

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

**MUNICIPIO DE GUAYAMA  
AUDITORÍA 2009-2010  
30 DE JUNIO DE 2010**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**



**BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTAL SCHEDULES**

**(WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE GOVERNMENT AUDITING  
STANDARDS AND OMB CIRCULAR A-133)**

Fiscal Year Ended  
June 30, 2010

**Honorable  
Glorimari Jaime Rodríguez  
Mayor**

Prepared by:  
Amílcar Ayala Acevedo  
Director of Finance

*2011.07.14 11:07  
Comunidad Guayama*

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYAMA**  
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*Pedro C. Ortíz Ledée*

**Certified Public Accountant**

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of **Guayama**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2010, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 6 to the financial statements, the Municipality did not have a complete, updated and accurate accounting records of its capital assets including the infrastructure, in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the accompanying statement of net assets for \$102,297,910, net of accumulated depreciation of \$16,988,146, 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, 2010, the accompanying statement of net assets present a liability for closure and post closure care costs of the Municipality's solid waste landfill using an estimate made by the management of the Municipality and not based on a study of the actual landfill capacity used. The amount by which this departure would affect the liabilities, net assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraphs, the financial statements referred to previously 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, 2010, or the changes in financial position, thereof for the year then ended.

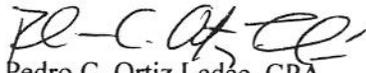
## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

In addition, in our opinion, the financial statements referred to previously 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, 2010, 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*, we have also issued our report dated March 26, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 3 through 13 and 55 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

  
Pedro C. Ortiz Ledee, CPA  
License Number 5200

Guayama, Puerto Rico  
March 26, 2011



**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYAMA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010. 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, 2010 are presented in a comparative approach to financial statements of fiscal year ended June 30, 2010.

### **FINANCIAL HIGHLIGHTS**

#### **a) *Government-Wide Highlights***

- **Assets** – The Municipality has reported assets amounting to \$136.2 millions in the accompanying statement of net assets, of which the most significant are capital assets, and cash amounting to \$102.3 millions, and \$24.7 millions, respectively.
- **Liabilities** – The Municipality has reported liabilities amounting to \$49.2 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 \$24.0 millions, \$8.9 millions, \$8.9 millions and \$3.1 millions, respectively.
- **Net assets** – The assets of the Municipality exceeded its liabilities by \$87.1 millions at June 30, 2010, which is presented as “net assets” in the accompanying statement of net assets. Restricted net assets and unrestricted deficit amounted to \$9.2 millions and \$7.7 millions, respectively. Net assets invested in capital assets amounted to \$85.6 millions.
- **Net change in net assets** – The Municipality's net assets increased by \$6.2 millions during fiscal year ended June 30, 2010.
- **Revenues** – The Municipality has reported total revenues amounting to \$45.6 millions in the accompanying statement of activities, of which the most significant are taxes, and operating grants and contributions, program specific, amounting to \$23.1 millions and \$13.0 millions, respectively.
- **Expenses** – The Municipality has reported total expenses amounting to \$39.4 millions in the accompanying statement of activities.

#### **b) *Governmental Funds Highlights***

- **Assets** – The Municipality's governmental funds have reported combined assets amounting to \$35.6 millions in the accompanying balance sheet – governmental funds, of which the most significant are cash, investments, due from other funds and due from governmental entities amounting to \$24.7 millions, \$7.0 millions, \$1.8 millions and \$1.5 millions, respectively.

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- **Liabilities** – The Municipality's governmental funds have reported combined liabilities amounting to \$16.7 millions in the accompanying balance sheet – governmental funds, of which the most significant are deferred revenues, due to other funds, accounts payable and accrued liabilities and matured bonds due and payable amounting to \$10.0 millions, \$1.8 millions, \$1.4 millions and \$1.4 millions, respectively.
- **Governmental fund balances** – The Municipality's governmental funds reported combined fund balances amounting to \$18.9 millions, of which \$15.2 millions and \$3.7 millions represent reserved and unreserved fund balances, respectively.
- **Net change in governmental fund balances** – The Municipality's governmental fund balances increased by \$3.0 millions during fiscal year ended June 30, 2010.
- **Revenues** – The Municipality's governmental funds have reported combined revenues amounting to \$45.2 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, municipal license taxes and sales tax amounting to \$13.5 millions, \$11.4 millions, 7.8 millions, \$7.6 millions and \$3.4 millions, respectively.
- **Expenditures** – The Municipality's governmental funds have reported combined expenditures amounting to \$43.0 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, health, sanitation and welfare, public works and capital outlays amounting to \$12.2 millions, \$7.3 millions, \$6.6 millions, \$4.8 millions and \$4.8 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,

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. 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, 2010 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, 2010. 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 of 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

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categories: (1) general fund, (2) debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

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 three major funds: (1) General fund, (2) Head Start fund and (3) 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.

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FOR THE YEAR ENDED JUNE 30, 2010**

**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 \$87.1 millions at June 30, 2010 compared to \$80.9 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 (\$85.6 millions). The Municipality's net assets is also composed of net assets amounting to \$9.2 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 \$7.7 millions.

The unrestricted deficit is the consequence of previous budgets, which did not provide funding for incurred long-term obligations such as landfill closure and postclosure costs. 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.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

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,**

	<b>2010</b>	<b>2009, (as restated)</b>
<i>Assets:</i>		
Current assets	\$ 33,930,198	\$ 25,414,336
Noncurrent assets:		
Capital assets, net	102,297,910	99,585,204
Total assets	\$ 136,228,108	\$ 124,999,540
 <i>Liabilities:</i>		
Current liabilities	12,828,454	7,264,227
Long-term liabilities due within one year	3,030,610	3,256,995
Long-term liabilities due after one year	33,305,749	33,628,076
Total liabilities	49,164,813	44,149,298
 <i>Net assets (liabilities):</i>		
Invested in capital assets, net of related debt	\$ 85,580,099	\$ 78,509,159
Restricted	9,157,951	11,291,181
Unrestricted	(7,674,755)	(8,950,098)
Total net assets (as restated)	\$ 87,063,295	\$ 80,850,242

**Changes in Net Assets**

The Municipality's net assets increased by \$6.2 millions. Approximately 51 percent of the Municipality's total revenues came from taxes, while 30 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 (21 percent) and health, sanitation and welfare (17 percent).

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MUNICIPALITY OF GUAYAMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

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,**

	<b>2010</b>	<b>2009, (as restated)</b>
<b>Program revenues:</b>		
Program-specific operating grants and contributions	\$ 12,960,904	\$ 11,371,788
Program-specific capital grants and contributions	498,625	1,483,600
Charges for services	359,019	500,174
Total programs revenues	13,818,548	13,355,562
<b>General revenues:</b>		
Total general revenues	31,811,029	29,007,963
Total revenues	45,629,577	42,363,525
<b>Program expenses:</b>		
Total expenses	39,416,524	35,493,257
<b>Net increase in assets</b>	6,213,053	6,870,268
<b>Net assets, at beginning of fiscal year, as restated</b>	80,850,242	73,979,974
<b>Net assets, at end of fiscal year</b>	\$ 87,063,295	\$ 80,850,242

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS**

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

	<b>2010</b>	<b>2009</b>
<b><i>Assets:</i></b>		
Total assets - major and other governmental funds	\$ 35,617,330	\$ 26,957,520
Combined total assets	35,617,330	26,957,520
<b><i>Liabilities:</i></b>		
Total liabilities - major and other governmental funds	16,672,721	11,001,618
Combined total liabilities	16,672,721	11,001,618
<b><i>Fund balances:</i></b>		
Reserved - major and other governmental funds	15,227,657	11,931,207
Unreserved - major and other governmental funds	3,716,952	4,024,695
Combined total fund balances	18,944,609	15,955,902
<b><i>Total liabilities and fund balances</i></b>	<b>\$ 35,617,330</b>	<b>\$ 26,957,520</b>

***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, 2010, the total assets of governmental funds increased by \$8.7 millions (32 percent). Total liabilities of governmental funds increased by \$5.7 millions (52 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 \$3.7 millions, while total fund balance reached \$18.9 millions. The total fund balances increased by \$3.0 millions during the current fiscal year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

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 \$13,816,180 at June 30, 2010. Such assets consist mainly of: (1) unrestricted cash and cash equivalents (\$3,839,406) and (2) investments (\$7,000,000).

