

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**  
**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**  
**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE GUAYANILLA**  
**AUDITORIA 2005-2006**  
**30 DE JUNIO DE 2006**

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYANILLA**  
**BASIC FINANCIAL STATEMENTS ACCOMPANIED BY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2006**

*CASH 7.6122*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2006

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**MUNICIPALITY OF GUAYANILLA, PUERTO RICO**

**SINGLE AUDIT REPORT  
JUNE 30, 2006**

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OMB CIRCULAR A-133**

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## **NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

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### **INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
the Municipal Legislature  
Municipality of Guayanilla  
Guayanilla, 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 Guayanilla, Puerto Rico**, as of and for the year ended June 30, 2006, 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, 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 third paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality of Guayanilla, Puerto Rico**, as of June 30, 2006, and the changes in financial position, thereof for the year then ended.

**INDEPENDENT AUDITORS' REPORT (Continued)**

In addition, in our opinion the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the Municipality of Guayanilla, Puerto Rico, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedule-General and Debt Service Funds on pages 39, 40 and 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

San Juan, Puerto Rico  
December 22, 2006

Stamp No. 2076449 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

*Nieves Velázquez & Co., P.S.C.*



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2006

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the Municipality of Guayanilla (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the fiscal year ended on June 30, 2006. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the following goals:

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

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, 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.

**FINANCIAL HIGHLIGHTS**

	Fiscal Years	
	Increase (decrease)	
	<u>2005-2006</u>	<u>2004-2005</u>
The Municipality changes in net assets	(\$1,555,003)	\$ 1,260,280
The governmental activities revenue	(\$2,877,739)	\$ 1,424,367
The governmental activities expenditures	(\$ 709,255)	\$ 96,304
The General Fund (the primary operating fund) on a current financial resource basis	(\$ 811,067)	\$ 440,876
Actual revenues (expenses) exceeded actual expenditures (revenues)- on a budgetary basis	(\$ 53,055)	\$ 286,820

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

**FINANCIAL HIGHLIGHTS (Continued)**

	Fiscal Years	
	Increase (decrease)	
	<u>2005-2006</u>	<u>2004-2005</u>
The Municipality issued bonds mainly to finance the capital projects, purchase of equipment and payment of operational debts	\$ 835,000	\$ 1,910,000

**USING THIS ANNUAL REPORT**

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

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

**Government-Wide Financial Statements**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

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**Fund Financial Statements**

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

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

**Infrastructure Assets**

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

The Municipality commenced the reporting of infrastructure assets during the prior fiscal year. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

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**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$ 10,942,900 at June 30, 2006, compared to \$12,497,903 at the end of the previous year, as restated.

The beginning Governmental Activities Net Assets has been restated by (\$617,157) to properly present the previously reported net assets at June 30, 2005. The restatement is mainly due to the correction of the cash balance erroneously reported in the Debt Service Fund by (\$556,000). In addition, the beginning Fund Balance for Special Revenue Fund-State & Local Grant Fund has been restated by (\$73,006) to properly presents the previously reported fund balances at June 30, 2005. Finally, the Restricted-Debt Service has been restated by \$11,849 to properly present the previously reported net assets at June 30, 2005.

The largest portion of the Municipality's net assets are invested in capital assets net of their related debt of \$18,055,339 (\$18,193,058 in previous year). The Municipality's net assets is also composed of net liabilities amounting to \$3,230,422 (\$4,321,346 in previous year) that are restricted for (1) future debt service payment, (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 an unrestricted deficit of \$10,342,861 (\$10,016,501 in previous year)

The unrestricted deficit is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences and other. 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (Continued)**

A decrease of \$2,588,801 in current assets was mainly due to a combination of the following events: (a) a significant reduction of cash available due to a decrease of State Legislature's grants, (b) in June 30, 2005 there was an Intergovernmental receivable of \$525,000 corresponding to a loan not disbursed, and (c) in June 30, 2005 there was not eliminated the accounts receivable and payable with the Electric Energy Authority for \$732,754.

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

**Condensed Statement of Net Assets**

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current assets	\$ 4,679,306	\$ 7,268,107
Capital assets	<u>24,190,339</u>	<u>23,953,907</u>
Total assets	<u>28,869,645</u>	<u>31,222,014</u>
Current liabilities	2,710,892	3,434,475
Non-current liabilities	<u>15,215,853</u>	<u>15,289,636</u>
Total liabilities	<u>17,926,745</u>	<u>18,724,111</u>
Invested in capital assets, net of related debt	18,055,339	18,193,058
Restricted	3,230,422	4,321,346
Unrestricted (deficit)	<u>(10,342,861)</u>	<u>(10,016,501)</u>
Total net assets	<u>\$10,942,900</u>	<u>\$12,497,903</u>

**Changes in Net Assets**

The Municipality's net assets decreased by (\$1,555,003) during the fiscal year 2005-06 but increased by \$1,230,638 in the prior fiscal year. Approximately 32 percent (29 percent in previous year) of the Municipality's total revenue came from taxes, while 67 percent (70 percent in previous year) resulted from restricted and unrestricted capital and operating grants, contributions and reimbursements, including federal financial assistance. Charges for Services provided less than 2 percent of the total revenues in fiscal year 2005-2006 (less than 1 percent of the total revenues in fiscal year 2004-2005). The Municipality's expenses cover a range of services. The largest expenses were for general government, health and welfare, community development, public safety, culture and recreation, economic development and public works.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (Continued)**

Decrease in "Operating grants and contributions revenue" was mainly due to a decrease in State Legislature grants from \$2.7 millions during fiscal year 2004-2005 to \$335,000 during the fiscal year 2005-2006.

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

**Condensed Statement of Activities**

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
<b>Program revenues:</b>		
Charges for services	\$ 192,399	\$ 114,944
Operating grants and contributions	3,643,321	6,641,526
Capital grants and contributions	1,348,600	1,107,278
<b>General revenues:</b>		
Property taxes	2,468,296	3,064,226
Municipal license tax	1,175,428	1,218,522
Grants and contributions not restricted to specific programs	3,291,645	2,930,876
Other local taxes	404,768	343,150
Interest and investment earnings	130,957	110,442
Miscellaneous	<u>153,860</u>	<u>156,049</u>
Total revenues	<u>12,809,274</u>	<u>15,687,013</u>
<b>Expense:</b>		
General government	3,308,590	3,870,350
Public safety	1,069,973	869,126
Public works	3,394,585	3,075,225
Culture and recreation	1,809,316	1,365,665
Health and welfare	763,171	3,100,037
Community development	836,344	99,384
Economic development	1,077,338	730,048
Education	221,588	270,326
Public lighting	842,058	734,546
Interest on long-term debt	<u>424,157</u>	<u>341,668</u>
Total expenses	<u>13,747,120</u>	<u>14,456,375</u>
Change in net assets	(937,846)	1,230,638
Net assets, beginning of year, as restated	<u>11,880,746</u>	<u>11,267,265</u>
Net assets, end of year	<u>\$10,942,900</u>	<u>\$12,497,903</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

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

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

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

The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$1,693,414 (\$3,563,632 in previous year), a decrease of (\$1,870,218) (a decrease of (\$911,385) in previous year) in comparison with the prior year. There are reservations of fund balance amounting to \$2,955,422 (\$4,321,346 in previous year). This is the fund balance that it is not available for new spending because it has already been committed: 1) to pay debt service by \$930,334 (\$1,630,907 in previous year), 2) to pay for capital projects by \$1,403,921 (\$1,060,491 in previous year), 3) for other purposes by \$590,464 (\$1,306,698 in previous year) and 4) to pay encumbrances by \$30,703 (\$53,250 in previous year).

