance of this note amounted to \$125,183. The principal and interest maturities are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	2,468	7,708	10,176
2011	2,623	7,553	10,176
2012	2,788	7,388	10,176
2013	2,963	7,213	10,176
2014	3,149	7,027	10,176
2015-2019	18,974	30,986	49,960
2020-2024	25,732	25,148	50,880
2025-2029	34,898	15,972	50,870
2030-2033	31,588	4,028	35,616
Total	<u>\$ 125,183</u>	<u>\$ 113,023</u>	<u>\$ 238,206</u>

d) Compensated Absences

At June 30, 2009, the liability for compensated absences is composed as follows:

	<u>Due within one year</u>	<u>Due after one year</u>	<u>Total</u>
Vacations	671,174	334,208	1,005,382
Sick leave	469,870	1,233,436	1,703,306
Compensatory time	175,529	-	175,529
Total	<u>\$1,316,573</u>	<u>\$ 1,567,644</u>	<u>\$2,884,217</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

e) *Landfill Closure and Postclosure Cost*

According to the regulations set forth by the U.S. Environment Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991, the Municipality is required to place a final cover on the Municipality's landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with GASB No. 18, the Municipality has to perform a study of the activities that need available space and to comply with applicable state and federal regulations. The Municipality has recorded an estimated liability of \$8,516,770 in the accompanying GWFS, using estimated current costs allocated, based on an estimate of the actual landfill capacity used at June 30, 2009. The portion of the estimated current costs to be incurred in future years is approximately \$1,225,000. Actual costs may be different to the recorded estimated liability due to inflation, changes in technology, or changes in Acts and regulations. At June 30, 2009 the Municipality has not perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities and has not adjusted an estimated liability in accordance with that study.

9. SUBSEQUENT EVENTS

a) *The American Recovery and Reinvestment Act of 2009*

The American Recovery and Reinvestment Act of 2009 (ARRA), is an economic stimulus package endorsed by the President of the United States of America, and approved by Congress. This Act is designed primarily to combat the rising unemployment trends, put more money in the hands of consumers, and reduce the likelihood that state and local governments will need to raise taxes significantly. According to the White House press release, the legislation will do the following:

- ❖ Create or save 3.5 million jobs in the next 2 years;
- ❖ Provide direct tax relief to working and middle class families;
- ❖ Double the U.S. renewable energy generating capacity over 3 years;
- ❖ Stimulate private investment in renewable energy through tax credits and loan guarantees;
- ❖ Invest \$150 billion in U.S. infrastructure projects, and;
- ❖ Provide funds to U.S. state and local governments to support health and education programs.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5.6 million in grants and is eligible to obtain additional funding through other competitive federal programs. Therefore, the Municipality will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

b) *Investment on our Infrastructure Plan (PINI)*

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 9, which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The following are the objectives of this Plan:

- ❖ Provide an immediate stimulus to the economy through funding of infrastructure Projects Island wide, and;

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

- ❖ Speed-up priority infrastructure projects in all municipalities of Puerto Rico.

In the first phase, the municipalities can use the funds for the following:

- ❖ Funding of essential infrastructure, and;
- ❖ Those municipalities with deficit can use those them to partially or fully liquidate existing debts with governmental agencies.

The Municipality assigned these funds for debts to agencies. Those debts were paid between July and August 2009.

c) Long-term debt issuance

As described in Note 8, the principal long-term obligations of the Municipality are general obligation bonds and special notes issued to finance the construction and improvements of public facilities, purchase of equipment and for the operational purpose. During the fiscal year 2009-2010, through the Resolutions Number 35 and 41, the Municipal Legislature approved the issuance of two (2) special obligation notes, one for the amount of \$400,000, and the other one for the amount of \$355,000.

d) Budget Amendments

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances and other unanticipated revenues. During the fiscal year 2009-2010, through the Resolution Number 40, the Municipal Legislature approved a budget amendment for the amount of \$750,936, proceeding from a property taxes revenues estimation revision, realized by the Municipal Revenue Collection Center ("CRIM") during the fiscal year 2009-2010.

10. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following accounting standards that have effective dates after June 30, 2009:

- ❖ GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009;
- ❖ GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement establishes accounting and reporting requirements for derivative instruments, including hedge accounting. This statement is effective for periods beginning after June 15, 2009;
- ❖ GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement changes the classification and terminology of fund balances and amends the definitions of the different types of governmental funds. This statement is effective for periods beginning after June 15, 2010;

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

❖ GASB Concepts Statements No. 5, *Service Efforts and Accomplishments – an Amendment of GASB Concepts Statements No. 2*. This statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB: CS-2. ;

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

11. RESTATEMENTS

The following schedule reconciles the June 30, 2008 fund balances as previously reported by the Municipality to the beginning fund balances, as restated:

	June 30, 2008, fund balance, as previously reported	Fund balance restatement	June 30, 2008, fund balance, as restated
Major funds:			
General fund	\$ 2,276,176	\$ 618,776	\$ 2,894,952
Major special revenue funds:			
Head start fund	-	-	-
\$3,475,000 Loan Fund	-	-	-
Debt service fund	3,275,211	(1,758,840)	1,516,371
	<u>5,551,387</u>	<u>(1,140,064)</u>	<u>4,411,323</u>
Other governmental funds	8,355,176	575,153	8,930,329
Total governmental funds	<u>\$ 13,906,563</u>	<u>\$ (564,911)</u>	<u>\$ 13,341,652</u>

The following schedule reconciles the June 30, 2008 net assets previously reported by the Municipality to the beginning net assets, as restated in the accompanying statement of activities:

June 30, 2008, net assets, as previously reported	Government-wide Restatement	June 30, 2008, net assets, as restated
<u>\$ 73,878,341</u>	<u>\$ 101,633</u>	<u>\$ 73,979,974</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
BUDGETARY BASIS – GENERAL FUND
JUNE 30, 2009

	Budgeted Amounts		Actual amounts (budgetary basis)	Variance with final budget - over (under)
	Original	Final		
Revenues:				
Property taxes	\$ 6,486,151	\$ 6,486,151	\$ 6,486,151	\$ -
Municipal license taxes	7,025,000	7,025,000	7,500,573	475,573
Construction exise taxes	1,000,000	1,000,000	279,468	(720,532)
Charges for services	493,906	493,906	285,427	(208,479)
Intergovernmental grants and contributions	4,089,650	4,222,340	1,774,125	(2,448,215)
Investment earnings	375,000	375,000	75,011	(299,989)
Miscellaneous	50,000	50,000	40,537	(9,463)
Operating transfer-in from other funds	-	747,841	-	(747,841)
Total revenues	19,519,707	20,400,238	16,441,292	(3,958,946)
Expenditures:				
Current:				
General government	8,474,233	10,045,650	6,539,397	3,506,253
Public safety	4,284,397	4,368,590	3,756,643	611,947
Public works	2,166,757	2,144,116	1,844,196	299,920
Culture and recreation	1,801,961	1,782,317	1,381,827	400,490
Health, sanitation and Welfare	2,792,359	2,059,565	1,731,340	328,225
Total expenditures	19,519,707	20,400,238	15,253,403	5,146,835
Excess of revenues over expenditures	\$ -	\$ -	\$ 1,187,889	\$ 1,187,889
Explanation of Differences:				
Sources/inflows of financial resources:				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule				\$ 16,441,292
Differences - budget basis to GAAP:				
Net decrease in receivables				\$ 2,113,118
Resources considered revenues for financial reporting but not for budgetary purposes				2,609,651
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds				\$ 21,164,061
Uses/outflows of financial resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 15,253,403
Differences - budget basis to GAAP:				
Net increase in payables				1,805,329
Nonbudget expenditures				214,478
Prior year encumbrances recorded as current year expenditures for GAAP basis				634,965
Current-year encumbrances recorded as current expenditures for Budgetary basis				(413,593)
Resources considered expenditures for budgetary but are not expenses for financial reporting purposes				2,659,380
Operating transfer-out to other funds				(28,172)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds				\$ 19,918,964

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2009

The Municipality's annual budget is prepared under the budgetary basis of accounting, which is not in accordance with GAAP.

Under the budgetary basis of accounting, revenues are generally recognized when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

Under the budgetary basis of accounting the Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior the actual expenditure. In the governmental funds, encumbrances accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lap at year-end. Other appropriations, mainly capital projects 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 accompanying Budgetary Comparison Schedule – General Fund, provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2009.

Except for the General Fund and the Debt Service Fund, the Municipality legally does not adopt budgets for its major special revenues and capital projects funds. Accordingly, neither accompanying basic financial statements, nor required supplementary information includes statements or revenues and expenditures – budget and actual-budgetary basis, or budgetary comparison schedules, respectively, for these major programs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
BUDGETARY BASIS – DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2009

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget- over (under)
	Original	Final		
Revenues:				
Property taxes	\$2,027,656	2,027,656	1,289,486	\$ (738,170)
Total revenues	<u>2,027,656</u>	<u>2,027,656</u>	<u>1,289,486</u>	<u>(738,170)</u>
Expenditures:				
Debt service:				
Principal	1,571,000	1,571,000	1,456,000	(115,000)
Interest	456,656	456,656	650,502	193,846
Total expenditures	<u>\$2,027,656</u>	<u>\$2,027,656</u>	<u>2,106,502</u>	<u>\$ 78,846</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (817,016)</u>	<u>\$ (817,016)</u>

Reconciliation of differences:

Sources/inflows of financial resources:

Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	\$ 1,289,486
Differences - budgetary basis to GAAP: Resources considered revenues for financial reporting but not for budgetary purposes	478,295
Differences in bases of accounting: Net increase in property tax receivable	<u>223,633</u>
Total revenues reported on the statement of revenue, expenditures and changes in fund balances - governmental funds	<u>\$ 1,991,414</u>

Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,106,502
Differences - budgetary basis to GAAP: Resources considered expenses for financial reporting purposes but are not expenditures for budgetary purposes	798,486
Differences in bases of accounting: Net decrease in matured bonds due and payable	(39,318)
Net increase in matured interest due and payable	<u>115,000</u>
Total expenditures reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 2,980,670</u>

See accompanying notes to the budgetary comparison schedule - debt service fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA
NOTES TO BUDGETARY COMPARISON SCHEDULE – DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2009

An annual budget has to be prepared under the budgetary basis of accounting, which is not in accordance with GAAP for the Debt Service Fund. Under the budgetary basis of accounting, revenues are generally recognized when cash is received.

Property tax revenues are used by GDB for the payment of principal and interest of bonds issued by them. Budgeted transfers out from the General Fund are made to finance budgetary debt requirements of Operational Bonds paid through CRIM.

The accompanying Budgetary Comparison Schedule – Debt Service Fund, provides information about the Debt Service fund's original budget and the actual results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2009.

Except for the General Fund and the Debt Service Fund, the Municipality legally does not adopt budgets for its major special revenues and capital projects funds. Accordingly, neither accompanying basic financial statements, nor required supplementary information include statements or revenues and expenditures – budget and actual-budgetary basis, or budgetary comparison schedules, respectively, for these major programs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico - Department of Education: Child and Adult Care Food Program	10.558	Not Available	<u>1,191,153</u>
Total U.S. Department of Agriculture			<u>1,191,153</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Community Development Block Grant – Entitlement Grants	14.218		798,185
Urban Development Action Grants	14.221		5,899
Section 8 Housing Choice Vouchers Program	14.871		1,055,649
Indirect Programs:			
Pass-Through State - Office of the Commissioner of Municipal Affairs: Community Development Block Grants – State’s Program	14.228	Various	<u>153,142</u>
Total U.S. Department of Housing and Urban Development			<u>2,012,875</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-Through the Commonwealth of Puerto Rico Governor Office – Public Security Affairs Office			
Homeland Security Grant Program	97.067	Not Available	<u>183,770</u>
Total U.S. Department of Homeland Security:			<u>183,770</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE			
Pass-Through the Commonwealth of Puerto Rico – Administration for Children and Families:			
Head Start Program	93.600	Not Available	<u>10,065,805</u>
Total U.S. Department of Health and Human Service:			<u>10,065,805</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 13,453,603</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – GENERAL

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – FEDERAL CFDA NUMBER

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

NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 – MAJOR PROGRAMS

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

Pedro E. Ortíz Ledée

Certified Public Accountant

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

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

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of **Guayama**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated January 3, 2010. The report on the governmental fund financial statements was unqualified but the report on the governmental wide financial statement has an adverse opinion because I was unable to obtain competent evidential matter related to the capital assets including the infrastructure and the solid waste landfill liability. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting.

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting. 09-II-01 and 09-II-03.

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

**P.O. Box 352, Palmer Street, No. 66 North, Guayama, P.R. 00785
Tel. (787) 864-5490 • Fax (787) 864-5590 • cpapedroc@hotmail.com**

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider item 09-II-02 and 09-II-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain matters that I reported to management of the Municipality in a separate letter dated January 3, 2010.

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

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, 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.


Pedro C. Ortiz Ledee, CPA
License Number 5200
Expires on December 1, 2011

Guayama, Puerto Rico
January 3, 2010



Pedro C. Ortíz Ledée

Certified Public Accountant

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

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

Compliance

I have audited the compliance of the Municipality of **Guayama**, Puerto Rico (Municipality) with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. My responsibility is to express an opinion on the Municipality's compliance based on my audit.