The GF's total liabilities amounted to \$9,149,385. Such liabilities are composed mainly of deferred revenues (\$8,007,553).

At the end of the current fiscal year, unreserved fund balance of the GF's amounted to \$3,716,952, while total fund balance reached \$4,666,795. 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 17 percent of the total GF's expenditures, while total fund balance represents 22 percent of that same amount.

**Head Start fund** – The Head Start special revenue fund (HSSRF) total assets amounted to \$1,666,781, which consist of cash in commercial banks. The HSSRF's total liabilities amounted to \$1,666,781.

**Debt service fund** – The debt service fund (DSF) total assets amounted to \$5,570,347, which consist of restricted cash in fiscal agent (\$5,493,196) and property taxes receivable (\$77,151). The DSF's total liabilities amounted to \$1,891,751, which composed of: (1) matured bonds due and payable (\$1,350,000), (2) matured interest due and payable (\$541,751). At the end of the current fiscal year, DSF's total and reserved fund balance reached \$3,678,596.

**Other governmental funds** – The other governmental funds (OGF) total assets amounted to \$14,564,022, which consist mainly of restricted cash in fiscal agent and commercial banks (\$13,341,112). The OGF's total liabilities amounted to \$3,964,804, which are composed mainly of due to other funds (\$1,389,528) and deferred revenues (\$1,229,639). At the end of the current fiscal year, OGF's total fund balance reached \$10,599,218.

**COMMONWEALTH OF PUERTO RICO  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

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

	2010	2009
<b>Revenues:</b>		
Total revenues - major and other governmental funds	\$ 45,194,033	\$ 41,681,069
Combined total revenues	45,194,033	41,681,069
<b>Expenditures:</b>		
Total expenditures - major and other governmental funds	42,960,326	42,541,819
Combined total expenditures	42,960,326	42,541,819
<b>Excess of expenditures over revenues</b>	2,233,707	(860,750)
<b>Other financing sources (uses), net:</b>		
Other financing sources, net - major and other governmental funds	755,000	3,475,000
Combined other financing sources (uses), net	755,000	3,475,000
<b>Net change in fund balance</b>	2,988,707	2,614,250
<b>Fund balance, at beginning of fiscal year</b>	15,955,902	13,341,652
<b>Fund balance, at end of fiscal year</b>	\$ 18,944,609	\$ 15,955,902

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The accompanying statement of net assets reported total gross capital assets, at cost, amounting to \$119.3 millions. The related accumulated depreciation and amortization of capital assets amounted to \$17.0 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 \$13.2 millions for the year ended June 30, 2010. Depreciation and amortization charges for the year totaled \$2.0 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, 2010**

**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 pledged.

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 2010-2011 fiscal year. There were no significant changes between the budget for fiscal year 2009-2010 and the one for fiscal year 2010-2011.

**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. Amílcar Ayala Acevedo, at PO Box 360, Guayama, Puerto Rico, 00785.

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

<b>Assets</b>	<b><u>Governmental activities</u></b>
<b>Current assets:</b>	
Cash in commercial banks	\$ 3,839,406
Investments	7,000,000
Account receivables:	
Taxes:	
Property taxes	77,151
Sales tax	118,008
Intergovernmental	1,645,198
Grants and contributions	407,021
<b>Restricted assets:</b>	
Cash in commercial banks	8,457,529
Cash in fiscal agent	12,385,885
Total current assets	<u>33,930,198</u>
<b>Noncurrent assets:</b>	
<b>Capital assets:</b>	
Depreciable capital assets	70,864,805
Nondepreciable capital assets	48,421,251
Accumulated depreciation and amortization	<u>(16,988,146)</u>
Capital assets, net of accumulated depreciation	<u>102,297,910</u>
Total noncurrent assets	<u>102,297,910</u>
Total assets	<u>\$ 136,228,108</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, 2010**

**Liabilities and net assets**

	<u>Governmental activities</u>
<b>Current liabilities (due within one year):</b>	
Accounts payable	\$ 1,394,358
Intergovernmental payables	688,660
Accrued employees' christmas bonus	423,873
Accrued interest payable on long-term debt	541,751
Unearned revenues	8,892,855
Commitments and contingencies	886,957
Current portion of long-term obligations:	
Bonds payable	\$ 1,378,000
Notes payable	113,526
Compensated absences	1,539,084
Total current portion of long-term obligations	<u>3,030,610</u>
Total current liabilities	<u>15,859,064</u>
 <b>Noncurrent liabilities, excluding current portion (due in more than one year):</b>	
Bonds payable	22,629,105
Notes payable	178,031
Landfill closure and postclosure costs	8,924,770
Compensated absences	1,573,843
Total noncurrent liabilities	<u>33,305,749</u>
Total liabilities	<u>49,164,813</u>
 <b>Net assets (deficit):</b>	
Invested in capital assets, net of related debt	85,580,099
Restricted for:	
Debt service	\$ 3,678,596
Capital projects	2,048,698
Other specified purposes	3,430,657
Total restricted net assets	9,157,951
Unrestricted	<u>(7,674,755)</u>
Total net assets	<u>\$ 87,063,295</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 ACTIVITIES**  
**FISCAL YEAR ENDED JUNE 30, 2010**

<u>Function/programs</u>	<u>Expenses including depreciation and amortization of \$2,043,153</u>	<u>Program revenues</u>			<u>Net (expenses) and changes in net assets</u>
		<u>Charges for services</u>	<u>Program-specific operating grants and contributions</u>	<u>Program-specific capital grants and contributions</u>	
Governmental activities:					
General government	\$ 8,324,235	\$ 72,529	\$ 284	\$ -	\$ (8,251,422)
Public safety	2,724,194	-	-	-	(2,724,194)
Public works	5,624,760	-	5,728	498,625	(5,120,407)
Culture and recreation	2,762,906	270,096	-	-	(2,492,810)
Health, sanitation and welfare	6,506,026	16,394	943,986	-	(5,545,646)
Education	12,293,919	-	12,010,906	-	(283,013)
Interest on long-term obligations	1,180,484	-	-	-	(1,180,484)
Total governmental activities	\$ 39,416,524	\$359,019	\$ 12,960,904	\$ 498,625	(25,597,976)
General revenues					
Taxes:					
Property taxes					11,809,808
Municipal license taxes					7,633,804
Construction excise taxes					277,540
Sales tax					3,364,415
Total taxes					23,085,567
Grants and contributions, not restricted to specified programs					7,817,476
Unrestricted interest on deposits					106,677
Miscellaneous					801,309
Total general revenues					31,811,029
Net change in net assets					6,213,053
Net assets at beginning of fiscal year, as restated					80,850,242
Net assets at end of year					\$ 87,063,295

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, 2010**

<u>Major governmental funds</u>					
	<u>General fund</u>	<u>Head start fund</u>	<u>Debt service fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
<b>Assets</b>					
Cash in commercial banks	\$ 3,839,406	\$ -	\$ -	\$ -	\$ 3,839,406
Investments	7,000,000	-	-	-	7,000,000
Account receivable, net of allowance of uncollectible accounts					
Taxes:					
Property taxes	-	-	77,151	-	77,151
Sales tax	118,008	-	-	-	118,008
Grants and contributions	-	-	-	407,021	407,021
Due from governmental entities	1,089,806	-	-	414,190	1,503,996
Due from other funds	1,426,635	-	-	401,699	1,828,334
Restricted assets:					
Cash in commercial banks	342,325	1,666,781	-	6,448,423	8,457,529
Cash in fiscal agent	-	-	5,493,196	6,892,689	12,385,885
Total assets	<u>\$ 13,816,180</u>	<u>\$ 1,666,781</u>	<u>\$ 5,570,347</u>	<u>\$ 14,564,022</u>	<u>\$ 35,617,330</u>
<b>Liabilities and Fund balances</b>					
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 717,115	\$ 218,563	\$ -	\$ 458,680	\$ 1,394,358
Intergovernmental payable	420,006	268,654	-	-	688,660
Due to other funds	4,711	434,095	-	1,389,528	1,828,334
Deferred revenues	8,007,553	745,469	-	1,229,639	9,982,661
Matured bonds due and payable	-	-	1,350,000	-	1,350,000
Accrued interest payable	-	-	541,751	-	541,751
Commitment and contingencies	-	-	-	886,957	886,957
Total liabilities	<u>9,149,385</u>	<u>1,666,781</u>	<u>1,891,751</u>	<u>3,964,804</u>	<u>16,672,721</u>
<b>Fund balances</b>					
Reserved for:					
Debt service	-	-	3,678,596	-	3,678,596
Capital projects	-	-	-	7,510,886	7,510,886
Other specified purposes	342,325	-	-	3,088,332	3,430,657
Encumbrances	607,518	-	-	-	607,518
Unreserved	3,716,952	-	-	-	3,716,952
Total fund balances	<u>4,666,795</u>	<u>-</u>	<u>3,678,596</u>	<u>10,599,218</u>	<u>18,944,609</u>
Total liabilities and fund balances	<u>\$ 13,816,180</u>	<u>\$ 1,666,781</u>	<u>\$ 5,570,347</u>	<u>\$ 14,564,022</u>	<u>\$ 35,617,330</u>