The beginning Fund Balance for Debt Service Fund has been restated by \$556,000 to properly presents the previously reported fund balances at June 30, 2005. The restatement is mainly due to the correction of the cash balance erroneously reported. In addition, the beginning Fund Balance for Special Revenue Fund-State & Local Grant Fund has been restated by \$73,006 to properly presents the previously reported fund balances at June 30, 2005.

Within the governmental funds, it is included the general fund which is the main operating fund of the Municipality. As of June 30, 2006, the general fund has a fund balance of (\$1,282,008), (\$387,829) as of June 30, 2005), which will be amortized during a 40 year period, as required by state's law. The increase was due mainly to increase in the general government and public works expenditures categories.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

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**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2006, amounts to \$36,533,810 (\$34,525,683 in previous year), net of accumulated depreciation of \$12,343,471 (\$10,571,776 in previous year), leaving a net book value of \$24,190,339 (\$23,953,907 in previous year). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was \$1,723,307 (\$4,732,669 in previous year). Depreciation charges for the year totaled \$1,963,111 (\$ 1,353,784 in previous year).

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2006 the Municipality has \$1,448,928 (\$1,044,549 as of June 30, 2005) of unexpended proceeds from bond issuances that are committed to future construction activities.

**Debt Administration**

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

**Debt Administration (Continued)**

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

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

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

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

Those factors were considered when preparing the Municipality's budget for the 2005-2006 fiscal years.

**FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

Commonwealth of Puerto Rico  
Municipality of Guayanilla  
Statement of Net Assets  
June 30, 2006

		<u>Governmental Activities</u>
<b>Assets</b>		
Cash and cash equivalents		\$ 1,162,501
Cash with fiscal agent		2,722,954
Accounts receivable:		
Intergovernmental	\$ 683,313	
Others	<u>110,538</u>	793,851
Capital assets		
Land, improvements, and construction in progress	3,239,380	
Other capital assets, net of depreciation	<u>20,950,959</u>	<u>24,190,339</u>
 Total assets		 <u>28,869,645</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities		541,046
Due to other governmental entities		600,351
Interest payable		165,555
Deferred revenues:		
Municipal license tax	924,247	
Federal grants	<u>479,693</u>	1,403,940
Noncurrent liabilities:		
Due within one year	1,130,284	
Due in more than one year	<u>14,085,569</u>	<u>15,215,853</u>
 Total liabilities		 <u>17,926,745</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt		18,055,339
Restricted for:		
Capital projects	1,403,921	
Debt service	1,205,334	
Other purposes	<u>621,167</u>	3,230,422
Unrestricted (deficit)		<u>(10,342,861)</u>
 Total net assets		 <u>\$ 10,942,900</u>

Commonwealth of Puerto Rico  
Municipality of Guayanilla  
Statement of Activities  
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 3,308,590	-	178,279	-	(3,130,311)
Public safety	1,069,973	1,609	475,109	-	(593,255)
Public works	3,394,585	178,690	85,902	407,961	(2,722,032)
Health and welfare	1,809,316	-	843,836	-	(965,480)
Culture and recreation	763,171	12,100	64,409	275,568	(411,094)
Economic development	836,344	-	797,825	-	(38,519)
Community development	1,077,338	-	197,070	665,071	(215,197)
Education	221,588	-	219,495	-	(2,093)
Public lighting	842,058	-	781,396	-	(60,662)
Interest on long-term debt	424,157	-	-	-	(424,157)
<b>Total governmental activities</b>	<b>\$ 13,747,120</b>	<b>192,399</b>	<b>3,643,321</b>	<b>1,348,600</b>	<b>(8,562,800)</b>
General revenues:					
					2,468,296
					1,175,428
					404,768
					3,291,645
					130,957
					153,860
					<u>7,624,954</u>
					<u>(937,846)</u>
					12,497,903
					(629,006)
					11,849
					<u>11,880,746</u>
					<u>\$ 10,942,900</u>

**Commonwealth of Puerto Rico**  
**Municipality of Guayanilla**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 209,624	396,231	540,724	15,922	-	1,162,501
Cash with fiscal agent	32,409			1,448,928	1,241,617	2,722,954
Accounts receivable:						
Intergovernmental	-	45,766	499,891	-	-	545,657
Others	106,252	-	-	-	141,942	248,194
Due from other funds	1,360,219	1,243,827	62,852	6,025	-	2,672,923
<b>Total assets</b>	<b>1,708,504</b>	<b>1,685,824</b>	<b>1,103,467</b>	<b>1,470,875</b>	<b>1,383,559</b>	<b>7,352,229</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities :</b>						
Accounts payable and accrued liabilities	302,909	36,612	134,571	66,954	-	541,046
Due to other governmental entities	600,351	-	-	-	-	600,351
Due to other funds	1,079,893	1,160,941	419,419	-	12,670	2,672,923
Deferred revenues:						
Municipal license tax	924,247	-	-	-	-	924,247
Federal grant revenues	-	-	479,693	-	-	479,693
Mature bonds due and payable	-	-	-	-	275,000	275,000
Interest payable	-	-	-	-	165,555	165,555
<b>Total liabilities</b>	<b>2,907,400</b>	<b>1,197,553</b>	<b>1,033,683</b>	<b>66,954</b>	<b>453,225</b>	<b>5,058,815</b>
<b>Fund balances:</b>						
<b>Reserved for:</b>						
Encumbrances	30,703	-	-	-	-	30,703
Capital projects	-	-	-	1,403,921	-	1,403,921
Other purposes	32,409	488,271	69,784	-	-	590,464
<b>Reserved reported in nonmajor funds:</b>						
Debt service fund	-	-	-	-	930,334	930,334
<b>Unreserved:</b>						
Undesigned (deficit)	(1,262,008)	-	-	-	-	(1,262,008)
<b>Total fund balances</b>	<b>(1,198,896)</b>	<b>488,271</b>	<b>69,784</b>	<b>1,403,921</b>	<b>930,334</b>	<b>1,693,414</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,708,504</b>	<b>1,685,824</b>	<b>1,103,467</b>	<b>1,470,875</b>	<b>1,383,559</b>	<b>7,352,229</b>

Commonwealth of Puerto Rico  
Municipality of Guayanilla  
Reconciliation of Balance Sheet- Governmental Funds  
to the Statement of Net Assets  
June 30, 2006

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Agregate fund balance reported in the balance sheet- governmental funds \$ 1,693,414

Governmental activities' amounts reported in the statement of net assets and the balance sheet - governmental funds are different because:

Assets not available to pay current period expenditures not reported in the governmental funds  
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the governmental funds 24,190,339

The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds:

Bonds payable	(7,505,000)
Notes payable	(395,000)
Property Tax – Department of Treasury	(2,421,452)
Property Tax – CRIM – Law 42	(2,609,246)
Property Tax – CRIM – Law 146	(226,491)
Property Tax Advanced – CRIM	(394,186)
Compensated absences debt	(1,211,849)
Claims and judgments debt	<u>(177,629)</u>

Net Assets reported in the accompanying statement of net assets \$ 10,942,900

Commonwealth of Puerto Rico  
Municipality of Guayanilla  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2006