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

As described in items 09-III-04, 09-III-05, 09-III-06, 09-III-07, 09-III-08 and 09-III-09 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Cost, Cash Management, Davis-Bacon Act, Matching, Level of Effort, Earmarking, Period of Availability and Procurement, Suspension and Debarment that are applicable to its Head Start Program. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 09-III-10, 09-III-11, 09-III-12 and 09-III-13 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Cost, Equipment and Real Property Management, Procurement, Suspension and Debarment and Subrecipient Monitoring that are applicable to its Community Development Block Grant- Entitlement. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 09-III-14 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Activities Allowed or Unallowed that are applicable to its Section 8 Housing Choice Voucher. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

**P.O. Box 352, Palmer Street, No. 66 North, Guayama, P.R. 00785
Tel. (787) 864-5490 • Fax (787) 864-5590 • cpapedroc@hotmail.com**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)**

As described in items 09-III-15, 09-III-16, 09-III-17 and 09-III-18 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Cash Management, Period of Availability, Procurement, Suspension and Debarment and Reporting that are applicable to its Child and Adult Care Food Program. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraphs, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009.

Internal Control Over Compliance

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

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies and others that I consider to be material weaknesses.

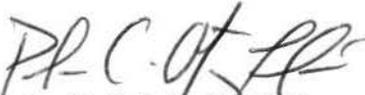
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 09-III-04 through 09-III-18 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, I considered items 09-III-04, 09-III-07, 09-III-08, 09-III-09, 09-III-12, and 09-III-13 to be material weaknesses.

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)**

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, 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.


Pedro C. Ortiz Ledée, CPA
License Number 5200
Expires on December 1, 2011

Guayama, Puerto Rico
March 18, 2010



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified for fund financial statement and adverse for governmental-wide financial statements	
Internal control over financial reporting:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Type of auditor’s report issued on compliance for major programs:	Qualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grants – Entitlement Grants
14.871	Section 8 Housing Choice Voucher Program
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B programs \$403,608

Auditee qualified as low-risk auditee? Yes No **X**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	09-II-01
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CONDITION	The Municipality did not maintain an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles (GAAP).
CONTEXT	<p>During my examination of the accounting cycle, I noted that the Municipality's accounting records are maintained in a cash and budgetary basis and at the end of year, personnel of the finance department and external consultants summarized in electronic worksheets the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long term-debts. These worksheets are used for the preparation of the financial statements.</p> <p>Also, I noted the following conditions during my evaluation of the accounting cycle:</p> <ul style="list-style-type: none">a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems does not provide for a self balancing set of accounts for each fund operated by the Municipality.b. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds.
CRITERIA	Article 8.010 (b) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) states that uniform accounting system used by the Municipality must produce reliable reports and financial statements provide complete information about the results of the Municipality's operations and include the necessary internal controls to account for all funds, capital assets and other assets.
CAUSE	The Municipality has not established effective internal control procedures over the preparation of the financial statements and the transactions recorded on its accounting records.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	09-II-01 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
EFFECT	The Municipality is not in compliance with Articles 8.010 (b) and (c) of the State Law Number 81 of August 30, 1991.
RECOMMENDATION	I recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system that provides for the preparation of financial statements in accordance with GAAP.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>The Municipality maintains two set of accounting records; a manual system and the computerized, provided by the Office of Commissioner of Municipal Affairs (OCAM). The manual system is the one we are using for financial reporting and the preparation of financial statements. This system is more reliable because all the transactions are recorded and summarized at the end of the year and then with the help of an external consultant we prepare the financial statements. We will continue with this practice until we acquire new accounting software that can resolve this condition.</p> <p>Responsible Person: Amilcar Ayala Acevedo Finance Department Director</p> <p>Implementation Date: March, 2011</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	09-II-02
REQUIREMENT	ACCOUNTING RECORDS- CAPITAL ASSETS
CONDITION	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
CONTEXT	During my examination of the property records, I noted that the Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality did not have adequate supporting documentation of the cost of the infrastructure assets reported in the property records. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality did not perform periodical physical inventories of its capital assets.
CRITERIA	Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociados de Puerto Rico de 1991</i> of August 30, 1991, stated that Municipality should maintain updated property accounting records.
CAUSE	The Municipality did not maintain an adequate control of the accountability of its capital assets.
EFFECT	The Municipality is not in compliance with Article 8.010 (c) (3) of the State Law Number 81 of August 30, 1991.
RECOMMENDATION	I recommend management and the Property Division of the Municipality to make an inventory of the capital assets, support it with adequate documentation and reconcile it with the capital assets subsidiary ledger.

MANAGEMENT RESPONSE

AND CORRECTIVE ACTION PLAN The Finance Department is updating its capital assets inventory to comply with GASB 34. We established schedules to perform periodical physical inventories of Municipality's capital assets to update the property accounting records. Also we are considering the Municipality's infrastructure inventory compose of streets, roads and bridges.

Responsible Person: Amilcar Ayala Acevedo
Finance Department Director

Implementation Date: March, 2011

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	09-II-03
REQUIREMENT	ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS
CONDITION	The Municipality did not adjust in its government wide financial statements, the required liability for closure and post closure care costs based on an adequate study of the activities of the solid waste landfill.
CONTEXT	At June 30, 2009, the Municipality did not realize the required study of the available space and the estimated cost of the closing and post closing of the Municipality's waste landfill. In addition, the amount of expenses recorded in the financial statements is based on an estimate made by the Municipality's management.
CRITERIA	Regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria"; the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. GASB 18 requires the Municipality to perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality must recognize a liability in its statement of net assets at June 30, 2009.
CAUSE	The Municipality did not maintain an adequate control of the accountability of the closure and post closure care costs of Municipal solid waste landfill. In addition, the Municipality did not perform the study required by EPA and GASB 18.
EFFECT	The Municipality is not in compliance with GASB 18 and the "Solid Waste Disposal Facility Criteria" issued by the U.S. Environmental Protection Agency.
RECOMMENDATION	I recommend management to perform the study of the activities that need to be implemented at the Municipality's solid waste landfill facilities and determine the amount of the liability that should be reported in the governmental activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	09-II-03 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>The Municipality will request a confirmation from the consultant of the Municipality's solid waste landfill about the maximum yield of available space. Once we obtain that information we will calculate the liability of the closure and post closure at June 30, 2009.</p> <p>Responsible Person: Isidro Pérez Lanausse Public Works Director</p> <p>Implementation Date: July, 2010</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-04
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/ COST PRINCIPLES
CONDITION	During the fiscal year 2008-2009, the Program disbursed funds without the appropriate supporting documentation established by the Federal and State regulations.
CONTEXT	<p>During my disbursement test, I examined one hundred seventeen (117) non payroll payments vouchers and noted the following conditions:</p> <ol style="list-style-type: none">a. In December 31, 2008, the Program issued a check amounting to \$167,597 to a hardware store for the purchased of construction materials. The purchase order for these purchases was issued in February 28, 2008 and did not include a detail of the items that the Program will order. The receiving reports issued by the supplier did not include the date of issuance, the date when the materials were received and were not signed by the supplier. Finally, according with the supporting documents examined, the Program only received approximately \$80,496 of the materials ordered;b. In July 8, 2008, the Program formalized a contract amounting to \$7,188, for roofs reparation in various center. The Program paid the supplier in August 21, 2008 and the reparations were certified by a Program's official in August 27, 2008, six days after the check was paid;c. In March 31, 2009, the Program issued a check to a supplier amounting to \$8,390 for the acquisition and installation of air conditioners for three centers. The Program issued the check in March 16, 2009 and the supplier's invoice was dated March 31, 2009, fifteen days after the check was paid;d. In March 18, 2009, the Program issued a check to a supplier amounting to \$20,241 for the acquisition and installation of various computers for administrative and programmatic purposes. The Program issued the check in March 18, 2009 and the supplier's invoice was dated April 21, 2009, thirty four days after the check was paid.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-04 (CONTINUED)
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/ COST PRINCIPLES
CRITERIA	Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (3) states that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. Also, Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.
CAUSE	The Program failed to maintain an adequate control over the maintenance of the documents that justify the disbursements. Also, the Program failed to appropriately review the payments vouchers and all the supporting documentation prior to the issuance of the payments.
EFFECT	The Program is not in compliance with Code of Federal Regulation 45, Subpart C, Sections 92.20 (b) (3) and (6).
RECOMMENDATION	I recommend management to continue strengthening the internal controls and procedures designed, to appropriately review the payment voucher and all the supporting documentation prior to the issuance of a payment.
QUESTIONED COSTS	\$87,101

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-04 (CONTINUED)
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/ COST PRINCIPLES
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>The Program staffs have been properly advised of the need to strengthening the internal controls and procedures designed to appropriately review the payment voucher and all the supporting documentation prior to the issuance of a payment.</p> <p>Responsible Person: Diana Pomales Head Start Program Director</p> <p>Implementation Date: June, 2011</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-05
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.
CONTEXT	During my Cash Management test, I noted that the Program maintained an average cash balance of approximately \$588,000 in book. In addition, the Program did not disburse in a timely manner the request of funds advanced by the pass-through entity.
CRITERIA	Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7) states that the Program must maintain procedures for minimizing the time elapsed between the transfer of funds from the U.S. Treasury and disbursement made by grantees and sub grantees when advance payment procedures are used.
CAUSE	The Program did not maintain appropriate cash management procedures in order to disburse the funds requested to the pass-through entity in a timely manner.
EFFECT	The Program is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7).
RECOMMENDATION	I recommended management to strengthen its disbursement procedures to minimize the time between the transfer of funds by the pass through and disbursement made by the Program.
QUESTIONED COSTS	None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-05 (CONTINUED)
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>The requisition of funds system established by the Commonwealth of Puerto Rico Child Care and Development Administration (ACUDEN) has been designed to request funds on a monthly basis. We complete and submit the request of funds form provided by ACUDEN, requesting funds based on cash received to date, cash outlay obligations and a forecast of expenditures for the next month (payroll, fringe benefits, contractual services, etc.). We will give instructions to strengthen the internal controls and the procedures to minimize the time between the receive of the request of funds and the disbursement.</p> <p>Responsible Person: Diana Pomales Head Start Program Director</p> <p>Implementation Date: June, 2010</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-06
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	INTERNAL CONTROL
NONCOMPLIANCE	DAVIS-BACON ACT
CONDITION	The Program disbursed funds without obtaining the payrolls required by the Davis-Bacon Act.
CONTEXT	During my disbursement test, I noted that the Program disbursed funds amounting to \$67,394 for improvements in the administrative offices and I found that the Program did not obtain the weekly certified payrolls from the contractors.
CRITERIA	Davis- Bacon Act, 42 USC 5310.
CAUSE	The Municipality failed to apply all the monitoring procedures developed to test applicable contractors with respect to the payment of prevailing wages.
EFFECT	The Municipality is not in compliance with Davis- Bacon Act, 42 USC 5310.
RECOMMENDATION	I recommended management to obtain the contractor's payrolls to be reviewed on a weekly basis and to document adequately, that the wages paid by the contractors are in accordance with the wages established by the Department of Labor and revise that all the employees that were interviewed were included in the contractor's weekly payrolls.
QUESTIONED COSTS	None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-06 (CONTINUED)
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	INTERNAL CONTROL
NONCOMPLIANCE	DAVIS-BACON ACT
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>The responsible employee has been properly advised of the need to obtain and monitor the contractor certificated payrolls related to all construction projects. In addition, the Municipality is going to assert that the contractor's payrolls were properly documented and the employee's wages were in accordance to the Department of Labor regulations.</p> <p>Responsible Person: Diana Pomaes Head Start Program Director</p> <p>Implementation Date: June, 2010</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-07
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	MATCHING, LEVEL OF EFFORT, EARMARKING
CONDITION	The Program did not maintain accurate accounting records over the in kind contributions during fiscal year 2008-2009. Also, the Program did not maintain adequate procedures to account the 15% administrative earmark.
CONTEXT	<p>During my Matching test, I examined two (2) months (November 2008 and May 2009) of the in-kind contributions and noted that the accounting records of the Program did not agree with the supporting documentation and with the monthly reports submitted to the pass-through entity. In addition, I did not found evidence that demonstrated if the supporting documents for the in-kind of May 2009 was verified and processed by the responsible employee.</p> <p>Also, during my examination of the accounting records, I noted that the Program did not maintain a current and complete general ledger which adequately separates the administrative and programmatic costs of the Program. In addition, the February 2009 (the last month of the Program year) trial balance did not include the expenditure accounts of the administrative costs.</p>
CRITERIA	Code of Federal Regulation 45, Sections 1301.20 (b) states that the non Federal share will not be required to exceed 20 percent of the total costs of the program. In addition, Code of Federal Regulation 45 Subpart C, Section 92.24 (b) (6) states that costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. Also, Code of Federal Regulation 45, Part 1301, Subpart D, Section 1301.32 (a) (1) and (e) (1) states that allowable costs for developing and administering a Head Start program may not exceed 15% of the total approved costs and grantees must categorize costs as development and administrative or program costs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-07 (CONTINUED)
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	MATCHING, LEVEL OF EFFORT, EARMARKING
CAUSE	The Municipality did not maintain an adequate internal control over the accountability of the in kind and the process of recording it in the accounting records. Also, the Program did not maintain adequate separation between the administrative and program costs.
EFFECT	The Municipality is not in compliance with Code of Federal Regulation 45, Sections 1301.20 (b), 1301.32 (a) (1) and (e) (1) and Subpart C, Section 92.24 (b) (6). Also, it is not possible to determine if the costs of developing and administering the Program did not exceed the 15% of the approved costs of the Program.
RECOMMENDATION	I recommend management to strengthen its internal controls and procedures to ensure that the in-kind is processed and recorded in a timely manner in the accounting records and assure that the amounts reported in the monthly reports are obtained from the accounting records. Also, I recommended management to maintain adequate and accurate accounting records capable of determining the 15% administrative earmark.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The Program staff with the Matching, Level of Effort and Earmarking duties has been properly advised of the need to strengthen the internal controls and procedures to ensure that the in kind is processed and recorded in a timely manner in the accounting records and assure that the amounts reported in the monthly reports are obtained from the accounting records. Also, has been properly advised of the need to maintain adequate and accurate accounting records capable of determining the 15% administrative earmark.