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 GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<b>Total Fund Balances – Governmental Funds.....</b>	<b>\$ 18,944,609</b>
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.....	102,297,910
Some of the Municipality’s revenues will be collected after year end, but are not available soon enough to pay for the current period’s expenditures and therefore, are deferred in the funds .....	1,089,806
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 .....	141,202
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Accrued employees Christmas bonus.....	(423,873)
Bonds payable .....	(22,657,105)
Notes payable .....	(291,557)
Compensated absences .....	(3,112,297)
Solid waste landfill closure and post-closure care costs.....	<u>(8,924,770)</u>
Total Long-Term Liabilities .....	<u>(35,409,602)</u>
<b>Total Net Assets of Governmental Activities .....</b>	<b><u>\$ 87,063,295</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYAMA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENED JUNE 30, 2010**

	<u>Major governmental funds</u>				
	<u>General fund</u>	<u>Head start fund</u>	<u>Debt service fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
<b>Revenues:</b>					
Taxes:					
Property taxes	\$ 6,346,909	\$ -	\$ 5,039,198	\$ -	\$ 11,386,107
Municipal license taxes	7,633,804	-	-	-	7,633,804
Licences and permits	277,540	-	-	-	277,540
Sales taxes	2,520,481	-	520,866	323,068	3,364,415
Intergovernmental revenues	4,685,793	-	-	3,082,331	7,768,124
Grants and contributions	-	10,490,488	-	3,006,550	13,497,038
Charges for services	142,320	-	-	216,699	359,019
Interest on deposits	105,144	-	727	806	106,677
Miscellaneous	644,106	-	-	157,203	801,309
Total revenues	<u>22,356,097</u>	<u>10,490,488</u>	<u>5,560,791</u>	<u>6,786,657</u>	<u>45,194,033</u>
<b>Expenditures:</b>					
Current:					
General government	6,805,965	-	-	458,372	7,264,337
Public safety	2,620,899	-	-	51,275	2,672,174
Public works	4,354,115	-	-	467,282	4,821,397
Culture and recreation	1,660,215	-	-	235,050	1,895,265
Health, sanitation and welfare	5,254,285	-	-	1,372,113	6,626,398
Education	-	10,645,761	-	1,557,927	12,203,688
Debt service:					
Principal	201,877	-	1,377,000	-	1,578,877
Interest	53,260	-	1,088,771	-	1,142,031
Capital outlays	488,127	-	-	4,268,032	4,756,159
Total expenditures	<u>21,438,743</u>	<u>10,645,761</u>	<u>2,465,771</u>	<u>8,410,051</u>	<u>42,960,326</u>
Excess (deficiency) of revenues over (under) expenditures	<u>917,354</u>	<u>(155,273)</u>	<u>3,095,020</u>	<u>(1,623,394)</u>	<u>2,233,707</u>
<b>Other financing sources (uses):</b>					
Transfers-in from other funds	-	155,273	28,289	1,496,884	1,680,446
Transfers-out to other funds	(1,110,877)	-	-	(569,569)	(1,680,446)
Proceeds from issuance of bonds	-	-	-	755,000	755,000
Total other financing sources (uses), net	<u>(1,110,877)</u>	<u>155,273</u>	<u>28,289</u>	<u>1,682,315</u>	<u>755,000</u>
<b>Net change in fund balance</b>	<b>(193,523)</b>	<b>-</b>	<b>3,123,309</b>	<b>58,921</b>	<b>2,988,707</b>
<b>Fund balance (deficit) at beginning of fiscal year, as restated</b>	<b>4,860,318</b>	<b>-</b>	<b>555,287</b>	<b>10,540,297</b>	<b>15,955,902</b>
<b>Fund balance at end of fiscal year</b>	<b>\$ 4,666,795</b>	<b>\$ -</b>	<b>\$ 3,678,596</b>	<b>\$ 10,599,218</b>	<b>\$ 18,944,609</b>

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**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<b>Net Change in Fund Balances – Total Governmental Funds .....</b>	<b>\$ 2,988,707</b>
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense .....	2,712,706
Revenues in the statement of activities that not provide current financial resources are not reported as revenue in the funds .....	423,702
Some of revenues and expenses reported in the statement of activities do not required the use of current financial resources, therefore are not reported as revenues and expenditures in the governmental funds .....	(289,486)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long- term liabilities in the Statement of Net Assets .....	(755,000)
Repayment of long term debt is expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.. .....	1,540,424
Landfill closure and post-closures care costs do not required the use of current financial resources and therefore are not reported as expenditures in governmental funds....	<u>(408,000)</u>
<b>Change in Net Assets of Governmental Activities .....</b>	<b><u>\$ 6,213,053</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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, 2010 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, 2010, 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, 2010**

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**  
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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, 2010.

*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

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**MUNICIPALITY OF GUAYAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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, 2010, 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

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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 budget and management
- 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

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identifiable with a specific function, segment or operational unit. This statement reports revenues in two broad categories: (1) program revenues and (2) general revenues.

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.

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

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- **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 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

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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 aforementioned 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, and (3) 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.

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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, 2010, 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, 2010.

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

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- 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).
- 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.

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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 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.

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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 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, 2010. 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, 2010, 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.

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Cash with fiscal agent in the debt service funds consists of property tax and sales tax collections amounting to \$5,493,196, which are restricted for the payment of the Municipality's debt service, as required by law. Cash in fiscal agent recorded in the nonmajor governmental funds amounting to \$6,892,689, 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 \$1,666,781, \$342,325 and \$6,448,423 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, 2010. 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 special revenue funds and the other governmental 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

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extending beyond one year. All assets with individual costs under \$500 or with useful lives not 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 public works 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

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past due) at June 30, and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30, or;

- 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, 2010 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.

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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.

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This insurance covers workers against injuries, disability or death because of work or 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 (PRDOL). 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 PRDOL 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, 2010. 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.

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- *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, 2010. 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

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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, 2010.

Cash and cash equivalents as of June 30, 2010, 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>Debt service fund</u>	<u>Other governmental funds</u>	
<b>Unrestricted:</b>					
Cash in commercial banks	\$ 3,839,406	-	-	-	\$ 3,839,406
Total unrestricted deposits	<u>3,839,406</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,839,406</u>
<b>Restricted:</b>					
Cash in commercial banks	342,325	1,666,781	-	6,448,423	8,457,529
Cash in GDB, as fiscal agent	-	-	5,493,196	6,892,689	12,385,885
Total restricted deposits	<u>342,325</u>	<u>1,666,781</u>	<u>5,493,196</u>	<u>13,341,112</u>	<u>20,843,414</u>
Total carrying amount of deposits	<u>\$ 4,181,731</u>	<u>1,666,781</u>	<u>5,493,196</u>	<u>13,341,112</u>	<u>\$ 24,682,820</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.

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**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, 2010, 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 \$6,917,747 at June 30, 2010, which represents municipal licenses collected in advance for the taxable year 2010-2011.

**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

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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.