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 1,912,365	-	-	-	640,613	2,552,978
Municipal license taxes	1,175,428	-	-	-	-	1,175,428
Licenses permits and other local taxes	418,628	-	-	-	-	418,628
Charges for services	192,399	-	-	-	-	192,399
Intergovernmental	4,251,301	1,195,923	-	275,568	-	5,722,792
Interest	130,957	-	-	-	-	130,957
Federal grants	-	-	2,560,776	-	-	2,560,776
Miscellaneous	139,891	108	-	-	-	139,999
<b>Total revenues</b>	<b>8,220,969</b>	<b>1,196,031</b>	<b>2,560,776</b>	<b>275,568</b>	<b>640,613</b>	<b>12,893,957</b>
<b>Expenditures</b>						
<b>Current:</b>						
General government	3,752,211	9,804	20	-	-	3,762,035
Public safety	393,726	153,817	467,840	-	-	1,015,383
Public works	2,474,957	464,249	251,553	447,649	-	3,638,408
Health and welfare	798,284	220,047	703,218	-	-	1,721,549
Culture and recreation	577,829	169,817	64,109	286,935	-	1,098,690
Economic development	-	797,825	-	32,554	-	830,379
Community development	-	-	862,141	-	-	862,141
Education	-	9,474	211,895	-	-	221,369
Public Lighting	842,058	-	-	-	-	842,058
<b>Debt service:</b>						
Principal	-	-	-	-	624,060	624,060
Interest	-	-	-	-	354,097	354,097
<b>Total expenditures</b>	<b>8,839,065</b>	<b>1,825,033</b>	<b>2,560,776</b>	<b>767,138</b>	<b>978,157</b>	<b>14,970,169</b>
Excess (deficiency) of revenues over (under) expenditures	(618,096)	(629,002)	-	(491,570)	(337,544)	(2,076,212)
<b>Other financing sources (uses)</b>						
Transfers in	99,338	-	-	-	292,309	391,647
Transfers out	(292,309)	-	-	-	(99,338)	(391,647)
Long-term debt issued	-	-	-	835,000	-	835,000
<b>Total other financing sources (uses)</b>	<b>(192,971)</b>	<b>-</b>	<b>-</b>	<b>835,000</b>	<b>192,971</b>	<b>835,000</b>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(811,067)	(629,002)	-	343,430	(144,573)	(1,241,212)
Beginning fund balance restatements	-	(73,006)	-	-	(556,000)	(629,006)
Fund balance beginning, as restated	(387,829)	1,190,279	69,784	1,060,491	1,630,907	3,563,632
Fund balance, ending	(1,198,896)	488,271	69,784	1,403,921	930,334	1,693,414

*Handwritten signature and date:*  
04/03/2007

Commonwealth of Puerto Rico  
Municipality of Guayanilla  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2006

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Net Change in Fund Balances - Total Governmental Funds \$ (1,241,212)

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

Governmental Funds report capital outlays as expenditures. However in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 2,199,543

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (1,963,111)

Some expenditures reported in the Governmental Funds require the use of current financial resources, but are not reported as expenses in the Statement of Activities. 273,902

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds. 74,032

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments. (281,000)

Change in Net Assets of Governmental Activities \$ (937,846)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The **Municipality of Guayanilla** (the Municipality) was founded on the year 1833. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen member Municipal Legislature who are elected for a four-year term.

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

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. This result in the recognition of the costs incurred during the fiscal year ended June 30, 2003 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks). The Municipality expects to report the retroactive historical costs of all of its infrastructure assets during the fiscal year beginning on July 1, 2003.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds. Accordingly, beginning fund balances were restated as explained in Note 12.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

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

**A. Component Units**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions. The Municipality did not have any component unit at June 30, 2006.

**B. Government-wide and fund financial statements**

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

---

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

B. Government-wide and fund financial statements (Continued)

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

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

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

**Special Revenue Fund – Local and State Grants** – is the accounting entity in which revenues derived from local funds, state or other restricted revenue source is accounted for the uses and limitations specified by Municipality ordinances or state statutes.

**Special Revenue Fund – Federal Grants** – is the accounting entity in which revenues derived from federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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

**Debt Service Fund** – is a major governmental fund by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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

B. Government-wide and fund financial statements (Continued)

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

C. Financial reporting presentation

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

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

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

**Special Revenue Fund - Local and State Grants -** Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

---

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

**D. Measurement focus, basis of accounting and financial presentation**

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

---

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

**D. Measurement focus, basis of accounting and financial presentation (Continued)**

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

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

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

**E. Assets, liabilities and net assets**

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

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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

E. Assets, liabilities and net assets (Continued)

2. Receivables and payables (Continued)

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

3. **Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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

E. Assets, liabilities and net assets (Continued)

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

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

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

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

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

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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

**E. Assets, liabilities and net assets (Continued)**

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

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

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2006 amounted to approximately \$150,533. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$257,642 for workers compensation insurance covering all municipal employees.

**2. DEPOSITS**

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

The Municipality's bank balances in commercial banks of approximately \$209,624, \$396,231, \$540,724, \$15,922 in the general fund, special revenue fund - state & local grants, special revenue fund - federal grants, and capital project fund - state & local grants, respectively, were fully collateralized at June 30, 2006.

The deposits at GDB of approximately \$1,448,928, that is restricted principally for capital projects in the capital project fund - state and local grants, the \$32,409 in the general fund that is principally for operational debts and the \$1,241,617 that is restricted for debt service fund in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

**3. RECEIVABLES**

**A. *Municipal License Tax***- The Municipality impose a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2006, the tax rates were as follows:

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

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2006, net of allowance for uncollectible.

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

**B. *Intergovernmental Receivables***- The amounts receivable from governmental entities are as follows:

Intergovernmental receivable in the Special Revenue Fund – State & Local Grants and Federal Grants represent \$45,766. Intergovernmental receivable in Federal Grants represent \$499,891 expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
<b><u>SRF- State and Local Grants:</u></b>	
Department of Work and Human Resources	\$ 45,766
<b><u>SRF- Federal Grants:</u></b>	
Community Development Block Grant – State’s Program	155,143
Department of Families and Child	71,572
Local Law Enforcement Block Grant	4,047
Public Safety Partnerships and Community Policing Grants	162,852
High Risk Young	63,137
FEMA – Mitigation Plan	11,983
Civil Defense	3,400
Other	<u>27,757</u>
Sub-Total	<u>499,891</u>
 Total	 <u>\$545,657</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

**3. RECEIVABLES (CONTINUED)**

**C. Other Receivables** – Other accounts receivable as of June 30, 2006 are as follows:

<u>Concept:</u>	<u>Amount</u>
<u>General Fund</u>	
Municipal licenses tax	\$ 5,743
Local taxes	68,333
Interest	10,274
Waste disposal	<u>21,902</u>
<b>Total</b>	<b>106,252</b>
<u>Debt Service Fund</u>	
Property Tax	<u>141,942</u>
<b>Total</b>	<b><u>\$248,194</u></b>

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2006, and interfund transfers during the fiscal year ended at June 30, 2006, are summarized as follows:

**a. Due from/to other fund:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund (SRF)- State & Local Grants (SLG)	Reimbursable Expenditures	\$950,277
General Fund	SRF – Federal Grants (FG)	Reimbursable Expenditures	397,272
General Fund	Debt Service Funds	Payment of Interest	12,670
SRF – SLG	SRF – Federal Grants	Reimbursable Expenditures	22,146
SRF – SLG	SRF – State & Local Grants	Reimbursable Expenditures	172,246
SRF – SLG	General Fund	Reimbursable Expenditures	1,049,435
CPF	General Fund	Reimbursable Expenditures	6,025
SRF – FG	General Fund	Reimbursable Expenditures	58,959
SRF – FG	SRF – State & Local Grants	Reimbursable Expenditures	<u>3,893</u>
<b>Total</b>			<b><u>\$2,672,923</u></b>

**b. Transfer in/out to other fund**

<u>Transfer out</u>	<u>Transfer In</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt retirement	\$ 292,309
Debt Service Fund	General Fund	Equipment acquisition	<u>99,338</u>
<b>Total</b>			<b><u>\$ 391,647</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

**5. CAPITAL ASSETS**

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<b><u>Governmental Activities:</u></b>	<b><u>Balance</u></b>	<b><u>Transfers in &amp;</u></b>	<b><u>Transfers out &amp;</u></b>	<b><u>Balance</u></b>
	<b><u>July 1, 2005</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>June 30, 2006</u></b>
<b>Capital asset, not being depreciated:</b>				
Land	\$ 1,530,385	-	-	1,530,385
Construction in progress	<u>5,738,773</u>	<u>1,708,995</u>	<u>(5,738,773)</u>	<u>1,708,995</u>
<b>Total capital assets not being depreciated</b>	<u>7,269,158</u>	<u>1,708,995</u>	<u>(5,738,773)</u>	<u>3,239,380</u>
<b>Capital assets, being depreciated:</b>				
Buildings	12,521,389	1,885,073	-	14,406,462
Buildings improvements	7,535,830	1,042,680	-	8,578,510
Infrastructure	1,335,472	2,811,020	-	4,146,492
Equipment	2,350,693	199,658	(191,416)	2,358,935
Vehicles	<u>3,513,141</u>	<u>290,890</u>	<u>-</u>	<u>3,804,031</u>
<b>Total capital assets being depreciated</b>	<u>27,256,525</u>	<u>6,229,321</u>	<u>(191,416)</u>	<u>33,294,430</u>
<b>Less accumulated depreciation for:</b>				
Buildings	4,440,967	504,738	-	4,945,705
Buildings improvements	1,941,699	270,439	-	2,212,138
Infrastructure	322,998	678,321	-	1,001,319
Equipment	1,475,597	224,231	(191,416)	1,508,412
Vehicles	<u>2,390,515</u>	<u>285,382</u>	<u>-</u>	<u>2,675,897</u>
<b>Total accumulated depreciation</b>	<u>10,571,776</u>	<u>1,963,111</u>	<u>(191,416)</u>	<u>12,343,471</u>
<b>Total capital assets being depreciated, net</b>	<u>16,684,749</u>	<u>4,266,210</u>	<u>-</u>	<u>20,950,959</u>
<b>Governmental activities capital assets, net</b>	<u>\$23,953,907</u>	<u>5,975,205</u>	<u>(5,738,773)</u>	<u>24,190,339</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

5. CAPITAL ASSETS (CONTINUED)

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

**Governmental activities:**

General government	\$ 78,980
Public safety	71,929
Public works	1,005,968
Culture and recreation	418,021
Health and welfare	90,767
Community development	267,176
Economic development	30,051
Education	<u>219</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$1,963,111</u></b>

6. PROPERTY TAXES

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

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a long-term liability to the CRIM is reported in the government-wide financial statements at June 30. During the fiscal year 2005-2006 the CRIM advanced to the Municipality of Guayanilla the amount of \$84,682 more than the tax actually collected by the CRIM which will be paid during the fiscal year 2007-2008.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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6. PROPERTY TAXES (CONTINUED)

On August 14, 2002 the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2006, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$2,421,452 and is payable as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 12,000
2008	36,000
2009	66,000
2010	102,000
2011	120,000
Thereafter	<u>2,085,452</u>
<b>Total</b>	<b><u>\$2,421,452</u></b>

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. On October 11, 2001, Public Law 146 was enacted to amend Public Law 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2002, Public Law 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law 42 enacted on January 26, 2000.

On June 26, 1997, Public Law 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

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**6. PROPERTY TAXES (CONTINUED)**

A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction. Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government wide statement of net assets includes an outstanding debt balance of \$2,609,246 and \$226,491 related to Law 42 and Law 146, respectively.

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

The annual tax rate is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

**7. DEFERRED REVENUES**

**A. Municipal License Tax-** The deferred revenues of approximately \$924,247 in the general fund relates to municipal license tax collected in fiscal year 2005-06 that will be earned in fiscal year 2006-07.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

**7. DEFERRED REVENUES (CONTINUED)**

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

<u>Program Description</u>	<u>Amount</u>
<u>Special Revenue Fund – Federal Grants</u>	
Public Assistance Grant	\$268,048
Federal Transit: Capital Investment Grants	34,501
Child and Adult Care Food Program	51,040
Section 8 – Housing Choice Voucher	124,724
Other	<u>1,380</u>
<b>Total</b>	<b><u>\$479,693</u></b>

**8. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2006, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 7,234,000	835,000	289,000	7,780,000	374,000
Notes Payable	655,000		260,000	395,000	125,000
Property Tax – Department of Treasury	2,421,452	-	-	2,421,452	-
Property Tax – CRIM – “Law 42”	2,883,148	-	273,902	2,609,246	273,902
Property Tax – CRIM – “Law 146”	226,491	-	-	226,491	-
Property Tax Advance- CRIM	309,504	84,682	-	394,186	309,504
Compensated Absences	1,418,192	533,346	739,689	1,211,849	47,878
Claims and judgments	<u>130,000</u>	<u>49,289</u>	<u>1,660</u>	<u>177,629</u>	<u>-</u>
<b>Total</b>	<b><u>\$15,277,787</u></b>	<b><u>1,502,317</u></b>	<b><u>1,564,251</u></b>	<b><u>15,215,853</u></b>	<b><u>1,130,284</u></b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

**8. LONG-TERM LIABILITIES (CONTINUED)**

**2. Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition of equipment, construction projects and operational loans payments. During the current year, the Municipality issued bonds for \$835,000. Bonds payable outstanding at June 30, 2006 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2006</u>
1983 Series	1/1/2008	\$ 285,000	9.50% - 10.63%	\$ 57,000
1987 Series	1/1/2011	194,000	5.00%	67,000
1988 Series	1/1/2013	270,000	5.00%	120,000
1994 Series	7/1/2008	260,000	5.00% - 7.61%	80,000
1996 Series	1/1/2020	238,000	4.50%	194,000
1998 Series	1/1/2022	122,000	4.50%	107,000
1998 Series	7/1/2023	715,000	2.70% - 6.13%	645,000
2001 Series	7/1/2025	1,300,000	5.00% - 7.50%	1,195,000
2003 Series	7/1/2027	1,230,000	5.00% - 6.50%	1,165,000
2003 Series	7/1/2027	405,000	5.00% - 6.50%	385,000
2003 Series	7/1/2027	875,000	5.00% - 6.00%	805,000
2004 Series	7/1/2028	330,000	4.00% - 5.00%	320,000
2004 Series	7/1/2012	525,000	3.28% - 5.00%	460,000
2005 Series	7/1/2010	130,000	4.37% - 5.00%	105,000
2005 Series	7/1/2025	730,000	4.37% - 5.00%	715,000
2005 Series	7/1/2015	525,000	5.00% - 5.50%	525,000
2006 Series	7/1/2025	835,000	4.77% - 5.31%	<u>835,000</u>

