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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2008

V. Torres
10/20

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2008

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2008

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MENDOZA & RAMOS
Contadores Públicos Autorizados, C.S.P.

P.O. Box 35 • Guayama, Puerto Rico 00785

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

INDEPENDENT AUDITORS' REPORT

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, 2008, 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 paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our 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 and fourth paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Municipality of Guayanilla, Puerto Rico, as of June 30, 2008, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the Municipality of Guayanilla, Puerto Rico, as of June 30, 2008, and the respective changes in financial position, there of 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 Fund on page 39 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 24, 2009, on our consideration of the Municipality's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The accompanying Financial Data Schedule is presented for purposes of additional analysis required by U.S. Department of Housing and Urban Development and is not required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

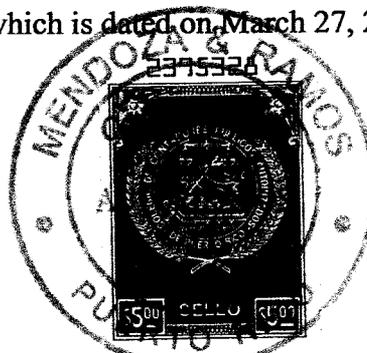
Mendoza & Ramos CPA's

Mendoza & Ramos, C.S.P
Contadores Públicos Autorizados

Guayama, Puerto Rico

December 4, 2008, except for Financial Data Schedule which is dated on March 27, 2009.

The stamp number 2395328
was affixed to the original
of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2008

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, 2008. 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>2007-2008</u>	<u>2006-2007</u>
The Municipality changes in net assets	(\$ 1,754,586)	\$ 1,589,123
The governmental activities revenue	\$ 409,677	\$ 2,730,196
The governmental activities expenditures	\$ 2,164,263	(\$ 14,079)
The General Fund (the primary operating fund) on a current financial resource basis	(\$ 461,025)	\$ 303,591
Actual revenues (expenses) exceeded actual expenditures (revenues)- on a budgetary basis	(\$ 731,765)	\$ 1,057,207

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2008

FINANCIAL HIGHLIGHTS (Continued)

	Fiscal Years	
	Increase (decrease)	
	<u>2007-2008</u>	<u>2006-2007</u>
The Municipality issued bonds mainly to finance the capital projects, purchase of equipment and payment of operational debts	\$ 3,935,000	\$ 355,000

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
YEAR ENDED JUNE 30, 2008

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (Continued)

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2008

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (Continued)

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.

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 \$ 10,678,269 at June 30, 2008, compared to \$11,833,603 at the end of the previous year, as restated.

The largest portions of the Municipality's net assets are invested in capital assets net of their related debt of \$15,127,319 (\$19,056,728 in previous year). The Municipality's net assets is also composed of net liabilities amounting to \$5,555,920 (\$3,378,237 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 \$10,004,970 (\$10,601,362 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.

An increase of \$3,174,921 in current assets was mainly due mainly to a significant increase of cash available due to an increase of Capital Project Fund's loans.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (Continued)

The decrease of \$443,409 in capital assets was due mainly that the depreciation expense exceeds the capital disbursement during the fiscal year 2007-2008. The decrease in investment in capital assets of \$3,929,409 was due mainly to a significant increase of related capital loans but the proceeds were not disbursed to acquired capital assets.

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, 2008</u>	<u>June 30, 2007</u>
Current assets	\$ 8,381,186	\$ 5,206,263
Capital assets	<u>24,719,319</u>	<u>25,162,728</u>
Total assets	<u>33,100,505</u>	<u>30,368,991</u>
Current liabilities	3,229,507	2,186,671
Non-current liabilities	<u>19,122,729</u>	<u>16,348,717</u>
Total liabilities	<u>22,422,236</u>	<u>18,535,388</u>
Invested in capital assets, net of related debt	15,127,319	19,056,728
Restricted	5,555,920	3,378,237
Unrestricted (deficit)	<u>(10,004,970)</u>	<u>(10,601,362)</u>
Total net assets	<u>\$10,678,269</u>	<u>\$11,833,603</u>

Changes in Net Assets

The Municipality's net assets decrease by \$1,155,334 during the fiscal year 2007-08 (increase of \$890,703 in the prior fiscal year). Approximately 45 percent (39 percent in previous year) of the Municipality's total revenue came from taxes, while 54 percent (60 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 1 percent of the total revenues in both fiscal years. 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.