**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, 2010 consisted of the following:

	<b>Transfers Out:</b>				
	<b>Major funds</b>				<b>Total governmental funds</b>
	<b>General fund</b>	<b>Head start fund</b>	<b>Debt service fund</b>	<b>Other governmental funds</b>	
<b>Transfers In:</b>					
Major funds:					
General fund	\$ -	-	-	-	\$ -
Head start fund	155,273	-	-	-	155,273
Debt service fund	28,289	-	-	-	28,289
Nonmajor funds:					
Other governmental fund	927,315	-	-	569,569	1,496,884
<b>Total</b>	<b>\$1,110,877</b>	<b>-</b>	<b>-</b>	<b>569,569</b>	<b>\$ 1,680,446</b>
	<b>Due from:</b>				
	<b>Major funds</b>				<b>Total governmental funds</b>
	<b>General fund</b>	<b>Head start fund</b>	<b>Debt service fund</b>	<b>Other governmental funds</b>	
<b>Due to:</b>					
Major funds:					
General fund	\$ -	-	-	4,711	\$ 4,711
Head start fund	434,095	-	-	-	434,095
Debt service fund	-	-	-	-	-
Nonmajor funds:					
Other governmental fund	992,540	-	-	396,988	1,389,528
<b>Total</b>	<b>\$1,426,635</b>	<b>-</b>	<b>-</b>	<b>401,699</b>	<b>\$ 1,828,334</b>

At June 30, 2010, all amounts due to among funds are considered collectible by the Municipality's management.

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**6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010, 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	\$ 41,871,851	\$ -	\$ -	\$ 41,871,851
Construction in progress	13,026,446	1,993,836	(8,470,882)	6,549,400
Total capital assets, not being depreciated/amortized	<u>54,898,297</u>	<u>1,993,836</u>	<u>(8,470,882)</u>	<u>48,421,251</u>
Capital assets, being depreciated/amortized:				
Buildings, structures, and improvements	41,770,634	8,470,882	-	50,241,516
Infrastructure and infrastructure improvements	13,632,821	2,437,748	-	16,070,569
Equipment	1,562,861	69,585	-	1,632,446
Computers	259,059	72,809	-	331,868
Works of art	7,400	-	-	7,400
Furnitures	919,067	-	-	919,067
Licensed vehicles	1,480,058	181,881	-	1,661,939
Total capital assets, being depreciated/amortized	<u>59,631,900</u>	<u>11,232,905</u>	<u>-</u>	<u>70,864,805</u>
Total cost basis of capital assets	<u>114,530,197</u>	<u>13,226,741</u>	<u>(8,470,882)</u>	<u>119,286,056</u>
Less: accumulated depreciation and amortization:				
Buildings, structures, and improvements	4,604,136	1,152,812	-	5,756,948
Infrastructure and infrastructure improvements	7,044,340	528,066	-	7,572,406
Equipment	989,203	165,831	-	1,155,034
Computers	214,311	33,395	-	247,706
Works of art	2,964	740	-	3,704
Furnitures	845,099	23,617	-	868,716
Licensed vehicles	1,244,940	138,692	-	1,383,632
Total accumulated depreciation and amortization	<u>14,944,993</u>	<u>2,043,153</u>	<u>-</u>	<u>16,988,146</u>
Net capital assets	<u>\$ 99,585,204</u>	<u>11,183,588</u>	<u>(8,470,882)</u>	<u>\$ 102,297,910</u>

Depreciation and amortization expense for the fiscal year ended June 30, 2010 was charged to functions/programs as follow:

Governmental activities	
General government	\$ 188,040
Public Safety	52,020
Public Works	803,363
Culture and recreation	867,640
Health and Welfare	41,860
Education	90,230
Total depreciation and amortization expense	<u>\$ 2,043,153</u>

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The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2010. In addition, the infrastructure assets recorded in the accompanying statement of net assets are not supported adequately in the accounting records of the Municipality.

**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:

<b>Policemen and firemen:</b>	<b>Other employees:</b>
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:

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- 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
- 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.

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***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 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

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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 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.

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**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:

- 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, 2010, the Municipality is in compliance with the debt limitation requirements. The general long-term debt activity for the year ended June 30, 2010 was as follows:

	Balance at June 30, 2009 (as restated)	Borrowings or additions	Payments or deductions	Balance at June 30, 2010	Balance due within one year
Bonds payable:					
Public Improvements Bonds	\$ 904,105	-	542,000	362,105	\$ 28,000
Municipal General Obligation Bonds	20,360,000	-	965,000	19,395,000	1,035,000
Municipal General Obligation Notes	65,000	755,000	65,000	755,000	85,000
Special Obligation Bonds	225,000	-	20,000	205,000	25,000
Special Obligation Notes	3,475,000	-	185,000	3,290,000	205,000
	<u>25,029,105</u>	<u>755,000</u>	<u>1,777,000</u>	<u>24,007,105</u>	<u>1,378,000</u>
Notes payable:					
Puerto Rico Treasury Department:					
Property tax advances, as restated	56,369	-	56,369	-	-
CRIM:					
LIMS	273,429	-	104,587	168,842	110,903
Law 42	125,183	-	2,468	122,715	2,623
Compensated absences	2,884,217	228,710	-	3,112,927	1,539,084
Estimated liability for municipal solid waste landfill closure and postclosure care costs	8,516,770	408,000	-	8,924,770	-
Total	<u>\$ 36,885,073</u>	<u>1,391,710</u>	<u>1,940,424</u>	<u>36,336,359</u>	<u>\$ 3,030,610</u>

**a) Bonds and Notes 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

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as, to cover certain operating needs. Bonds and notes payable at June 30, 2010 is composed of the following debts:

	<u>Outstanding Amount</u>
<b>Public Improvement Bonds:</b>	
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	\$ 14,000
1995 serial bonds, original amount of \$550,000, due in annual principal installments ranging from \$27,000 to \$55,105; plus interest due in annual installments at a rate of 4.50% through January 1, 2020	348,105
Total public improvement bonds	<u>362,105</u>
<b>General Obligation Bonds:</b>	
1998 serial bonds, original amount of \$825,000, due in annual principal installments ranging from \$80,000 to \$90,000; plus interest due in annual installments at a rate of 4.50% through January 1, 2012	255,000
1996 serial bonds, original amount of \$5,105,000, due in annual principal installments ranging from \$210,000 to \$450,000; plus interest due in semiannual installments at rates not to exceed 6.63% through July 1, 2020	3,465,000
1999 serial bonds, original amount of \$4,590,000, due in annual principal installments ranging from \$140,000 to \$385,000; plus interest due in semiannual installments rates not to exceed 5.60% through July 1, 2024	3,635,000
1999 serial bonds, original amount of \$3,840,000, due in annual principal installments ranging from \$220,000 to \$370,000; plus interest due in semiannual installments rates not to exceed 5.01% through July 1, 2017	2,315,000
2003 serial bonds, original amount of \$705,000, due in annual principal installments ranging from \$20,000 to \$60,000; plus interest due in semiannual installments rates not to exceed 5.02% through July 1, 2027	605,000
2003 serial bonds, original amount of \$2,450,000, due in annual principal installments ranging from \$65,000 to \$190,000; plus interest due in semiannual installments rates not to exceed 5.02% through July 1, 2027	2,100,000
2004 serial bonds, original amount of \$1,810,000, due in annual principal installments ranging from \$70,000 to \$150,000; plus interest due in semiannual installments rates not to exceed 5.25% through July 1, 2023	1,475,000
2005 serial bonds, original amount of \$1,810,000, due in annual principal installments ranging from \$105,000 to \$170,000; plus interest due in semiannual installments rates not to exceed 4.73% through July 1, 2019	1,350,000
2005 serial bonds, original amount of \$4,745,000, due in annual principal installments ranging from \$125,000 to \$325,000; plus interest due in semiannual installments rates not to exceed 5.02% through July 1, 2029	4,195,000
Total general obligation bonds	<u>19,395,000</u>
<b>General Obligation Notes:</b>	
2009 general obligation note, original amount of \$400,000, due in annual principal installments ranging from \$45,000 to \$70,000; plus interest due in semiannual installments rates not to exceed 7.50% through July 1, 2016	400,000
2010 general obligation note, original amount of \$355,000, due in annual principal installments ranging from \$40,000 to \$60,000; plus interest due in semiannual installments rates not to exceed 7.50% through July 1, 2016	355,000
Total general obligation notes:	<u>755,000</u>

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	<u>Outstanding Amount</u>
Special Obligation Bonds:	
1997 serial bonds, original amount of \$400,000, due in annual principal installments ranging from \$25,000 to \$40,000; plus interest due in semiannual installments rates not to exceed 5.00% through July 1, 2016	205,000
Special Obligation Notes:	
2009 special obligation note, original amount of \$3,475,000, due in annual principal installments ranging from \$205,000 to \$420,000; plus interest due in semiannual installments at rates not to exceed 7.50% through July 1, 2020	3,290,000
Total bonds and notes payable	<u>\$ 24,007,105</u>

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:

<b>Year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 1,378,000	\$ 1,125,385	\$ 2,503,385
2012	1,479,000	1,217,351	2,696,351
2013	1,576,000	1,134,148	2,710,148
2014	1,582,000	1,047,314	2,629,314
2015	1,698,000	956,259	2,654,259
2016-2020	9,034,105	3,246,535	12,280,640
2021-2025	5,105,000	1,151,128	6,256,128
2026-2030	2,155,000	246,049	2,401,049
Totals	<u>\$ 24,007,105</u>	<u>\$ 10,124,169</u>	<u>\$ 34,131,274</u>

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**b) Property Tax Advances**

On October 27, 1994, the Municipality entered into a financing agreement to pay the debt related to the excess of property tax advances over collections made by the Puerto Rico Treasury Department. During the fiscal year ended on June 30, 2010 the debt was completely paid.