Responsible Person: Diana Pomales
Head Start Program Director
Implementation Date: April, 2010

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-08
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PERIOD OF AVAILABILITY
CONDITION	The Program disbursed funds for goods and services received after the period of availability.
CONTEXT	<p>The Program obtained a waiver in November 17, 2008 to liquidate the outstanding obligations at February 29, 2008. During my disbursement test, I noted the following conditions:</p> <ul style="list-style-type: none">a) In September 6, 2007, January 29, 2008 and February 29, 2008, the Program issued four (4) purchase orders amounting \$14,551, to purchased office materials. The receiving reports indicate that \$10,668 of these materials was received by the Program between June 20, 2008 and September 3, 2008 (after the end of the period of availability) and do not represent accounts payables of the Program. In November 25, 2008 the Program issued the check to pay for the materials received;b) In February 29, 2008, the Program issued one (1) purchase order amounting to \$58,665 to purchased educational materials. The receiving reports indicate that these materials were received by the Program between June 16, 2008 and November 16, 2008 (after the end of the period of availability) and do not represent accounts payables of the Program. In November 25, 2008 the Program issued the check to pay for the materials received;c) In February 29, 2008, the Program issued one (1) purchase order amounting to \$94,920 to purchase twelve (12) "Toy Castles Fun Center". The receiving reports indicate that these materials were received by the Program between July 16, 2008 and July 27, 2008 (after the end of the period of availability) and do not represent accounts payables of the Program. In November 25, 2008 the Program issued the check to pay for the toys received.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-08 (CONTINUED)
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PERIOD OF AVAILABILITY d) In February 29, 2008, the Program issued one (1) purchase order amounting to \$6,022 to purchased educational materials. The receiving reports indicate that these materials were received by the Program in October 3, 2008 (after the end of the period of availability) and do not represent accounts payables of the Program. In November 25, 2008 the Program issued the check to pay for the materials received.
CRITERIA	Code of Federal Regulation 45, Section 92.23 (b) states that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee. Also, Clause Eighth (8) number sixteen (16) of the Contract between the Municipality and the Administration for Care and Integral Development of Childhood (ACUDEN), states that the Federal regulation establish a term of ninety (90) days to liquidate obligations payable at year end. After this date there is no authorization for the payment of obligations with Federal funds and the grantee should liquidate the obligations with its General Funds.
CAUSE	The Program failed to obligate, in a timely manner, the purchases for educational materials. Also, the Program failed to maintain adequate monitoring controls to assure that the checks issued were for materials and equipments received within the period of availability.
EFFECT	The Municipality is not in compliance with Code of Federal Regulation 45, Section 92.23 (b) and Clause Eighth (8) number sixteen (16) of the Contract between the Municipality and ACUDEN.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-08 (CONTINUED)
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PERIOD OF AVAILABILITY
RECOMMENDATION	I recommend management to improve the existing controls, to assure that the purchases orders are prepared in a timely basis. In addition, the Program should continue strengthening the internal controls and procedures designed to appropriately review the payment voucher and all the supporting documentation prior to the issuance of a payment.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The Program staffs have been properly advised of the need to comply with the period of availability of funds applicable to the Program by liquidating all the obligations incurred in the period established by the Federal regulation. Responsible Person: Diana Pomales Head Start Program Director Implementation Date: April, 2010

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-09
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT TESTS
CONDITION	The Program formalized contracts and did not verify if the contractors were suspended or debarred by the Federal government. Also, the Program disbursed funds during fiscal year 2008-2009 not in accordance with the adequate procurement process established by the Federal and State regulations.
CONTEXT	<p>During my procurement, suspension and debarment test, I examined two (2) construction contracts (reparation of various centers and renovations in the administrative offices) and one (1) professional service contract (psychologist) and noted that for these contracts there was no evidence that demonstrated if the Program verify these contractors in the Excluded Parties List System (EPLS) maintained by the General Service Administration, nor obtained a certification from them.</p> <p>Also, during my disbursements test, I examined one hundred seventeen (117) non payroll voucher payments and noted the following conditions:</p> <ol style="list-style-type: none">a. The Program adjudicated the acquisition and installation of various computers at a cost of \$20,241, to a supplier in January 27, 2009. The process to acquire these computers was requesting three quotations from various suppliers. According with the supporting documents, two (2) of these quotations were received in February 25, 2009 and March 2, 2009, respectively. My examination reveals that the quotations were received after the adjudication date;b. During fiscal year 2007-2008, the Municipality celebrated a general bid, where the construction, plumbing and electrical materials was adjudicated to three different suppliers. In February 28, 2008, the Program placed an order with a hardware store, amounting \$167,597, to purchase construction, plumbing and electrical materials. My examination reveals that this supplier was only adjudicated the construction materials in the general bid and not the plumbing and electrical materials.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-09 (CONTINUED)
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT TESTS
CRITERIA	Code of Federal Regulations 45, Section 92.35 states that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension". Also, Code of Federal Regulations 45, 92.36 (c) (1), states that all procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of 92.36. In addition, Chapter VIII, Section 7 of the Municipal Administration Regulatory Manual, states that the Municipalities can celebrate general bids for one year for specific supplies and services to avoid celebrating individual bids.
CAUSE	The Program is not verifying against the EPLS, that the contracts formalized in excess of \$25,000, awarded to those contractors, are not suspended or debarred. Also, the Program does not perform an appropriate procurement process because failed to request quotations from an adequate number of qualified sources in a timely manner. In addition, the Program did not use the suppliers selected in the general bid to purchase the plumbing and electrical materials.
EFFECT	The Municipality is not in compliance with Code of Federal Regulations 45, Section 92.35 and 92.36 (c) (1), and with Chapter VIII, Section 7, of the Municipal Administration Regulatory Manual.
RECOMMENDATION	I recommend management to obtain the EPLS in printed or electronic format, every time the Municipality formalized a contract with Program's funds with contractors or professionals and verify if they are debarred or excluded. Also, I recommend management to implement procedures in order to obtain and maintain all the required documentation regards the procurement process, to comply with this requirement. In addition, the Program should use the suppliers that were adjudicated in the general bid of the Municipality for the purchase of goods and services.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-09 (CONTINUED)
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT TESTS
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>To correct this condition, we improved our procurement procedures including a step to verify through the electronic version available on the Internet whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs.</p> <p>Responsible Person: Diana Pomales Head Start Program Director</p> <p>Implementation Date: June, 2010</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-10
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/ COST PRINCIPLES
CONDITION	During the fiscal year 2008-2009, the Program disbursed funds without the appropriate supporting documentation established by the Federal and State regulations.
CONTEXT	During my disbursement test, I examined nineteen (19) non payroll payments vouchers and noted the following conditions: a. In August 20, 2008, the Program formalized a change order amounting \$20,880, with a contractor for the improvement and closing of a basketball court. The date of the invoice and the construction certification has the same date from the change of order. My examination reveals that the construction works were performed prior to the formalization of the change of order. b. In August 20, 2008, the Program formalized a contract amounting to \$35,440 for engineering services. The supplier issued the invoice for the services in August 20, 2008. My examination reveals that the services were performed prior to the formalization of the contract; c. In five (5) disbursement vouchers, the Program issued the purchases orders after the services were received.
CRITERIA	Code of Federal Regulation 24, Subpart C, Section 85.20 (b) (6) has established that accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, contracts, sub-grant awards documents, and others.
CAUSE	The Program failed to maintain an adequate control over the maintenance of the documents that justify the disbursements. Also, the Program failed to appropriately review the payments vouchers and all the supporting documentation prior to the issuance of the payments.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-10 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/ COST PRINCIPLES
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.20 (b) (6).
RECOMMENDATION	I recommend management to continue strengthening the internal controls and procedures designed to appropriately review the payment voucher and all the supporting documentation prior to the issuance of a payment.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The Program staffs have been properly advised of the need to strengthening the internal controls and procedures designed to appropriately review the payment voucher and all the supporting documentation prior to the issuance of a payment. Responsible Person: Vanessa Velázquez Federal Program Department Director Implementation Date: June, 2010

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-11
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
CONDITION	The Program's property register is not in accordance with the Federal regulation.
CONTEXT	During my equipment and real property management test, I noted that the Program does not have a property register that includes all the required information; it only includes the property number and its description.
CRITERIA	Code of Federal Regulations 24, Subpart C, Section 85.32 (d) (1), stated that property records must be maintained and it shall include: <ul style="list-style-type: none">• a description of the property;• serial number or other identification number;• the source of property, percentage of federal participation in the property;• the location;• use and condition of the property;• any ultimate disposition data including the date of disposal;• sale price of property.
CAUSE	The Municipality's equipment and real property subsidiary ledger, failed to include some of the information required by the Federal regulation.
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.32 (d) (1).
RECOMMENDATION	The Municipality and the Program's responsible employee of the property inventory should revise and update its subsidiary ledger in order to include all the information required by the Federal regulation.
QUESTIONED COSTS	None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-11 (CONTINUED)
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>In order to correct this situation, we will review the property record in order to assure that include the following information: (1) a description of the property; (2) serial number or other identification number; (3) the source of property, percentage of federal participation in the property; (4) the location; (5) use and condition of the property; (6) any ultimate disposition data including the date of disposal, and; (7) sale price of property.</p> <p>Responsible Person: Vanessa Velázquez Federal Program Department Director</p> <p>Implementation Date: March, 2011</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-12
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
CONDITION	The Program disbursed funds during fiscal year 2008-2009 not in accordance with the adequate procurement process established by the Federal and State regulations. Also, the Program did not include in the contracts, all the clauses required by the Federal regulations, and did not verify if the contractors were suspended or debarred by the Federal government.
CONTEXT	<p>During my disbursement test, I noted that in March 30, 2009 the Program placed a purchase order amounting to \$39,998 to acquire a motor vehicle for administrative purposes. The process to acquire this motor vehicle was requesting three quotations from various suppliers. Two (2) of these quotations were issued by one supplier. Also, according with the supporting documents, two (2) of these quotations exceeded \$40,000. The Program selected the lower quotation of the supplier that brought two (2) quotations, avoiding a bidding process.</p> <p>I addition, during my contract provisions test, I examined three (3) construction contracts and two (2) professional services contracts, formalized during fiscal year 2008-2009, to verify the completeness of its clauses and noted that the following clauses were missing:</p> <ul style="list-style-type: none">❖ Two (2) contracts did not include a provision for granting access to GAO or other federal agency, books and other documents;❖ Five (5) contracts did not include a provision for retention of all required records for three (3) years;❖ Three (3) construction contracts did not include a provision for compliance with the Energy Policy and Conservation Act (Pub L. 94-163, 89 Stat 871).