Increase in total revenues was mainly due to the establishment of a new sales tax during the fiscal year 2007-2008. The sales tax collected during the fiscal year amounted to

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2008

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (Continued)

\$811,000. This increase was partially offset by an decrease of grants and contributions not restricted of \$259,000.

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

	June 30, <u>2008</u>	June 30, <u>2007</u>
Program revenues:		
Charges for services	\$ 131,047	\$ 144,151
Operating grants and contributions	2,952,713	2,889,161
Capital grants and contributions	1,546,470	2,253,054
 General revenues:		
Property taxes	2,814,478	2,479,215
Municipal license tax	3,101,859	3,309,842
Sales tax	811,315	
Grants and contributions not restricted to specific programs	3,522,285	3,781,552
Other local taxes	496,331	289,975
Interest and investment earnings	162,547	171,298
Miscellaneous	<u>351,464</u>	<u>162,584</u>
Total revenues	<u>15,890,509</u>	<u>15,480,832</u>
 Expense:		
General government	4,675,995	5,439,513
Public safety	989,427	905,417
Public works	4,632,109	3,356,179
Culture and recreation	2,712,262	1,682,482
Health and welfare	992,592	868,940
Community development	540,813	690,659
Economic development	914,377	440,811
Education	262,341	226,073
Public lighting	913,401	818,067
Interest on long-term debt	<u>412,526</u>	<u>453,439</u>
Total expenses	<u>17,045,843</u>	<u>14,881,580</u>
Change in net assets	(1,155,334)	599,252
 Net assets, beginning of year, as restated	<u>11,833,603</u>	<u>11,234,351</u>
 Net assets, end of year	<u>\$ 10,678,269</u>	<u>\$ 11,833,603</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2008

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.

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 \$4,332,685 (\$2,649,396 in previous year), an increase of \$1,683,289 (\$955,982 in previous year) in comparison with the prior year. There are reservations of fund balance amounting to \$3,474,450 (\$3,043,237 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 \$895,779 (\$845,432 in previous year), 2) to pay for capital projects by \$3,596,683 (\$1,293,838 in previous year), 3) for other purposes by \$666,757 (\$875,635 in previous year) and 4) to pay encumbrances by \$31,701 (\$28,332 in previous year).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2008, the general fund has a fund balance of (\$858,235), (\$393,841) as of June 30, 2007), which will be amortized during a 40 year period, as required by state's law.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2008

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2008, amounts to \$41,630,533 (\$ 39,637,246 in previous year), net of accumulated depreciation of

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

\$16,911,214 (\$14,474,518 in previous year), leaving a net book value of \$24,719,319 (\$25,162,728 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 decrease in the Municipality's investment in capital assets for the current fiscal year was \$443,409 (an increase of \$ 4,812,431 in previous year) in terms of net book value. Depreciation charges for the year totaled \$2,436,696 (\$ 2,131,046 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, 2008 the Municipality has \$3,730,648 (\$940,610 as of June 30, 2007) 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.

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

Debt Administration "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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2008

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

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

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 2007-2008 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, 2008

	Governmental Activities
Assets	\$ 675,211
Cash and cash equivalents	5,133,436
Cash with fiscal agent	
Accounts receivable:	2,240,376
Intergovernmental	332,163
Others	
Capital assets	3,240,274
Land, improvements, and construction in progress	21,479,045
Other capital assets, net of depreciation	<u>24,719,319</u>
Total capital assets	<u>33,100,505</u>
 Total assets	 <u>33,100,505</u>
 Liabilities	 1,505,436
Accounts payable and accrued liabilities	74,022
Due to other governmental entities	162,559
Interest payable	
Deferred revenues:	877,894
Municipal license tax	679,596
Federal grants	
Noncurrent liabilities:	2,077,265
Due within one year	17,045,464
Due in more than one year	<u>22,422,236</u>
 Total liabilities	 <u>22,422,236</u>
 Net Assets	 15,127,319
Invested in capital assets, net of related debt	
Restricted for:	3,596,683
Capital projects	1,260,779
Debt service	698,458
Other purposes	<u>(10,004,970)</u>
Unrestricted (deficit)	
 Total net assets	 <u>\$ 10,678,269</u>