**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 principal installments ranging from \$54,639 to \$57,938; plus interest due in semiannual installments at a rate of 5.95% through November 28, 2011. At June 30, 2010, the balance of this note amounted to \$168,842. The principal and interest maturities are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 110,903	\$ 8,421	\$ 119,324
2012	57,939	1,724	59,663
Total	<u>\$ 168,842</u>	<u>\$ 10,145</u>	<u>\$ 178,987</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 \$1,292 to \$4,935; plus interest due in semiannual installments at a rate of 6.19% through July 1, 2032. At June 30, 2010, the balance of this note amounted to \$122,715. The principal and interest maturities are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,347	6,829	10,176
2016-2020	20,166	30,714	50,880
2021-2025	27,349	23,531	50,880
2026-2030	37,091	13,789	50,880
2031-2035	23,239	2,201	25,440
Total	<u>\$ 122,715</u>	<u>\$ 106,245</u>	<u>\$ 228,960</u>

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*d) Compensated Absences*

At June 30, 2010, 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	\$ 711,873	\$ 195,843	\$ 907,716
Sick leave	497,044	1,378,000	1,875,044
Compensatory time	330,167	-	330,167
Total	<u>\$1,539,084</u>	<u>\$ 1,573,843</u>	<u>\$ 3,112,927</u>

*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 \$8,924,770 in the accompanying GWFS, using estimated current costs allocated, based on an estimate of the actual landfill capacity used at June 30, 2010. The portion of the estimated current costs to be incurred in future years is approximately \$817,000. 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, 2010 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**

On September 2, 2010 the Municipality's executive branch approved Resolution Number 14, authorizing the issuance of a Special Note in the amount of \$178,900, for the purchase of equipment. This bond is payable with resources collected through the Municipal Redemption Fund.

**10. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following accounting standard that have effective date after June 30, 2010:

- ❖ 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.

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The Municipality's management has concluded that the future adoption of this GASB Statement will have a significant impact on the Municipality's basic financial statements.

**11. RESTATEMENTS**

During the current fiscal year, the Municipality revised its governmental activities, which resulted in the correction of an accounting error. This error consist principally in an adjustment of \$281,845, in the balance of a debt with the State Department of Treasury according to the agency confirmation.

The following schedule reconciles the June 30, 2009 net assets previously reported by the Municipality to the beginning net assets, as restated in the accompanying statement of activities:

<b>June 30, 2009, net assets, as previously reported</b>	<b>Government-wide Restatement</b>	<b>June 30, 2009, net assets, as restated</b>
\$ 80,568,397	\$ 281,845	\$ 80,850,242

**COMMONWEALTH OF PUERTO RICO**  
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**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL**  
**BUDGETARY BASIS – GENERAL FUND**  
**JUNE 30, 2010**

	<u>Budgeted Amounts</u>		Actual amounts (budgetary basis)	Variance with final budget - over (under)
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes	\$6,198,200	\$6,198,200	\$6,198,200	\$ -
Municipal license taxes	8,025,000	8,025,000	7,633,804	(391,196)
Construction exise taxes	728,000	728,000	277,540	(450,460)
Charges for services	180,854	180,854	142,320	(38,534)
Intergovernmental grants and contributions	2,722,395	3,473,331	1,697,136	(1,776,195)
Investment earnings	290,500	290,500	105,144	(185,356)
Miscellaneous	254,000	254,000	244,907	(9,093)
Total revenues	<u>18,398,949</u>	<u>19,149,885</u>	<u>16,299,051</u>	<u>(2,850,834)</u>
<b>Expenditures:</b>				
Current:				
General government	8,161,531	9,279,412	7,190,176	2,089,236
Public safety	2,276,286	2,108,335	1,999,114	109,221
Public works	3,879,792	4,036,665	3,828,304	208,361
Culture and recreation	1,465,866	1,425,985	1,349,821	76,164
Health, sanitation and Welfare	2,615,474	2,299,488	2,217,437	82,051
Total expenditures	<u>18,398,949</u>	<u>19,149,885</u>	<u>16,584,852</u>	<u>2,565,033</u>
<b>Excess of revenues over expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (285,801)</u>	<u>\$ (285,801)</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of financial resources:</b>				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule				\$ 16,299,051
Differences - budget basis to GAAP:				
Net decrease in receivables				2,810,606
Resources considered revenues for financial reporting but not for budgetary purposes				3,246,440
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 22,356,097</u>
<b>Uses/outflows of financial resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 16,584,852
Differences - budget basis to GAAP:				
Net increase in payables				2,686,454
Nonbudget expenditures				3,013,247
Prior year encumbrances recorded as current year expenditures for GAAP basis				334,563
Current-year encumbrances recorded as current expenditures for Budgetary basis				(607,518)
Resources considered expenditures for budgetary but are not expenses for financial reporting purposes				(300,000)
Operating transfer-out to other funds				(239,331)
Operating transfer-out to other funds				(33,524)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 21,438,743</u>

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

**COMMONWEALTH OF PUERTO RICO**  
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**NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**FISCAL YEAR ENDED JUNE 30, 2010**

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 use 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.

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**NOTES TO BUDGETARY COMPARISON SCHEDULE – DEBT SERVICE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2010**

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget- over (under)
	Original	Final		
Revenues:				
Property taxes	\$3,699,518	3,699,518	5,217,784	\$ 1,518,266
Total revenues	<u>3,699,518</u>	<u>3,699,518</u>	<u>5,217,784</u>	<u>1,518,266</u>
Expenditures:				
Debt service:				
Principal	1,018,043	1,018,043	1,061,643	43,600
Interest	1,062,000	1,062,000	1,572,000	510,000
Reserva	1,619,475	1,619,475	-	(1,619,475)
Total expenditures	<u>\$3,699,518</u>	<u>\$3,699,518</u>	<u>2,633,643</u>	<u>\$ (1,065,875)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,584,141</u>	<u>\$ 2,584,141</u>

**Reconciliation of differences:**

Sources/inflows of financial resources:

Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	\$ 5,217,784
Differences - budgetary basis to GAAP:	
Resources considered revenues for financial reporting but not for budgetary purposes	521,594
Differences in bases of accounting:	
Net decrease in property tax receivable	<u>(211,587)</u>

Total revenues reported on the statement of revenue, expenditures and changes in fund balances - governmental funds	<u>\$ 5,527,791</u>
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Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,633,643
Differences - budgetary basis to GAAP:	
Resources considered expenses for financial reporting purposes but are not expenditures for budgetary purposes	286,175
Differences in bases of accounting:	
Net decrease in matured bonds due and payable	(425,000)
Net increase in matured interest due and payable	<u>(29,047)</u>
Total expenditures reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 2,465,771</u>

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

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**NOTES TO BUDGETARY COMPARISON SCHEDULE – DEBT SERVICE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2010**

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, 2010.

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.