Also, during my suspension and debarment test, I did not found evidence that demonstrated if the Program verifies if these contractors in the Excluded Parties List System (EPLS) maintained by the General Service Administration, nor obtained a certification from them.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-12 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
CRITERIA	<p>Code of Federal Regulation 24, Subpart C, Section 85.36 (b) states that grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. Also, Chapter VIII, Part II, Section I of the Municipal Administration Regulatory Manual states that the Municipalities shall publish public bidding when the goods, materials or other items, exceed \$40,000. In addition, the Municipality shall publish public bidding when the construction costs exceed \$100,000.</p> <p>Code of Federal Regulations 24, Subpart C, Section 85.36 (i) (1-13) establishes all the required clauses that contracts should include. Also, Code of Federal Regulations 24, Subpart C, Section 85.35 states that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs subject to 2 CFR part 2424.</p>
CAUSE	<p>The Municipality does not performed an appropriate procurement process because failed to publish a public bidding for the acquisition of motor vehicle that its specifications exceed \$40,000. Also, the Program did not maintain appropriate procurement standard procedures to assure that contracts include all the required clauses, and is not verifying against the EPLS, that the contracts formalized in excess of \$25,000, awarded to those contractors, are not suspended or debarred.</p>
EFFECT	<p>The Municipality is not in compliance with Code of Federal Regulations 24, Subpart C, Section 85.36 (b) and Chapter VIII, Part II, Section I of the Municipal Administration Regulatory Manual. Also, the Program is not in compliance with Code of Federal Regulation 24, Subpart C, Sections 85.35 and 85.36 (i) (1-13).</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-12 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
RECOMMENDATION	I recommend management to publish a public bidding when the items requested exceed \$40,000 or the construction costs exceed \$100,000. Also, I recommend management to update the contract model according with the Federal requirements, and to obtain the EPLS in printed or electronic format, every time the Municipality formalized a contract with Program's funds with contractors or professionals and verify if they are debarred or excluded.
QUESTIONED COSTS	\$39,998
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The Program staffs have been properly advised of the need to strengthening the internal controls and procedures designed to appropriately review the payment voucher and all the supporting documentation prior to the issuance of a payment. Also, we will give instruction to publish a public bidding when the items requested exceed the amount established in the Law. Also, we will update the contract model according with the Federal requirements, and we will obtain the EPLS in printed or electronic format, every time the Municipality formalizes a contract with Program's funds with contractors or professionals and verify if they are debarred or excluded. Responsible Person: Vanessa Velázquez Federal Program Department Director Implementation Date: June, 2010

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-13
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SUBRICIPIENT MONITORING
CONDITION	The Program did not have adequate procedures to monitor the subrecipient use of Federal awards.
CONTEXT	During fiscal year 2008-2009, the Program disbursed funds to two (2) not for profit subrecipients. During my examination, I noted that the Program did not have adequate procedures to monitor the use of the Federal funds granted. There was no evidence that the Program monitored the subrecipients through reporting, site visits or regular contact to provide reasonable assurance that the use of funds are in compliance with the contract formalized and the Federal regulations.
CRITERIA	31 USC 7502 (f) (2) (B) states that each pass-through entity shall monitor the subrecipients use of Federal awards through site visits, limited scope audits or other means.
CAUSE	The Program failed to establish adequate internal controls over the monitoring process of the subrecipients use of Federal funds.
EFFECT	The Program is not in compliance with 31 USC 7502 (f) (2) (B).
RECOMMENDATION	I recommend management to established adequate internal controls over the subrecipient monitoring, which include visits, limited scope audits and reporting requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The Program staffs have been properly advice of the need to comply with the subrecipient monitoring requirement. Also, we will coordinate with the program staff and the Internal Auditor to prepare a monitoring guide for the Program subrecipients.

Responsible Person: Vanessa Velázquez
Federal Program Department Director
Implementation Date: July, 2010

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-14
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ACTIVITIES ALLOWED OR UNALLOWED
CONDITION	The Municipality formalized contracts during fiscal year 2008-2009 with owners of units, which were signed by a Program's employee instead of the Mayor. Also, the Program leased a unit, owned by the Municipality, and did not follow the requirements established in the Federal regulation.
CONTEXT	<p>During my eligibility test, I examined thirty (30) participant's files and noted that eleven (11) contracts between the Municipality and the owners of units were not signed by the Mayor of the Municipality. These contracts were signed by a Program's employee.</p> <p>Also, I noted that the Program leased a unit owned by the Municipality. During my examination, I noted that the Program did not engaged with an independent entity to determine rent reasonableness, to assist the family negotiate the rent to owner and to inspect the unit for compliance with the HQS.</p>
CRITERIA	Code of Federal Regulation 24, Subpart J, Section 982.451 (a) (1) states that the HAP contract must be in the form required by HUD. In addition, Chapter IX, Section I, of the Municipal Administration Regulatory Manual, states that the contracts have to be signed by the Mayor or an authorized representative and by the contractor. Also, Code of Federal Regulations 24, 982.352 (b) states that a unit that is owned by the PHA that administers the assistance under the consolidated ACC (including a unit owned by entity substantially controlled by the PHA) may only be assisted under the tenant-based program if all the conditions established in this section are followed.
CAUSE	The Municipality's Mayor failed to sign the contracts with the owners of the units. Also, the Program failed to engage with an independent entity to perform the functions required under the program rule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-14 (CONTINUED)
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ACTIVITIES ALLOWED OR UNALLOWED
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Subpart J, Section 982.451 (a) (I) and Chapter IX, Section I, of the Municipal Administration Regulatory Manual; Also, the Program is not in compliance with Code of Federal Regulations 24, 982.352 (b).
RECOMMENDATION	I recommend management to review every contract formalized with Program's funds to verify if it was signed by the responsible officer of the Municipality. Also, I recommend management to engage with an independent entity, approved by HUD, to determine the reasonable rent, to assist the family negotiate the rent to owner and to inspect the units for compliance with HQS.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	We gave instructions that the contracts formalized in the Municipality has to be sign by the Mayor or it's authorize representative. In addition, we will established a communication with HUD, to engage with an authorized independent entity, in order to determine the reasonable rent, to assist the family negotiate the rent to owner and to inspect the unit for compliance with the HQS, of the units owned by the Municipality. Responsible Person: Vanessa Velázquez Federal Program Department Director Implementation Date: December, 2010

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-15
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.
CONTEXT	During my cash management test, I noted that during the fiscal year 2008-2009, the Program maintained an average monthly cash balance of approximately \$242,783 in books. In addition, I noted that Program requested funds to the pass-through entity that were not disbursed on a reasonable lapse of time.
CRITERIA	Code of Federal Regulations 7, Subpart C, Section 3016.20 (b) (7) states, procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed.
CAUSE	The Program and Finance Department of the Municipality did not maintain appropriate cash management procedures, in order to request funds to the pass-through only for immediate needs.
EFFECT	The Program is not in compliance with Code of Federal Regulations 7, Subpart C, Section 3016.20 (b) (7).
RECOMMENDATION	I recommend management to strengthen its disbursements procedures to minimize the time between the transfer of funds by the state and disbursement made by the Municipality.
QUESTIONED COSTS	None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-15 (CONTINUED)
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>We gave instructions to the Federal Program Department and the Finance Department to issue the checks in approximately three (3) days once the transfers of funds from the State are received.</p> <p>Responsible Person: Diana Pomales Head Start Program Director</p> <p>Implementation Date: June, 2010</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-16
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PERIOD OF AVAILABILITY
CONDITION	The Program disbursed funds for goods after the period of availability.
CONTEXT	During my disbursement test, I noted the following conditions: a. In November 7, 2008, the Program issued one (1) purchase order amounting \$31,039, to revise an original order from September 24, 2007, for the purchase of food for the month of September 2008. This purchase order was issued approximately one month later after the Program received the food in the centers. The Program issued a check amounting to \$61,168 to paid these invoices in December 31, 2008; b. In November 10, 2008, the Program issued one (1) purchase order amounting \$68,817, to revise an original order from September 24, 2007, for the purchase of food for the month of September 2008. This purchase order was issued approximately one month later after the Program received the food in the centers. The Program issued a check amounting to \$78,765 to paid these invoices in April, 1, 2009, approximately three months after the end of the period of availability.
CRITERIA	Code of Federal Regulation 7, Subpart C, Section 3016.23 (b) states that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.
CAUSE	The Program failed to obligate and liquidate, in a timely manner, the purchases for food for the Head Start centers.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-16 (CONTINUED)
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PERIOD OF AVAILABILITY
EFFECT	The Program is not in compliance with Code of Federal Regulation 7, Subpart C, Section 3016.23 (b).
RECOMMENDATION	I recommend management to improve the existing controls, to assure that the purchases orders are prepared in a timely basis. In addition, the Program should continue strengthening the internal controls and procedures designed, to issue the checks within the period of availability.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The Program staffs have been properly advised of the need to comply with the period of availability of funds applicable to the Program by liquidating all the obligations incurred in the period established by the Federal regulation. Responsible Person: Diana Pomales Head Start Program Director Implementation Date: June, 2010

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-17
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT TESTS
CONDITION	The Program engaged with two (2) suppliers without a written contract and did not verify if the suppliers were suspended or debarred by the Federal government.
CONTEXT	During my disbursement test, I noted that the Municipality engaged with two (2) suppliers, which were adjudicated the general bid for the purchase of food for the Head Start centers. The Municipality engaged with these suppliers without written contracts and therefore, no legal contractual agreement exists to assure that the suppliers will comply with the Federal and local regulations. In addition, there was no evidence that demonstrated if the Program verifies these suppliers in the Excluded Parties List System (EPLS) maintained by the General Service Administration, nor obtained a certification from the contractors.
CRITERIA	Code of Federal Regulations 7, Subpart C, Section 3016.36 (b) (2) states that grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, condition and specifications of their contracts or purchase order. In addition, Code of Federal Regulations 7, Subpart C, Section 3016.35 states that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension"
CAUSE	The Municipality engaged with third parties without written contracts and did not verified against the EPLS, that the contracts in excess of \$25,000, awarded to those contractors, are not suspended or debarred parties.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-17 (CONTINUED)
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT TESTS
EFFECT	The Municipality is not in compliance with Code of Federal Regulations 7, Subpart C, Sections 3016.36 (b) (2) and 3016.35.
RECOMMENDATION	I recommend management formalized a written contracts with the suppliers and to obtain the EPLS in printed or electronic format, every time the Municipality formalized a contract with Program's funds.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	To correct this condition, we improved our procurement procedures including a step to verify through the electronic version available on the Internet whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. Also, we will gave instruction that all the contracts formalize in the Municipality has to be in a written form. Responsible Person: Diana Pomales Head Start Program Director Implementation Date: June, 2010

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-18
FEDERAL PROGRAMS	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	The claims for reimbursement of meals to the pass-through entity were not supported with accurate meals counts and records.
CONTEXT	During my reporting test, I examined two (2) "reimbursement reports" submitted to the pass-through entity and noted that these reports did not agree with the meal counts and the records indicating the number of meals served.
CRITERIA	Code of Federal Regulations 7, Subpart D, Section 226.10 (c) states that the claims for reimbursement shall report information in accordance with the financial management system established by the State agency, and in sufficient detail to justify the reimbursement claimed and to enable the State agency to provide the final Report of the Child and Adult Care Food Program required under 226.7 (d). In submitting a Claim for Reimbursement, each institution shall certify that the claim is correct and that records are available to support that claim.
CAUSE	The Program does not maintain adequate internal controls in place to ensure that the claims for reimbursements of meals are accurate and supported by proper documentation.
EFFECT	The Program is not in compliance with Code of Federal Regulations 7, Subpart D, Section 226.10 (c).
RECOMMENDATION	I recommend to management to establish adequate internal control procedures to assure that the claims for reimbursements are supported by accurate count of meals and the records of the number of meals served.
QUESTIONED COSTS	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	09-III-18 (CONTINUED)
FEDERAL PROGRAMS	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>We will gave instruction to the responsible employee that the monthly claims reimbursements has to be supported by the count of meals and the records of the number of meals served.</p> <p>Responsible Person: Diana Pomaes Head Start Program Director</p> <p>Implementation Date: June, 2010</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
08-03	Davis-Bacon Act	14.218	None	Full corrective action was taken.
08-04	Reporting	14.218	None	Full corrective action was taken.
08-05	Cash Management	93.600	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-05
08-06	Matching, Level of Effort, Earmarking – Matching	93.600	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-07
08-07	Matching, Level of Effort, Earmarking – Administrative Cost Limits	93.600	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-07
08-08	Reporting	93.600	None	Full corrective action was taken.
07-05	Davis-Bacon Act	14.218	None	Full corrective action was taken.
07-06	Cash Management	93.600	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-05

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
07-07	Matching, Level of Effort, Earmarking – Matching	93.600	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-07
07-08	Matching, Level of Effort, Earmarking – Administrative Cost Limits	93.600	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-07
07-09	Reporting	93.600	None	Full corrective action was taken.
06-05	Cash Management	93.600	None	No corrective action has been taken. The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
06-06	Matching, Level of Effort, Earmarking – Matching	93.600	None	No corrective action has been taken. The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
06-07	Matching, Level of Effort, Earmarking – Administrative Cost Limits	93.600	None	No corrective action has been taken. The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
Not Available	Reporting	93.600	None	No corrective action has been taken. The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

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

**MUNICIPIO DE DORADO
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009**

OFICINA DEL COMISIONADO
DE ASUNTOS FISCAL

10 MAR 31 AM 11:43

RECIBIDO
UNIDAD DE CORREO

10/07/05 94

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

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

YEAR ENDED JUNE 30, 2009

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

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

YEAR ENDED JUNE 30, 2009

CONTENTS

	Page
<u>BASIC FINANCIAL STATEMENTS</u>	
Independent Auditors' Report	1-2
Required Supplementary Information (Part 1) Management's Discussion and Analysis	3-12
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Proprietary Funds:	
Statement of Net Assets	18
Statement of Revenues, Expenses and Changes in Net Assets	19
Statement of Cash Flow	20
Notes to Basic Financial Statements	21-50
<u>SUPPLEMENTARY INFORMATION</u>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	51
Notes to Budgetary Comparison Schedule-General Fund	52
Schedule of expenditures of federal awards	53-55
Notes to the schedule of expenditures of federal awards	56
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</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 <i>Government Auditing Standards</i>	57-58