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

**Commonwealth of Puerto Rico
Municipality of Guayanilla
Statement of Activities
For the Year Ended June 30, 2008**

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
General government	\$ 4,675,995				\$ (4,675,995)
Public safety	989,427	17,453	212,180		(759,794)
Public works	4,632,109	29,984	54,783	536,823	(4,010,519)
Health and welfare	2,712,262		966,527		(1,745,735)
Culture and recreation	992,592	83,610	7,519	165,352	(736,111)
Economic development	540,813		463,071		(77,742)
Community development	914,377			844,295	(70,082)
Education	262,341		335,232		72,891
Public lighting	913,401		913,401		-
Interest on long-term debt	412,526				(412,526)
Total governmental activities	17,045,843	131,047	2,952,713	1,546,470	(12,415,613)
General revenues:					
Property taxes					2,814,478
Municipal license tax					3,101,859
Sales tax					811,315
Other Local Taxes					496,331
Grants and contributions not restricted to specific programs					3,522,285
Interest and investment earnings					162,547
Miscellaneous					351,464
Total general revenues					11,260,279
Change in net assets					(1,155,334)
Net assets - beginning					11,833,603
Net assets - ending					\$ 10,678,269

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

Commonwealth of Puerto Rico
Municipality of Guayanilla
Balance Sheet
Governmental Funds
June 30, 2008

	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
Assets						
Cash and cash equivalents	\$ 66,244	\$ 141,060	\$ 419,024	\$ 48,883	\$	\$ 675,211
Cash with fiscal agent	15,316	1,409		3,730,648	1,386,063	5,133,436
Accounts receivable:						
Intergovernmental	750,035	248,975	990,895		37,275	1,989,905
Others	157,898		3,467	120,138		198,640
Due from other funds	1,635,451	1,735,694	414,632			3,905,915
Total assets	\$ 2,624,944	\$ 2,127,138	\$ 1,828,018	\$ 3,899,669	\$ 1,423,338	\$ 11,903,107
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 622,780	\$ 200,890	\$ 641,266	\$ 40,500	\$	\$ 1,505,436
Bank overdraft	74,022					74,022
Due to other governmental entities	1,861,466	1,363,790	418,173	262,486		3,905,915
Due to other funds						
Deferred revenues:						
Municipal license tax	877,894		679,596			877,894
Federal grant revenues					365,000	679,596
Mature bonds due and payable					162,559	365,000
Interest payable						162,559
Total liabilities	\$ 3,436,162	\$ 1,564,680	\$ 1,739,035	\$ 302,986	\$ 527,559	\$ 7,570,422
Fund balances:						
Reserved for:						
Encumbrances	31,701			3,596,683		31,701
Capital projects						3,596,683
Other purposes	15,316	562,458	88,983			666,757
Reserved reported in nonmajor funds:					895,779	895,779
Debt service fund						
Unreserved:						
Undesignated (deficit)	(858,235)					(858,235)
Total fund balances	(811,218)	562,458	88,983	3,596,683	895,779	4,332,685
Total liabilities and fund balances	\$ 2,624,944	\$ 2,127,138	\$ 1,828,018	\$ 3,899,669	\$ 1,423,338	\$ 11,903,107

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

Commonwealth of Puerto Rico
Municipality of Guayanilla
Reconciliation of Balance Sheet- Governmental Funds
to the Statement of Net Assets
June 30, 2008

Agregate fund balance reported in the balance sheet- governmental funds	\$	4,332,685
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		24,719,319
Accounts receivables not collected 60 days after the closing date are not recognize in governmental Funds		383,994
The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds:		
		(10,732,000)
Bonds payable		(320,000)
Notes payable		(64,464)
Advances - Department of Treasury		(2,373,452)
Property Tax – Department of Treasury		(2,061,442)
Property Tax – CRIM – Law 42		(120,171)
Property Tax – CRIM – Law 146		(1,912,047)
Compensated absences debt		(220,641)
Retirement contribution- Retirement System Administration		(163,554)
Unemployment tax- Department of Labor		(61,819)
Income tax withheld- Department of Treasury		(178,139)
Water & Sewer debt- Puerto Rico Aqueduct and Sewer Authority		(550,000)
Claims and judgments debt		(550,000)
Net Assets reported in the accompanying statement of net assets	\$	<u>10,678,269</u>