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<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>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Direct Program:			
Water and Waste Disposal System for Rural Communities	10.760		\$ 137,847
Pass-Through – State Department of Education:			
Child and Adult Care Food Program	10.558	CCC-248	<u>1,277,074</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>1,414,921</u></b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Program:			
Community Development Block Grant – Entitlement Grants	14.218		298,586
Urban Development Action Grants	14.221		4,501
Section 8 Housing Choice Vouchers Program	14.871		885,787
Pass-Through – State Department of Family:			
Homelessness Prevention and Rapid Re- housing Program ( <b>Recovery Act Funded</b> )	14.257	NAV	<u>58,199</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>1,247,073</u></b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
Pass-Through – State Governor Office			
Disaster Grants – Public Assistance	97.036	N/AV	104,168
Homeland Security Grant Program	97.067	N/AV	<u>23,996</u>
<b>Total U.S. Department of Homeland Security:</b>			<b><u>128,164</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<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>
<b>U.S. DEPARTMENT OF LABOR</b>			
Pass-Through – Puerto Rico Human Resources and Occupational Development Council:			
WIA Adult Program	17.258	2010-000107	130,411
<b>Total U.S. Department of Labor:</b>			<u>130,411</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Pass-Through – Transit Safety Commission of the Commonwealth of Puerto Rico:			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/AV	7,855
<b>Total U.S. Department of Transportation:</b>			<u>7,855</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE</b>			
Pass-Through – State Administration for Children and Families:			
Head Start Program	93.600	241-2009-000195 241-2010-000200	10,490,488
ARRA- Head Start Program	93.708	02SE9944/01	150,442
Total Head Start Cluster			<u>10,640,930</u>
<b>Total U.S. Department of Health and Human Service:</b>			<u>10,640,930</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><b>\$ 13,569,354</b></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, 2010**

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**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 C. 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**

We 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, 2010, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 26, 2011. The report on the governmental fund financial statements was unqualified. In addition, the the report on the governmental wide financial statement has an adverse opinion because we were unable to obtain competent evidential matter related to the capital assets including the infrastructure and the solid waste landfill liability. 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not design to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Findings 10-III-01, 10-III-02 and 10-III-03.

**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)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality'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 matters that we reported to management of the Municipality in a separate letter dated March 26, 2011.

The Municipality's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Municipality's response and, accordingly, we 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, others within the entity and the Office of the Commissioner of Municipal Affairs, 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 Lédée, CPA  
License Number 5200

Guayama, Puerto Rico  
March 26, 2011



*Pedro E. Ortíz Ledée*

**Certified Public Accountant**

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

**133**

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

**Compliance**

We have audited Municipality of **Guayama**, Puerto Rico (Municipality) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality's major federal programs for the fiscal year ended June 30, 2010. 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. Our responsibility is to express an opinion on Municipality's compliance based on our audit.

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

As described in items 10-III-04, 10-III-06 and 10-III-09 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Cash Management, Matching, Level of Effort and Earmarking, and Reporting that are applicable to its Head Start Cluster. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 10-III-12, 10-III-14 and 10-III-15 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Cash Management, Procurement, Suspension and Debarment and Reporting that are applicable to its Child and Adult Care Food Program. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

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

In our opinion, except for the noncompliance described in the preceding paragraphs, the Municipality complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 10-III-05, 10-III-07, 10-III-08, 10-III-10, 10-III-11 and 10-III-13.

**Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we considered to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-III-04, 10-III-06, 10-III-09, 10-III-12, 10-III-14 and 10-III-15 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We considered the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as items 10-III-05, 10-III-07, 10-III-08, 10-III-10, 10-III-11 and 10-III-13 to be significant deficiencies.

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

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

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

Guayama, Puerto Rico  
March 26, 2011



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued:	<b>Unqualified for fund financial statement and adverse for governmental-wide financial statements</b>	
Internal control over financial reporting:		
Material weakness identified?	Yes <b>X</b>	No
Significant deficiencies identified?	Yes	None reported <b>X</b>
Noncompliance material to financial statements noted?	Yes	No <b>X</b>

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes <b>X</b>	No
Significant deficiencies identified?	Yes <b>X</b>	None reported
Type of auditor’s report issued on compliance for major programs:	<b>Qualified, except for Section 8 Housing Choice Voucher</b>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <b>X</b>	No

**Identification of major programs**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
14.871	Section 8 Housing Choice Voucher Program
93.600/ 93.708	Head Start Program Cluster
Dollar threshold used to distinguish between Type A and Type B programs	\$407,081
Auditee qualified as low-risk auditee?	Yes                      No <b>X</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING</b>	<b>10-II-01</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS AND REPORTING SYSTEM</b>
<b>CONDITION</b>	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).
<b>CONTEXT</b>	<p>During our examination of the accounting cycle, we 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, we noted the following conditions during our evaluation of the accounting cycle:</p> <ul style="list-style-type: none"><li>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.</li><li>b. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds.</li></ul>
<b>CRITERIA</b>	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.
<b>CAUSE</b>	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, 2010

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING</b>	<b>10-II-01 (CONTINUED)</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS AND REPORTING SYSTEM</b>
<b>EFFECT</b>	The Municipality is not in compliance with Articles 8.010 (b) and (c) of the State Law Number 81 of August 30, 1991.
<b>RECOMMENDATION</b>	We 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.
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	<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, in coordination with our external consultants. We will continue with this practice until we acquire new accounting software. Also, we acquire new accounting software for the accounting transactions related to revenues.</p> <p>Responsible Person: Amilcar Ayala Finance Department Director</p> <p>Implementation Date: December, 2011</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SECTION II – FINANCIAL STATEMENTS FINDINGS

<b>FINDING</b>	<b>10-II-02</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS- CAPITAL ASSETS</b>
<b>CONDITION</b>	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
<b>CONTEXT</b>	During our examination of the property records, we 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.
<b>CRITERIA</b>	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.
<b>CAUSE</b>	The Municipality did not maintain an adequate control of the accountability of its capital assets.
<b>EFFECT</b>	The Municipality is not in compliance with Article 8.010 (c) (3) of the State Law Number 81 of August 30, 1991.
<b>RECOMMENDATION</b>	We recommend management and the Property Division of the Municipality to make an inventory of the capital assets, supported by adequate documentation and reconcile it with the capital assets subsidiary ledger.
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	The Finance Department is scheduling an update of its capital assets inventory to comply with GASB 34. We have plans to perform periodical physical inventories of Municipality's capital assets. Also we are considering the Municipality's infrastructure inventory compose of streets, roads and bridges.

Responsible Person: Amilcar Ayala  
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, 2010

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING NUMBER</b>	<b>10-II-03</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS</b>
<b>CONDITION</b>	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.
<b>CONTEXT</b>	At June 30, 2010, 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.
<b>CRITERIA</b>	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, 2010.
<b>CAUSE</b>	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.
<b>EFFECT</b>	The Municipality is not in compliance with GASB 18 and the "Solid Waste Disposal Facility Criteria" issued by the U.S. Environmental Protection Agency.
<b>RECOMMENDATION</b>	We 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, 2010

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SECTION II – FINANCIAL STATEMENTS FINDINGS

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<b>FINDING NUMBER</b>	<b>10-II-03 (CONTINUED)</b>
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS</b>
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	<p>The Municipality's management gave instructions to request a confirmation from the external consultant, in charge of the 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, 2011.</p> <p>Responsible Person: Juan M. Ortiz Public Works 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, 2010

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	10-III-04
<b>FEDERAL PROGRAM</b>	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)  ARRA- HEAD START (CFDA NO. 93.708) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	CASH MANAGEMENT
<b>CONDITION</b>	The Municipality did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.
<b>CONTEXT</b>	During our Cash Management test, we noted that the Municipality maintained an average cash balance of approximately \$817,908 and \$35,727 in the Head Start and ARRA Head Start books, respectively. In addition, the Programs did not disburse in a timely manner the request of funds advanced by the pass-through entity.
<b>CRITERIA</b>	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.
<b>CAUSE</b>	The Municipality did not maintain appropriate cash management procedures in order to disburse the funds requested to the pass-through entity in a timely manner.
<b>EFFECT</b>	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7).
<b>RECOMMENDATION</b>	We 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	10-III-04 (CONTINUED)
<b>FEDERAL PROGRAM</b>	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)  ARRA- HEAD START (CFDA NO. 93.708) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	CASH MANAGEMENT
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	We gave instructions to the Program's accounting department to request the monthly advances according to the actual obligations for the month. In addition, the Program will continue strengthening the internal controls and the procedures to minimize the time between the receipt of the request of funds and the disbursements.  Responsible Person: Diana Pomales Head Start Program Director Implementation Date: April, 2011