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

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

YEAR ENDED JUNE 30, 2009

CONTENTS

	Page
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS (CONTINUED)</u>	
Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	59-61
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of findings and questioned costs	62-68
Summary schedule of prior year audit findings	69-71



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Dorado, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2009, which collectively comprise the **Municipality's** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion 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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

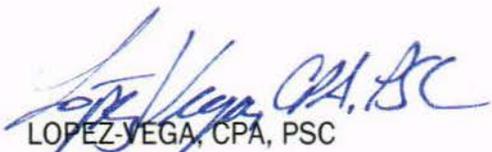
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of the **Municipality of Dorado, Puerto Rico**, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2009, on our consideration of the **Municipality'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages **3** through **12** and the Budgetary Comparison Schedule-General Fund on page **51** are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 18, 2009

Stamp No. 2407026 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Municipality of Dorado (Municipality)**, we offer readers of the Municipality's basic financial statements this narrative overview and analysis of the financial activities of the Municipality as of and for the fiscal year ended June 30, 2009. This Management's Discussion and Analysis (MD&A) includes comparative data, and it has been designed accordingly with the following goals:

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

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

FINANCIAL HIGHLIGHTS

- The Municipality net assets increase by \$1,396,009. Such increase is due mainly to increase in current and capital assets during the year.
- In the fund financial statements, the governmental activities revenues increased \$3,808,168 (or 11%) and governmental activities expenditures increased \$2,864,453 (or 7%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$69,633.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$2,037,168.
- The Municipality issued bonds and notes amounting to \$4,325,000 and \$1,266,000, respectively, to finance the acquisition of properties and construction and improvement of municipal facilities and roads.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

Using This Annual Report

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Infrastructure Assets

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. As of July 1, 2002, the Municipality commenced the prospective reporting of infrastructure assets, and reported historical costs for such assets in the fiscal year ending June 30, 2007.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management design to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Dorado**, primary government assets exceeded total liabilities by \$81,786,078 at the end of 2009, as compared with \$80,390,069, as restated, which reflect an increase of \$1,396,009 over previous fiscal year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$1,396,009 increase reflected in the Net Assets figure.

<u>Condensed Statement of Net Assets</u>	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 38,520,757	\$ 36,527,602	\$ 1,993,155	5%
Capital Assets	109,075,291	98,980,519	10,094,772	10%
Total Assets	147,596,048	135,508,121	12,087,927	9%
Current and other liabilities	14,242,052	6,929,267	7,312,785	106%
Long-term liabilities	51,567,918	48,188,785	3,379,133	7%
Total liabilities	65,809,970	55,118,052	10,691,918	19%
Invested in capital assets, net of related debt	63,709,303	56,803,712	6,905,591	12%
Restricted	28,711,098	27,277,266	1,433,832	5%
Unrestricted deficit	(10,634,323)	(3,690,909)	(6,943,414)	(188)%
Total net assets	\$ 81,786,078	\$ 80,390,069	\$ 1,396,009	2%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Municipality's net assets increased by \$1,396,009. Approximately fifty three percent (53%) of the Municipality's total revenue came from taxes, while thirty four percent (34%) resulted from grants and contributions, including federal aid. Charges for Services provided one percent (1%) of the total revenues. Interest earnings two percent (2%) and miscellaneous provided ten percent (10%) of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and health and welfare. As follow, is presented a comparative analysis of government-wide data. In this analysis was determined the percentage change in revenues and expenditures from prior year to current year.

Condensed Statement of Activities	2009	2008	Change	%
Program revenues:				
Charges for services	\$ 359,439	\$ 483,189	\$ (123,750)	(26%)
Operating grants and contributions	6,708,211	6,299,070	409,141	6%
Capital grants and contributions	4,653,814	417,500	4,236,314	1015%
General revenues:				
Property taxes	11,803,851	12,167,963	(364,112)	(3%)
Municipal license tax	3,939,039	4,599,335	(660,296)	(14%)
Municipal sales and use tax	2,024,941	1,884,053	140,888	7%
Grants and contributions not restricted to specific programs	2,010,582	2,482,124	(471,542)	(19%)
Other local taxes	3,470,040	3,145,318	324,722	10%
Interest and investment earnings	778,916	827,206	(48,290)	(6%)
Miscellaneous	3,957,706	4,870,851	(913,145)	(19%)
Total revenues	39,706,539	37,176,609	2,529,930	7%
Expenses:				
General government	13,365,965	13,909,300	(543,335)	(4%)
Public safety	1,455,448	2,158,963	(703,515)	(33%)
Public works	14,776,622	8,428,626	6,347,996	75%
Health and welfare	5,341,971	5,065,223	276,748	5%
Culture and recreation	531,314	267,449	263,865	99%
Economic development	335,261	539,114	(203,853)	(38%)
Community development	717,027	701,114	15,913	2%
Urban development	1,761	46,054	(44,293)	(96%)
Education	3,086	2,916	170	6%
Interest on long-term debt	1,782,075	1,650,484	131,591	8%
Total expenses	38,310,530	32,769,243	5,541,287	17%
Change in net assets	1,396,009	4,407,366	(3,011,357)	(68%)
Net assets, beginning as restated	80,390,069	75,982,703	4,407,366	6%
Net assets, end of year	\$ 81,786,078	\$ 80,390,069	\$ 1,396,009	2%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

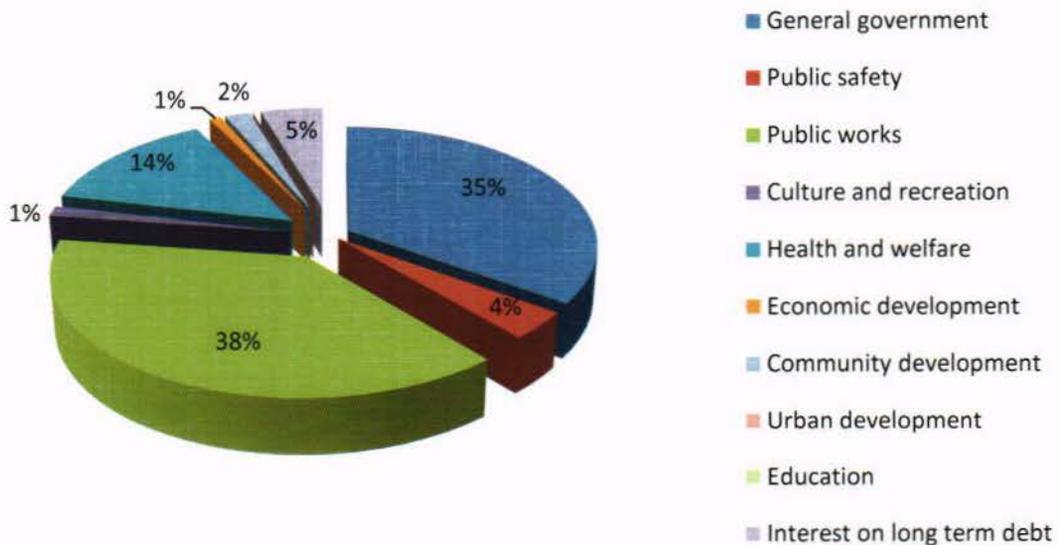
YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2009



Expenses 2009



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$32,037,221, an increase of \$1,448,034 in comparison with the prior year, as restated. There are reservations of fund balance amounting to \$30,558,039. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$1,130,564), 2) to pay debt service (\$4,800,675), 3) to pay for capital projects (\$24,214,417) and 4) for other purposes (\$412,383).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2009 the general fund has an unreserved undesignated fund balance of \$1,378,325, and designated for a specific fund purpose, fund balance of \$100,857.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Legislature revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2009 amounts to \$125,535,341 with an accumulated depreciation of \$19,284,854, leaving a net book value of \$106,250,487. For Business - Type Activities investments in capital assets as of June 30, 2009 amounts to \$3,971,648, with an accumulated depreciation of \$1,146,844, leaving a net book value of \$2,824,804. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets in the current fiscal year was about 10% in terms of net book value. Depreciation charges for the year totaled \$1,751,772.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2009, the Municipality has \$16,706,354 of unexpended proceeds from bond issuances that are committed to future construction activities in governmental Activities and \$25,997 in Business-Type Activities.

Debt Administration

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

The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes such Municipality must have sufficient "payment capacity".

Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION- (CONTINUED):

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation

Municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing Municipality's budget for the fiscal year 2009-2010.

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 million in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the **Municipality of Dorado** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objective of the Plan is to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at PO Box 588, Dorado, Puerto Rico 00646-0588, Telephone (787) 796-1230.

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Net Assets
June 30, 2009

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 15,806,399	\$ 422,158	\$ 16,228,557
Cash with fiscal agent	21,029,657	25,997	21,055,654
Accounts receivable:			
Municipal sales and use taxes	123,392		123,392
Intergovernmental	503,520		503,520
Interest	29,535		29,535
Federal grants	304,952		304,952
Others	275,147		275,147
Capital assets			
Land, improvements, and construction in progress	78,585,386	388,790	78,974,176
Other capital assets, net of depreciation	27,665,101	2,436,014	30,101,115
Total capital assets	<u>106,250,487</u>	<u>2,824,804</u>	<u>109,075,291</u>
Total assets	<u>144,323,089</u>	<u>3,272,959</u>	<u>147,596,048</u>
Liabilities			
Accounts payable and accrued liabilities	8,717,982		8,717,982
Due to other governmental entities	142,274		142,274
Deferred revenues:			
Municipal license tax	4,136,746		4,136,746
Federal grant revenues	376,249		376,249
Interest payable	817,234	51,567	868,801
Noncurrent liabilities:			
Due within one year	3,039,004		3,039,004
Due in more than one year	47,567,011	961,903	48,528,914
Total liabilities	<u>64,796,500</u>	<u>1,013,470</u>	<u>65,809,970</u>
Net Assets			
Invested in capital assets, net of related debt	61,897,969	1,811,334	63,709,303
Restricted for:			
Capital projects	24,214,417		24,214,417
Debt service	3,983,441		3,983,441
Other purposes	513,240		513,240
Unrestricted (deficit)	<u>(11,082,478)</u>	<u>448,155</u>	<u>(10,634,323)</u>
Total net assets	<u>\$ 79,526,589</u>	<u>\$ 2,259,489</u>	<u>\$ 81,786,078</u>

**Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Activities
For the Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
General government	\$ 13,245,957	\$ 153,060	\$ 283,555	\$ -	\$ (12,809,342)	\$ -	\$ (12,809,342)
Public safety	1,455,448	39,797	60,833	-	(1,354,818)	-	(1,354,818)
Public works	14,776,622	-	15,442	3,055,741	(11,705,439)	-	(11,705,439)
Health and welfare	5,341,971	-	4,599,610	-	(742,361)	-	(742,361)
Culture and recreation	531,314	-	450	1,500,201	969,337	-	969,337
Economic development	335,261	-	137,074	-	(198,187)	-	(198,187)
Community development	717,027	-	1,574,809	97,872	955,654	-	955,654
Urban development	1,761	-	36,438	-	34,677	-	34,677
Education	3,086	-	-	-	(3,086)	-	(3,086)
Interest on long-term debt	1,680,334	-	-	-	(1,680,334)	-	(1,680,334)
Total governmental activities	\$ 38,088,781	\$ 192,857	\$ 6,708,211	\$ 4,653,814	(26,533,899)	-	(26,533,899)
Business type activities:							
General Government	120,008	166,582	-	-	-	46,574	46,574
Interest on long term debt	101,741	-	-	-	-	(101,741)	(101,741)
Total business type activities	221,749	166,582	-	-	-	(55,167)	(55,167)
Total primary government	\$ 38,310,530	359,439	6,708,211	4,653,814	(26,533,899)	(55,167)	(26,589,066)
General revenues:							
Property taxes					11,803,851		11,803,851
Municipal license tax					3,939,039		3,939,039
Municipal sales and use tax					2,024,941		2,024,941
Other local taxes					3,470,040		3,470,040
Grants and contributions not restricted to specific programs					2,010,582		2,010,582
Interest and investment earnings					778,916		778,916
Miscellaneous					3,957,706		3,957,706
Total general revenues and transfers					27,985,075	-	27,985,075
Change in net assets					1,451,176	(55,167)	1,396,009
Net assets - beginning, as restated					78,075,413	2,314,656	80,390,069
Net assets - ending					\$ 79,526,589	\$ 2,259,489	\$ 81,786,078