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

Commonwealth of Puerto Rico
Municipality of Guayanilla
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	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
Revenues						
Property taxes	\$ 2,268,173				\$ 574,516	\$ 2,842,689
Municipal license and sales taxes	3,650,979				260,041	3,911,020
Licenses, permits and other local taxes	371,291					371,291
Charges for services	131,047					131,047
Intergovernmental	4,283,255	\$ 1,480,013		\$ 83,500		5,846,768
Interest	161,406				1,141	162,547
Federal grants			\$ 2,174,700			2,174,700
Miscellaneous	94,664					94,664
Total revenues	10,960,815	1,480,013	2,174,700	83,500	835,698	15,534,726
Expenditures						
Current:						
General government	4,658,810	558,813	-	26,565		5,244,188
Public safety	755,005	53,933	105,311	86,362		1,000,611
Public works	3,436,290	169,657	90,188	413,101		4,109,236
Health and welfare	990,089	851,127	720,310	107,413		2,668,919
Culture and recreation	452,090	149,661	-	477,754		1,079,505
Economic development		465,700	-			465,700
Community development			996,726	44,460		1,041,186
Education	913,401		262,165			1,175,566
Public Lighting						
Debt service:						
Principal					573,081	573,081
Interest					428,445	428,445
Total expenditures	11,205,665	2,248,891	2,174,700	1,155,655	1,001,526	17,786,437
Excess (deficiency) of revenues over (under) expenditures	(244,850)	(768,878)	-	(1,072,155)	(185,828)	(2,251,711)
Other financing sources (uses)						
Transfers in						
Transfers out	(216,175)				216,175	216,175
Advances from governmental entity		560,000		3,375,000		3,935,000
Long-term debt issued						
Total other financing sources (uses)	(216,175)	560,000	-	3,375,000	216,175	3,935,000
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(461,025)	(208,878)	-	2,302,845	50,347	1,683,289
Fund balance beginning, as restated	(330,193)	771,336	88,683	1,293,838	845,432	2,649,396
Fund balance, ending	(811,218)	562,458	63,583	3,596,683	895,779	4,332,645

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

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, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 1,683,289
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.	1,993,287
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.	(2,436,696)
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.	335,755
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.	266,233
Accounts receivables not collected 60 days after the closing date are not recognize in Governmental Funds, but these receivables are reported n the Government-Wide Statements of Activities and Change in Net Assets.	348,798
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.	<u>(3,346,000)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (1,155,334)</u></u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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.

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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter, normally within sixty (60) days. 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.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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

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

E. Assets, liabilities and net assets

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

Cash with fiscal agent in the debt 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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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

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-** Represent net assets available for specific use and/or legally segregated for other specific future use.
 - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
9. **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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2008 amounted to approximately \$182,558. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$158,684 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 approximate \$66,244, \$141,060, \$419,024 and \$48,883 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, 2008.

The deposits at GDB of approximately \$3,730,648, that is restricted principally for capital projects in the capital project fund – state and local grants, the \$15,316 in the general fund that is principally for operational debts and the \$1,386,063 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.

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, 2008, the tax rates were as follows:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

3. RECEIVABLES (CONTINUED)

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, 2008, 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 General Fund and Special Revenue Fund – State & Local Grants and Federal Grants represent \$750,035 and \$248,975, respectively. Intergovernmental receivable in Federal Grants represent \$990,895 expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
General Fund:	
Department of Education of Puerto Rico	\$250,000
CRIM	<u>500,035</u>
Sub-Total	<u>\$ 750,035</u>
SRF- State and Local Grants:	
Department of Work and Human Resources	<u>\$ 248,975</u>
SRF- Federal Grants:	
Community Development Block Grant – State’s Program	\$ 648,968
Department of Families and Child	71,572
Local Law Enforcement Block Grant	4,047
Public Safety Partnerships and Community Policing Grants	124,420
High Risk Young	63,137
FEMA – Mitigation Plan	3,440
Civil Defense	3,400
Other	<u>71,911</u>
Sub-Total	<u>\$990,895</u>
Total	<u>\$1,989,905</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