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	10-III-05
<b>FEDERAL PROGRAM</b>	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)
<b>REQUIREMENT</b>	INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	DAVIS-BACON ACT
<b>CONDITION</b>	The Program disbursed funds without obtaining the payrolls required by the Davis-Bacon Act.
<b>CONTEXT</b>	During our grant disbursement test, we noted that the Program disbursed funds amounting to \$24,893 for construction improvements in one Head Start center (Las Antillas) and found that the Program did not obtain the weekly certified payrolls from the contractors.
<b>CRITERIA</b>	Davis- Bacon Act, 42 USC 5310.
<b>CAUSE</b>	The Program failed to apply all the monitoring procedures developed to test applicable contractors with respect to the payment of prevailing wages.
<b>EFFECT</b>	The Program is not in compliance with Davis- Bacon Act, 42 USC 5310.
<b>RECOMMENDATION</b>	We 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.
<b>QUESTIONED COSTS</b>	None

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>10-III-05 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>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)</b>
<b>REQUIREMENT</b>	<b>INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>DAVIS-BACON ACT</b>
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	<p>The responsible employee has been properly advised of the need to obtain and monitor the contractor certificated payrolls related to all construction projects and assures that the contractors' employees' wages were in accordance to the Department of Labor regulations.</p> <p>Responsible Person: Diana Pomales Head Start Program Director</p> <p>Implementation Date: April, 2011</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	10-III-06
<b>FEDERAL PROGRAM</b>	<p>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)</p> <p>ARRA- HEAD START (CFDA NO. 93.708) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)</p>
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	MATCHING, LEVEL OF EFFORT, EARMARKING
<b>CONDITION</b>	The Municipality did not maintain accurate accounting records and proper documentation over the in kind contributions of the Programs during fiscal year 2009-2010. Also, the Head Start Program did not maintain adequate procedures to account the 15% administrative earmark.
<b>CONTEXT</b>	<p>During our Matching test, we examined two (2) months (September 2009 and February 2010) of the in kind contributions of the Head Start Program and noted that the accounting records did not agree with the supporting documentation and with the monthly reports submitted to the pass-through entity. Also, we did not found evidence of the in kind contributions reported in the quarterly reports of the ARRA- Head Start Program.</p> <p>In addition, during our examination of the accounting records, we noted that the Municipality did not maintain a current and complete general ledger which adequately separates the administrative and programmatic costs of the Head Start Program. Also, the February 2010 (the last month of the Head Start Program year) trial balance did not include the expenditures accounts of the administrative costs.</p>
<b>CRITERIA</b>	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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>10-III-06</b>
<b>FEDERAL PROGRAM</b>	<b>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)</b>  <b>ARRA- HEAD START (CFDA NO. 93.708) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>MATCHING, LEVEL OF EFFORT, EARMARKING</b>
<b>CRITERIA</b>	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.
<b>CAUSE</b>	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 of both Programs. Also, the Municipality did not maintain adequate separation between the administrative and program costs in the Head Start Program records.
<b>EFFECT</b>	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 Head Start Program did not exceed the 15% of the approved costs.
<b>RECOMMENDATION</b>	We 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, we recommended management to maintain adequate and accurate accounting records capable of determining the 15% administrative earmark.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>10-III-06 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>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)</b>  <b>ARRA- HEAD START (CFDA NO. 93.708) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>MATCHING, LEVEL OF EFFORT, EARMARKING</b>
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	Municipality's management gave instructions to the responsible employees 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 agree with the accounting records. Also, should be aware that the Program complies monthly with the amount required by the pass-through entity. In addition, we will improve our accounting records to appropriately separate the administrative and programmatic costs.  Responsible Person: Diana Pomales Head Start Program Director Implementation Date: May, 2011

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	10-III-07
<b>FEDERAL PROGRAM</b>	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)
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	PERIOD OF AVAILABILITY
<b>CONDITION</b>	The Program disbursed funds for goods and services received after the period of availability.
<b>CONTEXT</b>	The Program obtained a waiver in September 18, 2009 to liquidate the outstanding obligations at February 28, 2009. During our grant disbursement test, we examined thirty four (34) voucher payments and noted that the Program disbursed funds amounting to \$74,498, for the purchase of equipment and office and educational materials, which were received after the period of availability. These obligations were not accounts payables at the end of the period of availability.
<b>CRITERIA</b>	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.
<b>CAUSE</b>	The Program failed to obligate, in a timely manner, the purchases of equipment and materials.
<b>EFFECT</b>	The Program 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.

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>10-III-07 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>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)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PERIOD OF AVAILABILITY</b>
<b>RECOMMENDATION</b>	We 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.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	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: March, 2011

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>10-III-08</b>
<b>FEDERAL PROGRAM</b>	<b>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)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PROCUREMENT, SUSPENSION AND DEBARMENT TESTS</b>
<b>CONDITION</b>	The Program disbursed funds during fiscal year 2009-2010 not in accordance with the adequate procurement process established by the Federal and State regulations.
<b>CONTEXT</b>	During our grant disbursements test, we examined thirty four (34) non payroll voucher payments and noted that there was no evidence of an adequate acquisition process (procurement) for one (1) purchase of educational material, amounting to \$57,896.
<b>CRITERIA</b>	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.
<b>CAUSE</b>	The Program does not perform an appropriate procurement process because failed to document adequately the adjudication process.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulations 45, Section 92.36 (c) (1).
<b>RECOMMENDATION</b>	We recommend management to implement procedures in order to obtain and maintain all the required documentation regards the procurement process, to comply with this requirement.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	To correct this condition, we will continue strengthening our internal controls over the acquisition process of the Municipality by documenting adequately this process.  Responsible Person: Diana Pomaes Head Start Program Director Implementation Date: April, 2011

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>10-III-09</b>
<b>FEDERAL PROGRAM</b>	<b>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)</b>  <b>ARRA- HEAD START (CFDA NO. 93.708) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>REPORTING</b>
<b>CONDITION</b>	The Municipality did not maintained adequate internal controls of the accounting transactions of the Head Start and ARRA-Head Start programs.
<b>CONTEXT</b>	During our Reporting test, we noted that the Municipality does not maintained adequate accounting records and does not summarized the information of all the financial transactions related to assets, liabilities, revenues and expenditures of the Programs, in a formal general ledger. Also, we found differences between the amounts reported in the monthly reports submitted to the pass-through agency and the accounting records. In addition, evidence of the submission to the pass-through agency for two (2) months selected for evaluation, from both Programs, were not available for our examination.
<b>CRITERIA</b>	Code of Federal Regulations 45, 92.20 (2), states that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income.
<b>CAUSE</b>	The Program failed to establish adequate internal controls over the transactions recorded on its accounting records and the accurate submission of the monthly reports to the pass through agency.
<b>EFFECT</b>	The Program did not submit accurate monthly reports to the pass-through entity in order to comply with the federal regulation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>10-III-09 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>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)</b>
	<b>ARRA- HEAD START (CFDA NO. 93.708) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>REPORTING (CONTINUED)</b>
<b>RECOMMENDATION</b>	The Program should implement adequate procedures to ensure that financial information submitted to the pass-through entity in its monthly reports agrees with the accounting records maintain by the Program.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	To correct this situation we will give instructions to the Program accountant to maintain on a monthly basis, a general ledger that includes all the financial transactions related to assets, liabilities, revenues and expenditures of the Program. In addition, we will give instructions, to submit accurate monthly reports to the pass-through agency.
	Responsible Person: Diana Pomales Head Start Program Director
	Implementation Date: April, 2011

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>10-III-10</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ACTIVITIES ALLOWED OR UNALLOWED</b>
<b>CONDITION</b>	The Municipality renovated contracts during fiscal year 2009-2010 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 process established in the Federal regulation.
<b>CONTEXT</b>	<p>During our Eligibility test, we examined twenty five (25) participant's files and noted that the renovation contracts between the Municipality and the owners of units were not signed by the Mayor. These contracts were signed by a Program's employee.</p> <p>Also, we noted that the Program leased a unit owned by the Municipality. During our examination, we 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>
<b>CRITERIA</b>	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.
<b>CAUSE</b>	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.