Commonwealth of Puerto Rico
Municipality of Dorado
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 6,230,761	\$ 3,482,100	\$ 4,559,460	\$ -	\$ 1,534,078	\$ 15,806,399
Cash with fiscal agent	26,148	16,706,354		4,297,155		21,029,657
Accounts receivable:						
Municipal sales tax	123,392					123,392
Intergovernmental				503,520		503,520
Interest	29,535					29,535
Federal grants					304,952	304,952
Others	116,647					116,647
Due from other funds	907,869				2,000	909,869
Total assets	<u>\$ 7,434,352</u>	<u>\$ 20,188,454</u>	<u>\$ 4,559,460</u>	<u>\$ 4,800,675</u>	<u>\$ 1,841,030</u>	<u>\$ 38,823,971</u>
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 543,586	\$ 385,844	\$ -	\$ -	\$ 292,182	\$ 1,221,612
Due to other governmental entities	142,274					142,274
Due to other funds	2,000	147,653			760,216	909,869
Deferred revenues:						
Municipal license tax	4,136,746					4,136,746
Federal grant revenues					376,249	376,249
Total liabilities	<u>4,824,606</u>	<u>533,497</u>	<u>-</u>	<u>-</u>	<u>1,428,647</u>	<u>6,786,750</u>
Fund balances:						
Reserved for:						
Encumbrances	1,130,564					1,130,564
Capital projects		19,654,957	4,559,460			24,214,417
Debt service fund				4,800,675		4,800,675
Other purposes					412,383	412,383
Unreserved:						
Designated for specific fund purpose	100,857					100,857
Undesignated	1,378,325					1,378,325
Total fund balances	<u>2,609,746</u>	<u>19,654,957</u>	<u>4,559,460</u>	<u>4,800,675</u>	<u>412,383</u>	<u>32,037,221</u>
Total liabilities and fund balances	<u>\$ 7,434,352</u>	<u>\$ 20,188,454</u>	<u>\$ 4,559,460</u>	<u>\$ 4,800,675</u>	<u>\$ 1,841,030</u>	

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

Accrual basis of accounting accounts receivable recognized in government-wide financial statements	158,500
Accrual basis of accounting accounts payable recognized in government-wide financial statements	(7,496,370)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	106,250,487
Long-term liabilities, including accrued interest payable, are not due and payable in the current period, and therefore, are not reported in the funds	(51,423,249)
Net assets of governmental activities	<u>\$ 79,526,589</u>

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 9,940,664	\$ -	\$ -	\$ 2,711,944	\$ -	\$ 12,652,608
Municipal license taxes	3,939,039					3,939,039
Municipal sales and use tax	1,491,685			533,256		2,024,941
Licenses, permits and other local taxes	3,405,480					3,405,480
Charges for services					1,976	1,976
Intergovernmental	2,294,137	4,555,942			171,751	7,021,830
Fines and forfeitures	39,797					39,797
Rent of property	151,084					151,084
Interest	778,916					778,916
Federal grants					6,227,559	6,227,559
Miscellaneous	1,337,986		97,872		45,030	1,480,888
Total revenues	23,378,788	4,555,942	97,872	3,245,200	6,446,316	37,724,118
Expenditures						
Current:						
General government	12,850,478	867			89,685	12,941,030
Public safety	1,833,900				88,410	1,922,310
Public works	7,294,241	4,762,486			2,941	12,059,668
Health and welfare					5,379,769	5,379,769
Culture and recreation	631,010	2,985,880			4,576	3,621,466
Economic development					335,261	335,261
Community development		15,441	42,283		1,443,726	1,501,450
Urban development					1,761	1,761
Debt service:						
Principal				2,361,000		2,361,000
Interest				1,743,369		1,743,369
Total expenditures	22,609,629	7,764,674	42,283	4,104,369	7,346,129	41,867,084
Excess (deficiency) of revenues over (under) expenditures	769,159	(3,208,732)	55,589	(859,169)	(899,813)	(4,142,966)
Other financing sources (uses)						
Transfers in	351,258	166,687	1,514	283,641	763,325	1,566,425
Transfers out	(1,050,784)	(157,143)	(80,215)		(278,283)	(1,566,425)
Long-term debt issued		5,591,000				5,591,000
Total other financing sources (uses)	(699,526)	5,600,544	(78,701)	283,641	485,042	5,591,000
Net change in fund balances	69,633	2,391,812	(23,112)	(575,528)	(414,771)	1,448,034
Fund balance, beginning as restated	2,540,113	17,263,145	4,582,572	5,376,203	827,154	30,589,187
Fund balance, ending	<u>\$ 2,609,746</u>	<u>\$ 19,654,957</u>	<u>\$ 4,559,460</u>	<u>\$ 4,800,675</u>	<u>\$ 412,383</u>	<u>\$ 32,037,221</u>

Commonwealth of Puerto Rico
Municipality of Dorado
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$	1,448,034
Amounts reported for governmental activities in the Statement of Activities are different because:		
Prior Year Accounts Receivable reported in the Governmental Fund Financial Statements as revenues, but reversed in the Government-Wide Statement of Activities and Changes in Net Assets.		(848,756)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. The following amount represents the change in this revenue from prior year.		83,500
Donations of Capital Assets from outside parties, do not provide current financial resources in Governmental Funds, but the transaction must be reflected in the Government-Wide Statement of Net Assets based on the fair value of the donated property.		2,581,096
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		9,355,835
Retirement of Capital Assets		(816)
Depreciation Expense on Capital Assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, Depreciation expense is not reported as expenditures in Governmental Funds Financial Statements.		(1,751,772)
Interest Expense change is reported in the Government-Wide Statement of Activities and Change in Net Assets, but not require the use of current financial resources. Therefore, Interest expense change is not reported as expenditures in Governmental Funds Financial Statements.		63,035
Accounts payable change is reported in the Government-Wide Statement of Activities and Change in Net Assets, but not reported as in the Governmental Funds, because they do not require the use of current financial resources. This is the amount reported in the current period.		(5,987,577)
Long term debt issuances are reported in the Government-Wide Statement of Net Assets, but not require the use of current financial resources. Therefore, Long term debt issuances are not reported as expenditures in Governmental Funds Financial Statements.		(1,160,441)
Long term debts payments are reported as expenditures in the Governmental Funds Financial Statements which require the use of current financial resources. Therefore Long term debt payments are not reported as expenditures in the Government-Wide Statement of Activities and Change in Net Assets.		833,290
Change in Landfill Accrual		65,748
Bonds proceeds provide current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt service principal payments exceed the debt proceeds		(3,230,000)
Change in Net Assets of Governmental Activities	\$	1,451,176

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF NET ASSETS
PROPRIETARY FUND-BUSINESS TYPE ACTIVITY-ENTERPRISE FUND
YEAR ENDED JUNE 30,2009

	Business Type Activity Enterprise
Assets	
Current Assets:	
Cash and cash equivalents	\$ 422,158
Cash with fiscal agent	25,997
Total current assets	448,155
Noncurrent Assets:	
Capital Assets:	
Property, and equipment:	
Land	388,790
Building	3,582,858
Accumulated depreciation	(1,146,844)
Total non-current assets	2,824,804
Total assets	3,272,959
Liabilities:	
Current Liabilities:	
Revenue Fund-Banco Santander Loan	961,903
Interest Payable-Banco Santander Loan	51,567
Total current liabilities	1,013,470
Total liabilities	1,013,470
Net Assets	
Invested in Capital Assets, net of related debt	1,811,334
Unrestricted	448,155
Total Net Assets	\$ 2,259,489

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND-BUSINESS TYPE ACTIVITY-ENTERPRISE FUND
YEAR ENDED JUNE 30, 2009

	<u>Business - Type Activities Enterprise</u>
Operating revenues:	
Charges for services	\$ 166,582
 Total operating revenues	 <u>166,582</u>
 Operating expenses:	
Operations and maintenance	30,437
Depreciation and amortization	<u>89,571</u>
 Total operating expenditures	 <u>120,008</u>
 Operating income (Loss)	 46,574
 Non-operating revenues (expenses):	
Interest expense	<u>(101,741)</u>
 Total non-operating revenues (expenses)	 <u>(101,741)</u>
 Income (loss) before transfers	 (55,167)
 Change in Net Assets	 (55,167)
Total net assets-beginning	<u>2,314,656</u>
Total net assets-ending	<u><u>\$ 2,259,489</u></u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND- BUSINESS TYPE ACTIVITY- ENTERPRISE FUND
YEAR ENDED JUNE 30, 2009

Cash Flows from Operating Activities:

Receipts from Customers	\$ 166,582
Payment to Suppliers	(30,437)
Interest paid	(90,291)
	45,854
Net Cash Provided (Used) by Operating Activities	45,854

Cash Flows from Capital and Related Financing Activities:

Repayment of Revenue Bond	(112,269)
Net Cash Provided (Used) in Capital and Related Financing Activities	(112,269)
Net Decrease in Cash and Cash with Fiscal Agent, Restricted	(66,415)
Cash and Cash with Fiscal Agent at Beginning of Period, Restricted	514,570
Cash and Cash with Fiscal Agent at End of Period, Restricted	\$ 448,155

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Operating Income (Loss)	\$ (55,167)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	89,571
Accrued Interest	51,567
	141,138
Total Adjustments	141,138
Net Cash Provided (Used) by Operating Activities	\$ 85,971
Noncash investing, capital and financing activities:	none

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Dorado** (the Municipality) was founded on the year 1842. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year 2007. The Municipality implemented the capitalization of infrastructure since July 1, 2006.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by the GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria the Municipality does not have component units to include within its reporting entity.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-typed activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Capital Projects Fund - State and Local Grants - is the accounting entity in which revenues derived from local funds, state or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

Capital Projects Fund - Federal Grants - is the accounting entity in which revenues derived from federal grants sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund - is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

4. Proprietary Fund Types focus on report any activities for which a fee is charged to external users for goods or services. The Municipality reports the following proprietary fund:

Enterprise Fund - The Enterprise Fund, which was established in June 1996, is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis, are financed or recovered primary through uses, charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The enterprise fund of the Municipality includes land and buildings known as "Commercial Pavilion Rafael Hernández Colón" located in 349 Méndez Vigo Street at Dorado, Puerto Rico. The main source of income comes from rent received from spaces rented with formal contracts.

5. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
6. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
7. Notes to the budgetary comparison schedule-general fund.

C. 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.

The Municipality has established the following fund categories, fund types, account groups and discreet presentation of enterprise fund:

Governmental Fund Types:

General Fund- Is the 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 - Local and State Grants - Special Revenue Funds are 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 federal and state statutes.

Special Revenue Fund - Section 8 - Special Revenue Funds are used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Head Start - Is the accounting entity in which revenues derived from the federal agency are used to provide comprehensive health, educational, nutritional, social, and other developmental services primarily to economically disadvantaged preschool children (ages 3 to 5) and infants and toddler (birth through age 3) so that the children will attain school readiness.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Projects Funds – Local and State Grants - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

Capital Projects Funds – Federal Grants - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

Debt Service Funds- Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Special Revenue Fund – Other Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Proprietary Fund Types

Enterprise Fund - The enterprise fund statements consist of Statement of Net Assets, Statement of Activities, and Statement of Cash Flows. This fund accounts for exchange like transactions, like private enterprise and its operations are intended to be self supporting through charges to users. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets.

All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the full accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, other taxes, licenses, rent, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Property taxes, other taxes, licenses, rent, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

Cash with fiscal agent is shown in the Enterprise Fund which is held by the Government Development Bank and its use is limited to the expenditures associated with "Commercial Pavilion of Dorado Rafael Hernández Colón"

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

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivable in the general fund represents the balance due from the Municipal Revenue Collection Center (CRIM) resulting from the final settlement; Intergovernmental receivables in the debt service fund represent the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Intergovernmental receivable in the capital projects fund and in other governmental funds represent amounts owed to the

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Municipality for reimbursement of expenditures incurred pursuant to federally funded programs or state funded programs.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
- 4. Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

- 5. Long-term obligations-** The liabilities reported in the government-wide financial statements include to 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 6. Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay it is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

- 7. Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.

- 8. Reservations of fund balance-** Reservations of fund balance in the fund financial statements represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
- d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.

- 9. Accounting for Pension Costs-** For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

10. Interfund and intra-entity transactions- The Municipality has the following types of transactions among funds:

- a. Operating Transfers- Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. Intra-Entity Transactions- Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

11. 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 CRIM for the year ended June 30, 2009 amounted to \$348,389. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$481,126 for workers compensation insurance covering all municipal employees.

12. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

		<u>Total Net Assets – Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$106,250,487	
Deduct:		
Bonds Payable related to Capital Assets	(35,062,000)	
Notes Payables related to Capital Assets	(9,286,000)	
Lease Obligation – IBM	<u>(4,518)</u>	\$61,897,969
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		24,214,417
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service	4,800,675	
Deduct:		
Interest Payable	<u>(817,234)</u>	3,983,441
<u>Net assets restricted for other purposes</u>		
Other governmental funds- fund balance restricted for other purposes		513,240
<u>Net assets unrestricted (deficit)</u>		
General fund – total fund balance:	\$2,609,746	
Add:		
Accrual basis accounts receivable	158,500	
Deduct:		
Fund balance reserved for other purposes	(100,857)	
Accrual basis accounts payable	(7,496,370)	
Bonds Payable related to Operational Debts	(580,000)	
Compensated absences debt	(2,878,601)	
Landfill Obligation	(1,583,517)	
LIMS repayment plan	(229,300)	
Department of Labor repayment plan	(195,958)	
Claims and Judgments	(75,000)	
Property tax debt – CRIM Law 42	(242,337)	
Property tax debt – CRIM	<u>(468,784)</u>	<u>(11,082,478)</u>
Total net assets – governmental activities		<u>\$79,526,589</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as 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, 2009.