**Total general obligation bonds** \$7,780,000

These bonds, except the bonds of \$875,000, are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 364,000	\$ 433,390
2008	399,000	427,748
2009	395,000	402,980
2010	388,000	381,932
2011	376,000	361,484
2012-2016	1,691,000	1,518,833
2017-2021	1,718,000	1,028,265
2022-2026	2,064,000	450,618
2027-2030	<u>385,000</u>	<u>29,100</u>
<b>Total</b>	<u>\$7,780,000</u>	<u>\$5,034,350</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

**8. LONG-TERM LIABILITIES (CONTINUED)**

- 3. Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2006</u>
2003 Series	7/1/2009	\$820,000	5.00% - 6.00%	<u>\$395,000</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$125,000	\$ 27,150
2008	130,000	19,950
2009	140,000	12,300
2010	_____	4,200
<b>Total</b>	<u><b>\$395,000</b></u>	<u><b>\$ 63,600</b></u>

- 4. Property Tax Debt-** These amounts represent the balance owned to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2006, as described in Note 6, from property tax advances in excess of actual collections.
- 5. Compensated absences-** The government-wide statement of net assets includes approximately \$368,666 of accrued sick leave benefits, and approximately \$843,183 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**9. PENSION PLAN**

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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**9. PENSION PLAN (CONTINUED)**

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

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

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2006 amounted to approximately \$190,566 and \$222,608, respectively.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2006**

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**9. PENSION PLAN (CONTINUED)**

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

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2006, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

**10. RISK MANAGEMENT**

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

**11. CONTINGENCIES**

**Legal Claims**

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities. The claims amounted to approximately 61.1 million dollars of which \$60 Millions relate to one claim of 67 employees for alleged violation of civil rights.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$177,629 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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**11. CONTINGENCIES (CONTINUED)**

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

**Federal Programs**

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

**12. BEGINNING FUND BALANCES RESTATEMENT**

The beginning Fund Balance for Debt Service has been restated by (\$556,000) to properly present the previously reported balance at June 30, 2005. The restatement is mainly due to the correction of the cash balance erroneously reported. In addition, the beginning Fund Balance for Special Revenue Fund-State & Local Grant Fund has been restated by (\$73,006) to properly presents the previously reported fund balances at June 30, 2005. the Restricted-Debt Service has been restated by approximately \$11,849 to properly present the previously reported net assets at June 30, 2005.

Finally, the beginning Governmental Activities Net Assets has been restated by approximately \$11,849 to properly present the previously reported net assets at June 30, 2005.

**13. SUBSEQUENT EVENT**

In November 2006, the Municipality obtained a \$150,000 loan from the Government Development Bank for Puerto Rico for the acquisition of a land lot.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND**

**YEAR ENDED JUNE 30, 2006**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis) (See Note 1)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES AND OTHER FINANCING SOURCES:</b>				
Property taxes	\$ 2,037,365	2,037,365	1,912,365	(125,000)
Municipal license tax	1,050,965	1,050,965	1,472,039	421,074
Licenses, permits and other local taxes	949,500	949,500	336,435	(613,065)
Charges for service	107,000	107,000	54,462	(52,538)
Intergovernmental	4,381,239	4,381,239	3,470,404	(910,835)
Interest	85,000	85,000	111,039	26,039
Miscellaneous	<u>85,000</u>	<u>85,000</u>	<u>378,431</u>	<u>293,431</u>
Total revenues and other financing sources	<u>8,696,069</u>	<u>8,696,069</u>	<u>7,735,175</u>	<u>(960,894)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
General government	2,977,727	3,419,543	3,255,215	164,328
Public safety	603,421	416,015	393,688	22,327
Public works	2,415,217	2,430,176	2,462,987	(32,811)
Health and welfare	927,844	818,140	814,681	3,459
Culture and recreation	730,223	570,558	569,350	1,208
Public lighting	743,537	743,537	-	743,537
Operating transfer to other fund	<u>298,100</u>	<u>298,100</u>	<u>292,309</u>	<u>5,791</u>
Total expenditures, encumbrances and other financing uses	<u>8,696,069</u>	<u>8,696,069</u>	<u>7,788,230</u>	<u>907,839</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<b>\$ -</b>	<b>-</b>	<b><u>(53,055)</u></b>	<b><u>(53,055)</u></b>
<b>Explanation of Differences:</b>				
<b>Sources/Inflows of resources:</b>				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$7,735,175
Differences-budget to GAAP:				
GAAP adjustment to revenues- Accounts Receivables				<u>585,132</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$8,320,307</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$7,788,230
Differences-budget to GAAP:				
Non-budgeted expenditures- Accounts Payable & Accruals Expenses				<u>1,343,144</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$9,131,374</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

STATEMENT OF REVENUES AND EXPENDITURES (BUDGET AND ACTUAL)  
BUDGETARY BASIS - DEBT SERVICE FUND

YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note 1)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
<b><u>REVENUES</u></b>				
Property taxes	\$629,329	629,329	640,613	11,284
Total revenues	629,329	629,329	640,613	11,284
<b><u>EXPENDITURES</u></b>				
Bonds and notes	289,000	289,000	409,000	(120,000)
Interest-bonds and notes	340,329	340,329	276,848	63,481
Transfer out	-	-	99,338	(99,338)
Total expenditures	629,329	629,329	785,186	(155,857)
Excess of expenditures over revenues	\$ -	-	(144,573)	(144,573)

Reconciliation of differences:

Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appropriations from the budgetary comparison schedule	\$785,186
Transfer to general fund is out flow of budgetary resources but is not expenditures for financial reporting purposes	(99,338)
Transfers from the general fund are outflows of budgetary Resources but are not revenues for financial reporting purposes	292,309
Total expenditures reported on the statement of revenues, Expenditures and changes in fund balances-governmental funds	\$978,157

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO BUDGETARY COMPARISON SCHEDULE-  
GENERAL AND DEBT SERVICE FUNDS

YEAR ENDED JUNE 30, 2006

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**1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Control**

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

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General and Debt Service Funds is the approved budget covered by an ordinance at June 30, 2006. There were no supplemental appropriations for the year ended June 30, 2006.

*MUNICIPALITY OF GUAYANILLA, PUERTO RICO*

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**ADDITIONAL REPORTS REQUIRED UNDER THE  
SINGLE AUDIT ACT AND OMB CIRCULAR A-133**

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## **NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

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### **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the basic financial statements of the **Municipality of Guayanilla of the Commonwealth of Puerto Rico (The Municipality)** as of and for the year ended June 30, 2006, and have issued our report thereon dated December 22, 2006, which was unqualified at the fund financial statements level, but adverse at the government wide financial statements because we were unable to obtain competent evidential matter related to the **Capital Assets** reported in the Governmental Activities. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the **Municipality's** basic financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, 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 one instances of noncompliance that is required to be reported under Government Auditing Standards. This noncompliance instance is described in the accompanying Schedule of Findings and Questioned Costs as Items 06-II-1.

**INDEPENDENTS AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

(Continuation)

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs, as Items 06-II-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, we consider to be a material weakness.

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

December 22, 2006  
San Juan, Puerto Rico

*Nieves Velázquez & Co., P.S.C.*

CPA Stamp #2076458 was affixed  
to the record copy of this report.