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	10-III-10 (CONTINUED)
<b>FEDERAL PROGRAM</b>	SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	ACTIVITIES ALLOWED OR UNALLOWED
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 24, Subpart J, Section 982.451 (a) (l) 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).
<b>RECOMMENDATION</b>	We 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, we 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.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	We gave instructions to the responsible employee that the contracts formalized in the Municipality has to be sign by the Mayor or it's authorize representative. In addition, actually we did not have any property leased to the Program.  Responsible Person: Vanessa Velázquez Federal Program Department Director Implementation Date: May, 2011

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<b>FINDING NUMBER</b>	10-III-11
<b>FEDERAL PROGRAM</b>	SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	SPECIAL TEST- DEPOSITORY AGREEMENTS
<b>CONDITION</b>	The Municipality failed to enter in a depository agreement with its financial institution.
<b>CONTEXT</b>	During our evaluation, we did not identify evidence of a depository agreement in the form required by HUD with the depository institution of the Municipality.
<b>CRITERIA</b>	Code of Federal Regulation 24, Subpart D, Section 982.156 (a) states that unless otherwise required or permitted by HUD, all program receipts must be promptly deposited with a financial institution selected as depository by the PHA in accordance with HUD requirements. In addition, Code of Federal Regulations 24, 982.156 (c) states that the PHA must enter into an agreement with depository in the form required by HUD.
<b>CAUSE</b>	The Municipality's management failed to enter into agreements in the form required by HUD with its financial institution.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 24, Subpart D, Section 982.156 (a) and (c).
<b>RECOMMENDATION</b>	We recommend management to contact its financial institution and formalize, as soon as possible, the depository agreement in the form established by HUD.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	We gave instructions that the contracts formalized in the Municipality has to be sign by the Mayor or it's authorize representative.  Responsible Person: Vanessa Velázquez Federal Program Department Director Implementation Date: March, 2011

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<b>FINDING NUMBER</b>	10-III-12
<b>FEDERAL PROGRAM</b>	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	CASH MANAGEMENT
<b>CONDITION</b>	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.
<b>CONTEXT</b>	During our Cash Management test, we noted that during the fiscal year 2009-2010, the Program maintained an average monthly cash balance of approximately \$316,082 in books.
<b>CRITERIA</b>	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.
<b>CAUSE</b>	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.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulations 7, Subpart C, Section 3016.20 (b) (7).
<b>RECOMMENDATION</b>	We 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.
<b>QUESTIONED COSTS</b>	None

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<b>FINDING NUMBER</b>	<b>10-III-12 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>CASH MANAGEMENT</b>
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	We gave instructions to the Program accounting department and the Finance Department to issue the checks in approximately three (3) days once the transfers of funds from the State are received.  Responsible Person: Diana Pomaes Head Start Program Director Implementation Date: April, 2011

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<b>FINDING NUMBER</b>	<b>10-III-13</b>
<b>FEDERAL PROGRAM</b>	<b>CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PERIOD OF AVAILABILITY</b>
<b>CONDITION</b>	The Program disbursed funds for goods after the period of availability.
<b>CONTEXT</b>	During our grant disbursement test, we examined eleven (11) voucher payments and noted that the Program disbursed funds, amounting to \$157,819 for the purchase of food for the months of August and September 2009, after the period of availability. Also, the Program prepared two purchase orders to pay these obligations in February 3, 2010, approximately three (3) months after the receiving of the goods.
<b>CRITERIA</b>	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.
<b>CAUSE</b>	The Program failed to obligate and liquidate, in a timely manner, the purchases for food for the Head Start centers.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 7, Subpart C, Section 3016.23 (b).
<b>RECOMMENDATION</b>	We 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.
<b>QUESTIONED COSTS</b>	None

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<b>FINDING NUMBER</b>	<b>10-III-13 (CONTINUED)</b>
<b>FEDERAL PROGRAM</b>	<b>CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PERIOD OF AVAILABILITY</b>
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	<p>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.</p> <p>Responsible Person: Diana Pomales Head Start Program Director</p> <p>Implementation Date: April, 2011</p>

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	10-III-14
<b>FEDERAL PROGRAM</b>	<b>CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PROCUREMENT, SUSPENSION AND DEBARMENT TEST</b>
<b>CONDITION</b>	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.
<b>CONTEXT</b>	<p>During our grant disbursement test, we 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 State regulations.</p> <p>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.</p>
<b>CRITERIA</b>	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"
<b>CAUSE</b>	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  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	10-III-14 (CONTINUED)
<b>FEDERAL PROGRAM</b>	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	PROCUREMENT, SUSPENSION AND DEBARMENT TESTS
<b>EFFECT</b>	The Municipality is not in compliance with Code of Federal Regulations 7, Subpart C, Sections 3016.36 (b) (2) and 3016.35.
<b>RECOMMENDATION</b>	We 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.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	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: April, 2011

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>10-III-15</b>
<b>FEDERAL PROGRAMS</b>	<b>CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>REPORTING</b>
<b>CONDITION</b>	The claims for reimbursement of meals to the pass-through entity were not supported with accurate meals counts and records.
<b>CONTEXT</b>	During our Reporting test, we 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 that indicates the number of meals served.
<b>CRITERIA</b>	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.
<b>CAUSE</b>	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.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulations 7, Subpart D, Section 226.10 (c).
<b>RECOMMENDATION</b>	We 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.
<b>QUESTIONED COSTS</b>	None

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING NUMBER</b>	<b>10-III-15 (CONTINUED)</b>
<b>FEDERAL PROGRAMS</b>	<b>CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>REPORTING</b>
<b>MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN</b>	We will give instruction to the responsible employee that the monthly claims reimbursements submitted to the pass-through entity, has to be supported by the count of meals and the records of the number of meals served.  Responsible Person: Diana Pomaes Head Start Program Director Implementation Date: May, 2011

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
09-III-04	Allowable Cost/ Cost Principles	93.600	\$87,101	No corrective action has been taken.  The auditors did not identified during fiscal year 2009-2010 transactions related to this finding.
09-III-05	Cash Management	93.600	None	No corrective action has been taken.  The auditor reissued the finding for the current year. Finding reference 10-III-04
09-III-06	Davis-Bacon Act	93.600	None	No corrective action has been taken.  The auditor reissued the finding for the current year. Finding reference 10-III-05
09-III-07	Matching, Level of Effort, Earmarking	93.600	None	No corrective action has been taken.  The auditor reissued the finding for the current year. Finding reference 10-III-06
09-III-08	Period of Availability	93.600	None	No corrective action has been taken.  The auditor reissued the finding for the current year. Finding reference 10-III-07
09-III-09	Procurement, Suspension and Debarment	93.600	None	Partially corrective action has been taken.  The auditor reissued the finding for the current year. Finding reference 10-III-08

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
09-III-10	Allowable Cost/ Cost Principles	14.218	None	No corrective action has been taken.  The auditors did not identified transactions related to these Federal program during fiscal year 2009-2010.
09-III-11	Equipment and Real Property Management	14.218	None	No corrective action has been taken.  The auditors did not identified transactions related to these Federal program during fiscal year 2009-2010.
09-III-12	Procurement and Suspension and Debarment	14.218	None	No corrective action has been taken.  The auditors did not identified transactions related to these Federal program during fiscal year 2009-2010.
09-III-13	Subrecipient Monitoring	14.218	None	No corrective action has been taken.  The auditors did not identified transactions related to these Federal program during fiscal year 2009-2010.
09-III-14	Activities Allowed or Unallowed	14.871	None	No corrective action has been taken.  The auditor reissued the finding for the current year. Finding reference 10-III-10
09-III-15	Cash Management	10.558	None	No corrective action has been taken.  The auditor reissued the finding for the current year. Finding reference 10-III-12
09-III-16	Period of Availability	10.558	None	No corrective action has been taken.  The auditor reissued the finding for the current year. Finding reference 10-III-13

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
09-III-17	Procurement and Suspension and Debarment	10.558	None	No corrective action has been taken.  The auditor reissued the finding for the current year. Finding reference 10-III-14
09-III-18	Reporting	10.558	None	No corrective action has been taken.  The auditor reissued the finding for the current year. Finding reference 10-III-15
08-05	Cash Management	93.600	None	No corrective action has been taken.  The auditor reissued the finding for the current year. Finding reference 10-III-04
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 10-III-06
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 10-III-06
07-06	Cash Management	93.600	None	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  
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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
07-07	Matching, Level of Effort, Earmarking – Matching	93.600	None	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.
07-08	Matching, Level of Effort, Earmarking – Administrative Cost Limits	93.600	None	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.