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, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, 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 \$100,000 per depositor.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial credit risk – 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, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 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, 2009.

Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of \$6,230,761, \$3,482,100, and \$4,559,460 in the general fund, capital projects fund – local and state grants, and capital projects fund – federal grants, respectively, were fully collateralized at June 30, 2009. In the other governmental funds there were deposits with commercial banks of \$1,534,078 that were fully collateralized.

The deposits at GDB of \$16,706,354 that is restricted principally for capital projects in the capital project fund – local and state grant, \$26,148 restricted for operational expenditures in the general fund and the \$4,297,155 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES

A. *Municipal sales and use tax*- On July 29, 2007, an amended to Act No. 117 of July 4, 2006, known as the "Tax Fairness Act of 2006", was enacted with the purpose of establishing a mandatory sales and use tax of 1.5% at the Municipal Level. The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by the Treasury Department. The Act provides an optional surtax on the un-process food. This surtax must be approved by the Municipal Legislature.

The Treasury Department is responsible to create the Municipal Development Fund (.2%), the Municipal Redemption Fund (.2%) and the Municipal Improvements Fund (.1%) with the remaining 0.5%.

Municipal sales and use tax receivable of \$ 123,392 in general fund represents filed municipal sales and use tax returns that were uncollected as of June 30, 2009, net of allowance for uncollectible accounts.

B. *Intergovernmental Receivables* - Intergovernmental receivable in debt service fund represents property tax receivable at June 30, 2009. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	<u>\$503,520</u>
Total	<u>\$503,520</u>

C. *Federal grants receivables*- Federal Grant receivable in other governmental funds represents expenditures incurred not yet reimbursed by federal government or the pass-through grantor. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Hazard Mitigation Program	\$ 28,000
Child Care Food Program	37,080
Nutrition Program for the Elderly (U.S.D.A.)	19,033
Community Development Block Grants/ State's Program	192,362
Emergency Management Performance Grant-Homeland Security	24,233
Others	<u>4,244</u>
Total	<u>\$304,952</u>

D. *Other Receivable*- Other receivable of \$116,647 in the general fund represents accounts receivables at June 30, 2009, related to construction excise tax \$94,150, fines \$16,256 and rent of \$6,241.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2009, and interfund transfers during the fiscal year ended at June 30, 2009, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds- Federal Programs	Payroll and related accruals paid and not reimbursed	\$ 760,216
General Fund	Capital Projects Fund-State & Local Funds	Reimbursable expenditures	147,653
Other Governmental Funds	General Fund	Matching Contribution	<u>2,000</u>
Total			<u>\$ 909,869</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Fund	Matching Contribution	\$ 137,834
General Fund	Other Governmental Fund	Matching Contribution	398,425
General Fund	Other Governmental Fund	Matching Contribution	18,180
General Fund	Other Governmental Fund	Matching Contribution	166,284
General Fund	Debt Service Fund	Debt retirement	122,414
General Fund	Capital Projects Fund- Federal Grants	Transfer of funds for special purpose	1,514
General Fund	Capital Projects Fund - State and Local Grants	Transfer of funds for special purpose	166,687
General Fund	Other Governmental Fund	Transfer of funds for special purpose	39,446
Other Governmental Funds	General Fund	Expenditure reclassification to the correct fund	113,900
Other Governmental Funds	Other Governmental Funds	Expenditure reclassification to the correct fund	3,156
Capital Projects Fund- State and Local Grants	General Fund	Transfer of funds for special purpose	157,143
Capital Projects Fund- Federal Grants	General Fund	Transfer of funds for special purpose	80,215
Other Governmental Funds	Debt Service	Transfer of funds for special purpose	<u>161,227</u>
Total			<u>\$ 1,566,425</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>
Capital asset, not being depreciated:				
Land	\$ 63,144,534	\$ 2,581,096	\$ -	\$ 65,725,630
Construction in progress	<u>12,403,416</u>	<u>6,572,584</u>	<u>(6,116,244)</u>	<u>12,859,756</u>
Total capital assets not being depreciated	<u>75,547,950</u>	<u>9,153,680</u>	<u>(6,116,244)</u>	<u>78,585,386</u>
Capital assets, being depreciated:				
Buildings	13,041,406	552,000		13,593,406
Buildings improvements	4,172,692	5,347,676		9,520,368
Infrastructure	7,757,279	1,823,828		9,581,107
Infrastructure improvements	2,640,043	298,282		2,938,325
Equipment	3,038,910	524,914	(5,639)	3,558,185
Furnishing	363,297	60,326	(2,870)	420,753
Work of Arts	96,003	15,922		111,925
Computers	409,941	64,339	(14,399)	459,881
Vehicles	<u>6,849,409</u>	<u>212,208</u>	<u>(295,612)</u>	<u>6,766,005</u>
Total capital assets being depreciated	<u>38,368,980</u>	<u>8,899,495</u>	<u>(318,520)</u>	<u>46,949,955</u>
Less accumulated depreciation for:				
Buildings	(5,421,936)	(333,900)		(5,755,836)
Buildings improvements	(380,320)	(229,581)		(609,901)
Infrastructure	(2,832,230)	(203,853)		(3,036,083)
Infrastructure improvements	(356,754)	(192,300)		(549,054)
Equipment	(2,376,518)	(282,429)	5,489	(2,653,458)
Furnishing	(292,674)	(30,972)	2,817	(320,829)
Computers	(321,116)	(56,407)	13,786	(363,737)
Work of Arts	(28,397)	(9,652)		(38,049)
Vehicles	<u>(5,840,841)</u>	<u>(412,678)</u>	<u>295,612</u>	<u>(5,957,907)</u>
Total accumulated depreciation	<u>(17,850,786)</u>	<u>(1,751,772)</u>	<u>317,704</u>	<u>(19,284,854)</u>
Total capital assets being depreciated, net	<u>20,518,194</u>	<u>7,147,723</u>	<u>(816)</u>	<u>27,665,101</u>
Governmental activities capital assets, net	<u>\$ 96,066,144</u>	<u>\$ 16,301,403</u>	<u>\$ (6,117,060)</u>	<u>\$ 106,250,487</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 615,123
Public safety	39,637
Public works	624,183
Health and welfare	5,349
Education	3,086
Culture and recreation	196,478
Community development	<u>267,916</u>

Total depreciation expense-governmental activities **\$ 1,751,772**

<u>Business - type activities</u>	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>
Capital asset, not being depreciated:				
Land and construction in progress	\$ 388,790	\$ -	\$ -	\$ 388,790
Total capital assets not being depreciated	<u>388,790</u>	<u>-</u>	<u>-</u>	<u>388,790</u>
Capital assets, being depreciated:				
Building	3,537,458			3,537,458
Building improvements	<u>45,400</u>	<u>-</u>	<u>-</u>	<u>45,400</u>
Total capital assets being depreciated	<u>3,582,858</u>	<u>-</u>	<u>-</u>	<u>3,582,858</u>
Less accumulated depreciation for:				
Building	<u>(1,057,273)</u>	<u>(89,571)</u>	<u>-</u>	<u>(1,146,844)</u>
Total accumulated depreciation	<u>(1,057,273)</u>	<u>(89,571)</u>	<u>-</u>	<u>(1,146,844)</u>
Total capital assets being depreciated, net	<u>2,525,585</u>	<u>(89,571)</u>	<u>-</u>	<u>2,436,014</u>
Business - type Activities capital assets, net	<u>\$ 2,914,375</u>	<u>\$ (89,571)</u>	<u>\$ -</u>	<u>\$ 2,824,804</u>

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

Business -type Activities

General government \$ 89,571

Total depreciation expense-governmental activities **\$ 89,571**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Capital Projects Fund - State & Local Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable	\$ 332,358	\$ 385,844	\$ -	\$ 292,182	\$ 1,010,384
Accrued liabilities	<u>211,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>211,228</u>
Total	<u>\$ 543,586</u>	<u>\$ 385,844</u>	<u>\$ -</u>	<u>\$ 292,182</u>	<u>\$ 1,221,612</u>

7. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	\$ 57,351
Retirement System Administration	84,294
General Services Administration	550
Department of Labor and Human Resources	<u>79</u>
Total	<u>\$ 142,274</u>

8. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$4,136,746 in the general fund relates to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

B. Federal Government- The deferred revenues presented in other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Head Start Program	\$ 40,652
Community Development Block Grant-State's Program	166,710
Repayment Section 108 Loan	14,732
Emergency Management Performance Grant	30,453
Title III	95,993
Other Programs	<u>27,709</u>
Total	<u>\$ 376,249</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

9. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the preliminary settlement noting that the advances exceeded collections by \$468,784.

On January 26, 2000, Public Law No. 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

9. PROPERTY TAXES (CONTINUED)

Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

On June 26, 1997, Public Law No. 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money.

A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law No. 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction. Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government wide statement of net assets includes an outstanding debt balance of \$242,337 related to Law No. 42. The debt corresponding to Law No. 146 was liquidated during the fiscal year 2008-2009.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

The annual tax rate is 8.83% for real property and 6.83% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.80%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 2.00% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

10. MUNICIPAL LICENSE TAX:

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2009, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues.

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, was as follows:

Description	Beginning Balance	Borrowings or Additions and Adjustment	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	\$33,093,000	\$4,325,000	\$(1,776,000)	\$35,642,000	\$2,057,000
Notes Payable	8,605,000	1,266,000	(585,000)	9,286,000	590,000
Lease Obligation-IBM	4,518			4,518	4,518
Property Tax Debt-Law 146	285,207	(285,207)			
Property Tax Debt - Law 42	246,832		(4,495)	242,337	4,777
Property Tax - Department of Treasury		468,784		468,784	
LIMS Repayment Plan	312,015		(82,715)	229,300	87,709
Compensated Absences	2,559,387	646,392	(327,178)	2,878,601	220,000
Claims and Judgments	50,000	45,265	(20,265)	75,000	75,000
Department of Labor Repayment Plan	195,958			195,958	
Landfill obligation	1,762,695	(65,748)	(113,430)	1,583,517	
Total	<u>\$47,114,612</u>	<u>\$6,400,486</u>	<u>\$ (2,909,083)</u>	<u>\$50,606,015</u>	<u>\$3,039,004</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus 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 are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.

2. **Bonds Payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2009 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2009</u>
1995-Series	7-1-2015	2,750,000	6.12% to 6.58%	1,380,000
1997-Series	7-1-2010	2,650,000	5.69% to 5.78%	310,000
1997-Series	7-1-2016	290,000	2.43% to 7.00%	145,000
1997-Series	7-1-2016	110,000	2.43% to 7.00%	45,000
1998-Series	7-1-2013	1,065,000	5.78% to 6.04%	410,000
1999-Series	7-1-2014	3,675,000	5.78% to 6.11%	1,685,000
2000-Series	7-1-2014	65,000	4.10% to 4.61%	25,000
2000-Series	7-1-2021	1,500,000	4.10% to 5.29%	1,150,000
2001-Series	7-1-2026	310,000	4.10% to 5.60%	270,000
2002-Series	7-1-2027	2,850,000	4.10% to 5.60%	2,505,000
2004-Series	7-1-2029	550,000	2.43% to 7.00%	500,000
2004-Series	7-1-2024	3,150,000	4.38% to 5.25%	2,635,000
2004-Series	7-1-2024	115,000	4.38% to 5.25%	90,000
2004-Series	7-1-2024	1,860,000	4.38% to 5.25%	1,550,000
2004-Series	7-1-2010	285,000	7.00%	50,000
2005 Series	7-1-2015	50,000	2.43% to 7.00%	30,000
2005 Series	7-1-2020	945,000	4.38% to 4.73%	760,000
2005 Series	7-1-2020	5,825,000	4.38% to 4.73%	4,665,000
2006 Series	7-1-2030	532,000	2.43% to 7.00%	492,000
2007 Series	7-1-2022	1,645,000	2.43% to 7.50%	1,515,000
2008-Series	7-1-2033	3,650,000	2.43% to 7.50%	3,600,000
2008-Series	7-1-2018	220,000	2.43% to 6.25%	205,000
2008-Series	7-1-2033	370,000	2.43% to 7.50%	365,000
2008-Series	7-1-2033	3,265,000	2.43% to 7.50%	3,215,000
2008-Series	7-1-2033	3,720,000	2.43% to 7.50%	3,720,000
2009-Series	7-1-2029	3,395,000	4.75% to 7.50%	3,395,000
2009-Series	7-1-2029	930,000	2.43% to 7.50%	930,000
Total general obligation bonds				\$ 35,642,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

These bonds, except the 1997 Series bonds for \$110,000 and \$290,000, the 2004 Series bonds amounting to \$285,000, and the 2006 Series bonds amounting to \$532,000 are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 2,057,000	\$ 1,717,107
2011	1,817,000	2,072,975
2012	1,943,000	1,966,978
2013	2,059,000	1,848,603
2014	2,090,000	1,727,839
2015-2019	8,805,000	7,084,153
2020-2024	7,669,000	4,528,318
2025-2029	5,830,000	2,331,945
2030-2034	3,372,000	524,033
Total Bonds Payable	<u>\$35,642,000</u>	<u>\$23,801,951</u>

3. **Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. During the current year the municipal legislature authorized notes issuances for \$1,266,000 and the Municipality was granted a Section 108 Loan for \$5,500,000 for a hotel development. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2009</u>
2004-Series	7-1-2011	370,000	4.38% to 4.50%	125,000
2005 Series	7-1-2010	45,000	4.38%	10,000
2005 Series	7-1-2012	1,190,000	4.38% to 4.62%	560,000
2005 Series	7-1-2013	345,000	4.38% to 4.73%	215,000
2007 Series	7-1-2014	480,000	2.42% to 7.50%	375,000
2008 Series	7-1-2015	230,000	2.43% to 7.50%	210,000
2008 Series	7-1-2013	245,000	2.43% to 7.50%	205,000
Section 108- Series 2008-A	7-1-2028	5,500,000	5.11%	5,500,000
2008 Series	7-1-2015	925,000	2.43% to 7.50%	820,000
2009 Series	7-1-2014	125,000	2.43% to 7.50%	125,000
2009 Series	7-1-2034	1,141,000	2.43% to 7.50%	1,141,000
Total notes payable				<u>\$ 9,286,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 590,000	\$ 413,427
2011	921,000	451,975
2012	891,000	405,054
2013	726,000	360,689
2014	631,000	321,618
2015-2019	1,875,000	1,256,587
2020-2024	1,730,000	823,038
2025-2029	1,501,000	343,261
2030-2034	421,000	85,088
Total	<u>\$ 9,286,000</u>	<u>\$4,460,737</u>

- 4. Lease Obligations-** During the fiscal year June 30, 1999, the Municipality acquired computer equipment under a capital lease. The capital lease to IBM Credit Corp. is payable in monthly installments of \$4,546 which includes interests at 7.48% through June 30, 2005. No principal payments were issued during the current year.