## **NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

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

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

#### **Compliance**

We have audited the compliance of the **Municipality of Guayanilla of the Commonwealth of Puerto Rico (The Municipality)** with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. 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 the **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 and 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 on the **Municipality's** compliance with those requirements.

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

**Compliance** (Continuation)

In our opinion, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed three instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Finding and Questioned Costs as Items 06-III-1, 06-III-2 and 06-III-3.

**Internal Control Over Compliance**

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing. Procedures for the purpose of expressing our opinion on compliance and to test our report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws regulations, contracts, and grants. Reportable conditions is described in the accompanying schedule of findings and questioned costs as items 06-III-1, 06-III-2 and 06-III-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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

**Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the Municipality as of and for the year ended June 30, 2006, and have issued our report thereon dated December 22, 2006, which was unqualified at the fund financial statements level, but adverse at the government wide financial statements because we were unable to obtain competent evidential matter related to the Capital Assets reported in the Governmental Activities. Except as discussed in the preceding sentence, our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of the Municipality. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

December 22, 2006  
San Juan, Puerto Rico

*Nieves Velazquez & Co., P.S.C.*

CPA Stamp #2076459 was affixed  
to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006**

<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 (USDA)</b>			
Non-Major Program:			
Pass-through the Commonwealth of Puerto Rico- Department of Education: Child and Adult Care Food Program (CACFP)	10.558	N/A	\$ 13,762
<b>U.S. Department of Housing and Urban Development (HUD)</b>			
Major Programs:			
Direct Program			
Section 8 Housing Choice Vouchers	14.871	N/A	605,221
Pass-through the Commonwealth of Puerto Rico-Office of the Commissioners of Municipal Affairs:			
Community Development Block Grant/States Program	14.228	99-FD-27 00-FD-27 01-FD-27 02-AB-FC-27 03-FD-27	862,141
<b>U.S. Department of Justice (DOJ)</b>			
Major Program:			
Direct Program			
Public Safety Partnership and Community Policing Grant (COPS)	16.710	N/A	467,840
Non-Major Program:			
Pass-through the Commonwealth of Puerto Rico- Department of Justice:			
Byrne Formula Grant Program	16.579	N/A	10,447
<b>U.S. Department of Transportation (DOT)</b>			
Non-Major Program:			
Formula Grants for other than urbanized areas	20.509	N/A	195,921
<b>U.S. Department of Health and Human Services (HHS)</b>			
Non-Major Programs:			
Pass-through the Commonwealth of Puerto Rico- Administration for Children and Families:			
Child Care & Development Block Grant	93.575	N/A	276,004
Community Service Block Grant	93.569	N/A	73,788
<b>U.S. Department of Homeland Security (DHS)</b>			
Non-Major Programs:			
Pass-through the Commonwealth of Puerto Rico-Governor Authorized Representative (GAR):			
Public Assistance Grant	97.036	N/A	30,918
Hazard Mitigation Grant (HMGP)	97.039	N/A	<u>24,734</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$2,560,776</u></b>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006

**1. BASIS OF PRESENTATION**

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

**2. FEDERAL CFDA NUMBER**

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

**3. PASS-THROUGH ENTITY IDENTIFYING**

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

**4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

The total amount of \$2,560,776 reported in the accompanying Schedule is included in the Special Revenue Federal Grants Fund in the Municipality's fund statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

**Section I. Summary of Audit Results**

**Financial Statements**

Type of auditors' report issued: Unqualified, except for adverse for government-wide financial statements

Internal Control over financial reporting:

Material weakness identified?  Yes  No

Reportable conditions identified not considered to be material weaknesses?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal Control over major programs:

Material weakness identified?  Yes  No

Reportable conditions identified not considered to be material weaknesses?  Yes  No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?  Yes  No

Identification of major programs:

**CFDA Number**

**Name of Federal Program or Cluster**

16.710

Public Safety Partnership and Community Policing Grant (COPS)

14.228

Community Development Block Grant-State's Program

14.871

Section 8-Housing Choice Voucher Program

Dollar threshold used to distinguish between Type A and Type B Programs Auditee.

\$300,000

Qualified as low-risk auditee?

Yes  No

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Section II. Financial Statement Findings

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
All Programs and Funds	06-II-1	<p>Fixed/Capital Assets</p> <p><u>Criteria</u></p> <p>Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.</p> <p><u>Condition</u></p> <p>The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable. This finding is repeated from prior year.</p> <p><u>Cause</u></p> <p>Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.</p>	<p>①</p> <p>—</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Section II. Financial Statement Findings

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
All Programs and Funds	06-II-1	<p>Fixed/Capital Assets (Continuation)</p> <p><u>Effect</u></p> <p>The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.</p> <p><u>Recommendation</u></p> <p>We recommend the Municipality to assign a task force or an outside consultant to acquire competent evidential matter to support the value, completeness and ownership of those assets.</p> <p><u>Management Comments</u></p> <p>Partially corrective action has been taken. Actually, the Municipality's Finance Department staffs continue updating the capital assets subsidiary ledger with the support of external consultants to comply with the GASB No. 34 capital assets requirements.</p>	



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Section III. Federal Award Finding and Questioned Costs

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8 14.871	06-III-1	<p>Special Tests and Provisions- Reasonableness Rent</p> <p><u>Criteria</u></p> <p>The OMB Circular A-133, Compliance N, Number 2 reasonable rent states that the PHA must determine that the rent to owner is reasonable at the time of initial leasing. Also, the PHA must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner; and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent (FMR) in effect 60 days before the HAP contract anniversary. The PHA must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract) (24 CFR, Sections 982.4, 982.54(d)(15), 982.158(f)(7), and 98.507).</p> <p><u>Condition</u></p> <p>The Municipality's internal control procedures failed to assure that rent at the time of initial leasing, and during the term of the contract were reasonable.</p> <p><u>Cause</u></p> <p>The Municipality did not use the mechanism available to assure the reasonableness of the rent at the beginning of the lease.</p>	

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Section III. Federal Award Finding and Questioned Costs

<b><u>Fund or Program</u></b>	<b><u>Finding Number</u></b>	<b><u>Findings/Non-Compliance</u></b>	<b><u>Questioned Costs</u></b>
Section 8 14.871	06-III-1	<p>Special Tests and Provisions- Reasonableness Rent (Continuation)</p> <p><u>Effect</u></p> <p>The Municipality is not in compliance with OMB Circular A-133, Compliance N reasonableness of rent and 24 CFR, Sections 982.4, 982.54 (d)(15), 982.158(f)(7), and 982.507.</p> <p><u>Recommendation</u></p> <p>The Municipal officials should use the "Certification of Rent Reasonableness Sheet" to assure that the rent is reasonable before the lease of the housing units are approved.</p> <p><u>Management Comments</u></p> <p>The Municipality's Federal Program Director will be working to assure that a lease of housing units are not approved until the Program staff determines that the initial rent to owners is a reasonable rent. Such reasonable rent determination will be documented using the "Certification of Rent Reasonableness" form. Also, all of existing participants files will be examined by the Program staff to update, if necessary, the "Certification of Rent Reasonableness" form to include comparable rents with other similar units as required by the Program Regulations.</p>	

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Section III. Federal Award Finding and Questioned Costs