The assets acquired through the capital lease are as follows:

<u>Assets</u>	<u>Governmental Activities</u>
1999 Ford Winnebago	\$ 227,000
Less:	
Accumulated Depreciation	<u>(227,000)</u>
Net value	<u>\$ _____</u>

The outstanding debt balance as of June 30, 2009 amounts to \$4,518. The debt service requirements to maturity including \$28 of interest are as follows:

<u>Year ending June 30,</u>	<u>Governmental Activities</u>
2010	<u>\$ 4,546</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

5. **Property Tax Debt-** These amounts represent the balance owed to the Municipal Revenue Collection Center (CRIM) at June 30, 2009, as described in Note 9.
6. **LIMS Repayment Plan-** During the fiscal year 2001-2002, the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System – LIMS, contracted by the CRIM. A total of \$746,092.78 is to be retained in a ten years period at an interest rate of 5.95%, until November 28, 2011. At June 30, 2009, the outstanding debt balance is \$229,300. This amount is presented in the government-wide financial statements.
7. **Compensated absences-** The government-wide statement of net assets includes \$1,624,417 of accrued sick leave benefits, and approximately \$1,254,184 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
8. **Claims and Judgments –** This amount represents the balance related to legal claims at June 30, 2009, as described in Note 14.
9. **Department of Labor Repayment Plan-** This amount relates to an unemployment insurance debt. The Municipality agrees to repay the total of \$435,310.46 including interests, by an agreement signed in December, 2005. In this agreement, the Municipality accepted the debt for the total of \$212,856.67 and requests a payment plan to liquidate the debt in 210 monthly payments. As of June 30, 2009 the debt balance amounted to \$195,958.
10. **Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable state and federal regulations. During June 30, 2004, the Municipality entered in an agreement with a contractor to complete the final cover of the landfill for a total cost of \$873,569 and additional inspection, monitoring, and supervision costs amounting to \$90,079 for a total cost of \$963,648. During 2004-2005 fiscal year a change order was issued by \$11,500 and a total of \$185,618 were paid to the contractor related to closing costs. During 2005-2006 a total of \$374,319 were paid to the contractor for closing costs, and in 2006-2007 the amount of \$202,516 were paid. During 2007-2008 a total of \$65,748 were paid to the contractor for closing costs. In 2008-2009 a total of \$113,430 were paid to the contractor and others suppliers related to closing cost. Based on this, the Municipality has recognized \$33,517 as the Municipality's estimated current cost for landfill closure as of June 30, 2009. The preliminary annual estimate of post closure costs has been adjusted to approximately \$1,550,000 for a period of approximately 25 years. Actual costs may be

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

different due to inflation, changes in technology, or changes in laws and regulations. As of June 30, 2009, the Municipality's landfill facilities have been closed. The balance of closure and post-closure costs of \$33,517 and \$1,550,000, respectively, are reported in the government-wide statement of net assets.

11. Operating leases-The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Municipality's financial statements.

The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2009:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2010	\$ 69,600
Total minimum payments required	<u>\$ 69,600</u>

12. Revenue Bonds-Enterprise Funds - In 1994, the Municipality issued \$2,090,000 revenue bonds, in which the Municipality pledges rent income from the enterprise fund (completed construction by July 1996 of the "Commercial Pavilion Rafael Hernández Colón") to pay such debt. On January 18, 2000, the Municipality formalizes a revenue bond payable with Banco Santander Puerto Rico. This loan was used to refinance the outstanding loan with Governmental Development Bank at 9.00%.

The note will be paid by semi-yearly installments of \$103,280, which includes interest at 7.25% for the first ten years. After the first ten years, the Municipality can exercise the option to fully repay the outstanding balance of \$943,238 or refinance the debt at an interest rate determined by the lesser of 9.50% or 1.00% over the London Interbank Offered Rate (L.I.B.O.R.) +1%. Total principal payments during the current year amounted to \$112,269. The outstanding debt balance as of June 30, 2009 amounts to \$961,903. The debt service requirements to maturity including \$51,567 of interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 961,903	\$ 51,567
Total	<u>\$ 961,903</u>	<u>\$ 51,567</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plans sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, 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 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2009 recorded as pension expenditures were approximately \$626,410. This amount represents 100% of the required contribution.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. PENSION PLAN (CONTINUED)

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

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

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940-2003.

13. RISK MANAGEMENT

The Property Division is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Public Insurance Department at the Treasury Department of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

14. COMMITMENTS AND CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of \$75,000 for awarded or anticipated unfavorable judgments in the Government-Wide Financial Statements. This amount was included in the financial statements and represents the amounts estimated as a probable liability or a liability with a fix or expected due date, which will require future available financial resources for its payments.

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

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures finance by these programs are subject to financial and compliance audits by the appropriate grantor or grantee. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2009:

- a. GASB Statement No.51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009.
- b. GASB Statement No.53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.
- c. GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for periods beginning after June 15, 2010.
- d. GASB Concepts Statement No. 5, *Service Efforts and Accomplishments- an Amendment of GASB Concepts Statements No. 2*. This Statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB:CS-2.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

16. PRIOR PERIOD ADJUSTMENTS

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	General Fund	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Fund	Total
Fund balance, beginning	\$2,540,113	\$ 17,263,145	\$ 4,582,572	\$ 5,376,203	\$ 834,758	\$30,596,791
To correct prior year accounts payable	-	-	-	-	(7,604)	(7,604)
Fund balance, beginning as restated	<u>\$2,540,113</u>	<u>\$ 17,263,145</u>	<u>\$ 4,582,572</u>	<u>\$ 5,376,203</u>	<u>\$ 827,154</u>	<u>\$30,589,187</u>

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:

Description	Governmental Activities	Business-type Activities	Total
Net assets, beginning	\$ 78,083,017	\$ 2,314,656	\$ 80,397,673
To correct prior year accounts payables	(7,604)	-	(7,604)
Net assets, beginning as restated	<u>\$ 78,075,413</u>	<u>\$ 2,314,656</u>	<u>\$ 80,390,069</u>

17. SUBSEQUENT EVENTS

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 million in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the **Municipality of Dorado** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objectives of the Plan is to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

**BUDGETARY COMPARISON-GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis) (See Note 1)	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	Original	Final		
REVENUES:				
Property taxes	\$ 9,940,664	\$ 9,940,664	\$ 9,940,664	\$ -
Municipal license tax	4,125,250	3,906,284	3,939,039	32,755
Municipal sales and use tax	1,305,000	1,152,997	1,368,293	215,296
Licenses, permits and other local taxes	1,420,000	3,246,744	3,243,344	(3,400)
Intergovernmental	2,160,299	2,143,854	2,143,854	-
Rent of property	119,179	180,931	182,188	1,257
Fines and forfeitures	10,100	23,541	23,541	-
Interest	515,000	784,167	792,583	8,416
Miscellaneous	<u>1,086,000</u>	<u>394,148</u>	<u>1,337,987</u>	<u>943,839</u>
Total revenues before carryover	20,681,492	21,773,330	22,971,493	1,198,163
Budgeted carryover (1)	-	<u>2,540,113</u>	<u>2,540,113</u>	-
Total revenues and budget carryover	<u>20,681,492</u>	<u>24,313,443</u>	<u>25,511,606</u>	<u>1,198,163</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	11,304,411	13,729,411	13,066,584	662,827
Public safety	2,088,615	1,992,276	1,848,732	143,544
Public works	6,507,870	7,770,783	7,262,339	508,444
Culture and recreation	608,036	709,431	647,546	61,885
Operating transfer to other fund	<u>172,560</u>	<u>111,542</u>	<u>649,237</u>	<u>(537,695)</u>
Total expenditures, encumbrances and other financing uses	<u>20,681,492</u>	<u>24,313,443</u>	<u>23,474,438</u>	<u>839,005</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)				
	\$ -	\$ -	<u>\$ 2,037,168</u>	<u>\$ 2,037,168</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$25,511,606
Differences-budget to USGAAP:				
Budget carryover				(2,540,113)
USGAAP adjustment to revenues				<u>758,553</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 23,730,046</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$ 23,474,438
Differences-budget to USGAAP:				
Nonbudgeted transfer out				401,547
Prior year encumbrances recorded as current year expenditures for USGAAP basis				914,992
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(1,130,564)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 23,660,413</u>

(1) Represents fund balances carried over from prior years

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

YEAR ENDED JUNE 30, 2009

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with USGAAP, 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 USGAAP 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, 2009 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program:			
Rural Housing Preservation Grant	10.433	Not Available	3,250
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$206,472
Total U.S. Department of Agriculture			<u>209,722</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Voucher Program	14.871		1,807,188
Community Development Block Grant - Section 108 Loan Guarantees	14.248	Not Available	82,057
Public and Indian Housing	14.850	Not Available	7,232
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant - State Program		01-FD-22 02-FC-22 02-AB-22 03-AB22 03-FC-22 04-AB-002 04-FC-002 04-FC-004	
	14.228		1,513,998
Total U.S. Department of Housing and Urban Development			<u>3,410,475</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Justice Department:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		50,000
Total U.S. Department of Justice			<u>50,000</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the PR Highway Administration:			
Federal Transit Administration- Capital Investment Grants	20.500		1,761
			<u>1,761</u>
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico Governor's Office (OGAVE) (Cluster of Programs)			
Special Programs for Aging - Title III, Part B - Grant for Supportive Services and Senior Centers	93.044	Not Available	4,841
Special Programs for Aging - Title III, Part C - Nutrition Services	93.045	Not Available	306,034
Nutrition Services Incentives Program	93.053	Not Available	63,482
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Community Service Block Grant	93.569	Not Available	74,866
Head Start Program	93.600	02-CH-0483-39	2,342,749
Total U.S. Department of Health and Human Services			<u>2,791,972</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S.DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Hazard Mitigation Grant	97.039		4,696
Homeland Security Grant Program	97.067		<u>4,960</u>
Total U.S. Department of Homeland Security			<u>9,656</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 6,473,586</u></u>

The accompanying notes are an integral part of this schedule

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

a. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Dorado** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

b. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Capital Project Fund- Federal grants and Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Description	Capital Projects Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 82,057	\$ 6,391,529	\$ 6,473,586
Non - federal programs Expenditures	(39,774)	954,600	914,826
Total expenditures in the fund financial statements	<u>\$ 42,283</u>	<u>\$ 7,346,129</u>	<u>\$ 7,388,412</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Dorado, Puerto Rico**, as of and for the year ended June 30, 2009, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 18, 2009, which was unqualified. 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 the **Municipality of Dorado's** internal control over financial reporting as a basis for designing 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 Dorado's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Dorado's** internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency, or a combination of control deficiencies, that adversely affects the **Municipality of Dorado's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **Municipality of Dorado's** financial statements that is more than inconsequential will not be prevented or detected by **Municipality of Dorado's** internal control. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item **09-01**.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality of Dorado'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the **Municipality of Dorado** in a separate letter dated December 18, 2009.

The **Municipality of Dorado'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 Dorado's** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 18, 2009

Stamp No. 2407027 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

Compliance

We have audited the compliance of the **Municipality of Dorado** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The **Municipality of Dorado'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 the **Municipality of Dorado's** management. Our responsibility is to express an opinion on the **Municipality of Dorado'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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB 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 the **Municipality of Dorado's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Dorado's** compliance with those requirements.

In our opinion, the **Municipality of Dorado** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **09-02** through **09-04**.