<b><u>Fund or Program</u></b>	<b><u>Finding Number</u></b>	<b><u>Findings/Non-Compliance</u></b>	<b><u>Questioned Costs</u></b>
Section 8 14.871	06-III-2	<p>Special Test &amp; Provisions-Utility Allowance</p> <p><u>Criteria</u></p> <p>The OMB Circular A-133, Compliance N, Number 3 utility allowance schedule states that the Municipality must maintain an up-to-date utility allowance schedule. The Municipality must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised (24 CFR, Section 982.517).</p> <p><u>Condition</u></p> <p>In our test we determined that the Municipality is not complying with the procedure at all.</p> <p><u>Cause</u></p> <p>The Municipality did not establish as part of their internal control procedures a routine survey with tenants do determine the amount paid by them for their utilities.</p>	<hr/>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Section III. Federal Award Finding and Questioned Costs

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8 14.871	06-III-2	<p>Special Test &amp; Provisions-Utility Allowance (Continuation)</p> <p><u>Effect</u></p> <p>The Municipality's failed to maintain an up to date utility allowance schedule OMB Circular A-133, Compliance N - 24 CFR, Sections 982.517.</p> <p><u>Recommendation</u></p> <p>The Municipal official is should established as part of their procedures the use of the utility allowance schedule sheet to maintain an update data of utility paid by tenants.</p> <p><u>Management Comments</u></p> <p>The Municipality's Federal Program Director will be working with the Program staff to conduct a utility survey obtaining information from tenants about each tenant-paid utilities (excluding telephone). In order to conduct a complete survey, the Program staff expects to analyze the last three months of utility billings. Also, the Program staff expects to conduct on an annual basis a utility survey during the month of July and the rates will become effective beginning on October of each year.</p>	

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Section III. Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG 14.228	06-III-3	<i>Davis Bacon Act</i>  <u>Criteria</u>  The OMB - Circular A-133 Compliance D state that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the projects (prevailing wages rates) by the DOL. This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).  <u>Condition</u>  The Municipality's did not notify contractors and subcontractor of the requirements to comply with the Davis-Bacon Act and did not obtain copies of certified payrolls. Also, the contracts did not include provisions after payment of prevailing wage rate.  <u>Cause</u>  The federal program director failed to notify contractor and sub-contractor the Davis-Bacon Act requirement.  <u>Effect</u>  The Municipality is not in compliance with OMB - Circular A-133, Compliance D Davis Bacon Act.	(2)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Section III. Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG 14.228	06-III-3	<i>Davis Bacon Act (Continuation)</i>  <u>Recommendation</u>  We recommend the Municipality to inform the contractors and subcontractors of the requirement to comply with the Davis-Bacon Act.  <u>Management Comments</u>  The Municipality's Federal Program Director will be working to assure that all contractors and subcontractors be informed of the requirements to comply with the "Davis Bacon Act". Also the Municipality will apply adequately the monitoring system developed to ensure contractors compliance with payment of prevailing wages rates to employees and will verify the contracts to assure that all of them include provisions for payment of prevailing wage rate.	

(10)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
05-II-01	All Programs and Funds	<p><b>Fixed/Capital Assets</b></p> <p><u>Condition</u> The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable. <span style="float: right;">N/A</span></p> <p><u>Current year follow-up</u> At June 30, 2006, the same finding persisted. The Municipality's Finance Department staffs are updating the capital assets subsidiary ledger with the support of external consultants to comply with the GASB No. 34 capital assets requirements.</p>
05-II-02	14.871	<p><b>Special Tests and Provisions-Reasonableness Rent</b></p> <p><u>Condition</u> The Municipality's internal control procedures failed to assure that rent at the time of initial leasing and during the term of the contract were reasonable. <span style="float: right;">N/A</span></p> <p><u>Current year follow-up</u> At June 30, 2006, the same finding persisted. The Municipality's Federal Program Director will be working to assure that a lease of housing units are not approved until the program staff determines that the initial rent to owners is reasonable as indicated in finding 06-III-1.</p>
05-II-03	14.871	<p><b>Special Test and Provisions - Utility Allowance</b></p> <p><u>Condition</u> The Municipality did not maintain and up-to-date utility allowance schedule for the audit period ending June 30, 2005. There is no evidence of the last time that the utility allowance schedule was actualized.</p> <p><u>Current year follow-up</u> <span style="float: right;">N/A</span> At June 30, 2006, the same finding persisted. The Municipality's Federal Program Director will be working to maintain an up to date utility allowance schedule as indicated in finding 06-III-2.</p>

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MUNICIPALITY OF GUAYANILLA**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006**

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
05-III-04	14.228	<p><b>Cash Management</b></p> <p><u>Condition</u> The Municipality's elapsed time between drawn down and disbursement averaged 16 days. <span style="float: right;">(S)</span></p> <p><u>Current year follow-up</u> At June 30, 2006, we determined that the average days between drawn down and disbursement was 4 days. Actually the Municipality are complying with this procedure as required. <span style="float: right;">(S)</span></p>
04-II-01	All Programs and Funds	<p><b>Fixed/Capital Assets</b></p> <p><u>Condition</u> The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable. <span style="float: right;">(A)</span></p> <p><u>Current year follow-up</u> At June 30, 2006, the same finding persisted. The Municipality's Finance Department staffs are updating the capital assets subsidiary ledger with the support of external consultants to comply with the GASB No. 34 capital assets requirements as indicated in finding 06-II-1.</p>
04-II-02	14.228	<p><b>Expenditures for Goods and Services and Account Payables-Purchasing and Receiving</b></p> <p><u>Condition</u> We performed a search-unrecorded liabilities and examined forty (40) disbursement vouchers related to CDBG-State Program. a. In four (4) CDBG-State Program disbursement vouchers, the purchase order was dated after the receiving of goods or service.</p> <p><u>Current year follow-up</u> In our current year disbursement vouchers examination we found no exception related to purchase order dates. <span style="float: right;">(S)</span></p>

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SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
04-III-1	14.228	<b>Cash Management</b>  <u>Condition</u> The Municipality's elapsed time between draw down and disbursement averaged 33 days.  <u>Current year follow-up</u> In our current year examination, elapsed time between draw down and disbursement improved to averaged 4 days reported on finding 05-III-4.
03-06	14.871	<b>Cash Management</b>  <u>Condition</u> We realized Cash Management Test and after our procedures, we found that during the current fiscal year the Municipality maintained an average cash balance in books of approximately \$128,010. At June 30, 2003, the cash balance in book was \$85,483; \$4,132 of these funds was from HUD overpayment during the fiscal year 2002-03 as determined in the year-end settlement; \$993 was from operating reserve at June 30, 2003, as determined in the year-end settlement; and the remaining \$80,358 we could not determine its origin.  <u>Current year follow-up</u> In order to accomplish the expenditure of funds in a more timely fashion, the Municipality planned to establish the following reasonable procedures to assure that when the advances are made from the Office of the Commissioner of Municipal Affairs (OCAM), the Municipality will make disbursement as close as possible to the time of advance receipts. The Municipality's Finance Director will be informed when a request of funds are made, and when in fact the funds are received, and follow-up will be given to assure that all future disbursements are made in compliance with the Program Regulations.  At June 30, 2006, we determined that the cash balance average was \$137,992.

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SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
03-07	14.871	<i>Eligibility of Individuals</i>  <u>Condition</u> We performed an eligibility test and examined a sample of thirty (30) participant's files. The following summarized the situations found: <ul style="list-style-type: none"><li>b. Two (2) participant's files did not include a release form to allow the Municipality to obtain information from third parties.</li><li>c. Three (3) participant's files did not include the annual release form to allow the Municipality to obtain employment information.</li><li>d. In three (3) participant's files the Privacy Act Notice form was not provided for the signature of head of household.</li><li>e. Ten (10) participant's files did not contain a release form to allow the Municipality to obtain information from third parties, signed by any members of the family composition who is at least eighteen (18) years of age.</li><li>f. Twelve (12) participant's files did not include a federally prescribed general release form to allow the Municipality to obtain information regarding the employment, signed by any members of the family composition who is at least eighteen (18) years of age.</li></ul> <u>Current year follow-up</u> We examined twenty five (25) participant's files for the current year and found no exception.
03-08	14.871	<i>Special Test-Reasonable Rent</i>  <u>Condition</u> The determination of reasonable rent (reasonable rent certification) was not duly documented. We examined a sample of thirty (30) participant's files and found the following situations: <ul style="list-style-type: none"><li>a. On two (2) new participant's file the certification of reasonable rent included only one comparable unassisted unit.</li><li>b. On three (3) new participant's files the certification of reasonable rent did not include the comparable rent with other similar units.</li><li>c. On three (3) participant's files the determination of reasonable rent included only one comparable unassisted unit for an increase of the rent to owner during fiscal year 2002-2003.</li><li>d. On ten (10) participant's files the determination of reasonable rent did not include comparable unassisted units for an increase of the rent to owner during fiscal year 2002-2003.</li></ul> <u>Current year follow-up</u> In our current year examination, we found that the Municipality is not verifying reasonableness of rent only occasionally at the beginning of a new contract, as indicated in finding 06-III-1.

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SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
03-09	14.871	<i>Special Test-Housing Quality Standards Inspections and Housing Quality Standards Enforcement</i>

Condition

During our examination of thirty (30) participant files, we noted the following situations:

- a. On six (6) participant's files the Municipality followed up the deficiencies noted in the Housing Quality Standards Inspections after the expiration of the correction period. In some cases, the follow up procedures were performed several months after the expiration of the correction period. There was no evidence on the participant's files that show that the Municipality extended the time frame to correct the deficiencies notes on the inspection.
- b. In four (4) participant's files the correction period was ended and we did not find evidence showing that the Municipality properly stopped Municipality or terminated the HAP contract.
- c. In two (2) cases, the correction period ended and several months after the expiration of the correction period the Municipality sent a letter to owner stopping HAP.
- d. In one (1) participant file the correction period was ended and we did not find evidence showing that the Municipality took action to enforce the family obligations.

Current year follow-up

In our current year examination we found that the Municipality is complying with inspection procedures in a consistent basis but, not timely. We found one (1) case in which the owner did not pass the HQS Inspections and no evidence was found in the record that the PHA notified the family and the required time limit or extension to correct the deficiencies. Sometime the re-inspection was done two or three month later than the specific time frame required.

03-10	14.871	<i>Special Test</i>
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Condition

In our waiting list test we found that the Municipality did not select the participants from the top of the waiting list according to the PHA's applicant selection policies.

Also, we examined a sample of five (5) files of participants admitted to the Program during the current year and we found that one (1) of those participants was not selected form the waiting list.

Current year follow-up

In our current year examination, we did not encounter a similar situation.

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SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
03-11	14.871	<u>Special Test-Utility Allowance Schedule</u>  <u>Condition</u> The Municipality did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2003. There is no evidence of the last time that the Utility Allowance Schedule was actualized.  <u>Current year follow-up</u> In the current year examination a similar situation was found in finding 06-III-2.
03-13	14.228	<u>Allowable Activities</u>  <u>Condition</u> During our examination of five (5) housekeeping assistance project participant files, we noted the following situations:  <ul style="list-style-type: none"><li>a. In four (4) files the participant did not complete the approval application form OCAM-AH-004A.</li><li>b. In four (4) files the participant did not complete a participation contract form OCAM-AH-005, establishing the service plan to be offered by the CDBG program.</li><li>c. In five (5) there was no evidence indicating that the Service Coordinator visited at least twice times per month the participant housing unit to ensure the quality of services.</li></ul> <u>Current year follow-up</u> No corrective action taken during 2003-2004. In our current year examination we found no exceptions.
03-14	14.228	<u>Cash Management</u>  <u>Condition</u> During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. Also, the Municipality maintained an average monthly cash balance per accounting records of \$39,129.  <u>Current year follow-up</u> In our current year examination the time elapsed between the draw down and disbursements was reduced to 4 average days as its is reported on findings 05-III-4.

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SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
03-15	14.228	<p><u>Davis-Bacon Act</u></p> <p><u>Condition</u> During our Davis-Bacon Act test for the construction projects 01-FD-27-001 and 01-FD-27-004, we noted that the Municipality did not apply adequately the monitoring system developed to ensure contractors compliance with payment of prevailing wages rates to employees. Also, the contracts did not include provisions for payment of prevailing wage rate.</p> <p><u>Current year follow-up</u> In our current year examination, we determined that the Municipality did not comply with this requirement, as indicated in finding 06-III-3.</p>
03-16	14.228	<p><u>Equipment and Real Property Management</u></p> <p><u>Condition</u> The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.</p> <p><u>Current year follow-up</u> Partially corrective action has been taken. Actually, the Municipality's Finance Department staffs are updating the capital assets subsidiary ledger with the support of external consultants to comply with the GASB No. 34 capital assets requirements. (See current year finding 06-II-1).</p>
03-17	14.228	<p><u>Procurement and Suspension and Debarment</u></p> <p><u>Condition</u> During our contract provision test, we noted the following situation:</p> <ol style="list-style-type: none"><li>a. Two (2) contracts did not include a provision for compliance with executive order 11246 "Equal Employment Opportunity".</li><li>b. Three (3) contracts did not include a provision for compliance with Sections 103 and 107 of "The Contract Work Hours &amp; Safety Standards Act".</li><li>c. Four (4) contracts did not include a provision for compliance with "Energy Policy and Conservation Act".</li><li>d. Four (4) contracts did not include a provision for compliance with the Copeland "Anti-Kickback".</li><li>e. Four (4) contracts did not include a provision for retention of all required records for three years.</li></ol> <p><u>Current year follow-up</u> In our current year examination, we did not encounter a similar situation.</p>

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SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
03-18	14.228	<u>Program Income</u>  <u>Condition</u> During our audit of the program income requirements, we noted that for the last six (6) months of the fiscal year 2002-2003, the Municipality did not maintain internal controls to assure: <ol style="list-style-type: none"><li>That the program income was properly determined or calculated in accordance with stated criteria and that the program income was only collected from allowable sources.</li><li>That all program income was properly recorded in the accounting records.</li><li>That program income was used in accordance with the program requirements and other regulations applicable.</li></ol> <u>Current year follow-up</u> In our current year examination, we did not encounter a similar situation.
03-19	14.228	<u>Reporting</u>  <u>Condition</u> During our examination of reporting, we could not obtain evidence, which assure us that the Financial Quarterly Reports of the fiscal year 2002-2003 were submitted on a timely basis.  <u>Current year follow-up</u> In our current year examination, we did not encounter a similar situation.

**NOTE:** *Municipality's officials agreed to eliminate all prior years findings (from year 2001- 02 to 1999-2000) due to no action from related federal agencies.*