C. Others Receivable – Other accounts receivable as of June 30, 2008, are as follows:

<u>Concept:</u>	<u>Amount</u>
General Fund	
Municipal licenses tax	
Sales tax	\$ 1,016
Local taxes	54,526
Interest	69,949
License and permits	28,407
Total	<u>9,000</u>
	\$162,898
 <u>Special Revenue Fund- Recovery from Section 8 Program</u>	
	3,467
 <u>Debt Service Fund</u>	
Property Tax	
Total	<u>37,275</u>
	<u>\$203,640</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2008, and interfund transfers during the fiscal year ended at June 30, 2008, 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	\$1,047,583
General Fund	SRF – Federal Grants (FG)	Reimbursable Expenditures	333,555
General Fund	CPF – Capital Project Fund	Payment of Interest	254,313
SRF – SLG	SRF – Federal Grants	Reimbursable Expenditures	58,322
SRF – SLG	SRF – State & Local Grants	Reimbursable Expenditures	206,903
SRF – SLG	CPF – Capital Project Fund	Reimbursable Expenditures	7,724
SRF – SLG	General Fund	Reimbursable Expenditures	1,462,745
CPF	CPF – Capital Project Fund	Reimbursable Expenditures	449
CPF	SRF – State & Local Grants	Reimbursable Expenditures	30,843
CPF	General Fund	Reimbursable Expenditures	88,846
SRF – FG	General Fund	Reimbursable Expenditures	309,875
SRF – FG	SRF – Federal Grants	Reimbursable Expenditures	26,296
SRF – FG	SRF – State & Local Grants	Reimbursable Expenditures	<u>78,461</u>
Total			<u>\$3,905,915</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

4. INTERFUND TRANSACTIONS (CONTINUED)

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	<u>\$ 216,175</u>

5. CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2007</u>	<u>Transfers in &</u> <u>Additions</u>	<u>Transfers out &</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital asset, not being depreciated:				
Land	\$1,579,735	\$ 141,054		\$1,720,789
Construction in progress	<u>2,478,973</u>	<u>1,519,485</u>	(\$ 2,478,973)	<u>1,519,485</u>
Total capital assets not being depreciated	<u>4,058,708</u>	<u>1,660,539</u>	(2,478,973)	<u>3,240,274</u>
Capital assets, being depreciated:				
Buildings	\$15,309,071	1,159,941		\$16,469,012
Buildings improvements	8,605,806			8,605,806
Infrastructure	4,876,232	1,177,978		6,054,210
Equipment	2,637,342	252,506		2,889,848
Vehicles	<u>4,150,087</u>	<u>221,296</u>	-	<u>4,371,383</u>
Total capital assets being depreciated	<u>\$35,578,538</u>	<u>2,811,721</u>	-	<u>\$38,390,259</u>
Less accumulated depreciation for:				
Buildings	\$ 5,431,934	490,817		\$ 5,922,751
Buildings improvements	2,481,655	262,801		2,744,456
Infrastructure	1,825,588	1,032,761		2,858,349
Equipment	1,760,431	311,294		2,071,725
Vehicles	<u>2,974,910</u>	<u>339,023</u>	-	<u>3,313,933</u>
Total accumulated depreciation	<u>\$14,474,518</u>	<u>2,436,696</u>	-	<u>\$16,911,214</u>
Total capital assets being depreciated, net	<u>\$21,104,020</u>	<u>375,025</u>	-	<u>\$21,479,045</u>
Governmental activities capital assets, net	<u>\$25,162,728</u>	<u>\$ 2,035,564</u>	(\$ 2,478,973)	<u>\$24,719,319</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 111,720
Public safety	59,850
Public works	1,365,973
Culture and recreation	482,895
Health and welfare	79,821
Community development	305,609
Economic development	30,653
Education	<u>175</u>
Total depreciation expense-governmental activities	<u>\$ 2,436,696</u>

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 2007-2008 the CRIM advanced to the Municipality of Guayanilla the amount of \$500,035 less than the tax actually collected by the CRIM which will be remitted during the fiscal year 2008-2009.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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, 2008, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$2,373,452 and is payable as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2009	\$ 66,000
2010	102,000
2011	120,000
2012	130,000
2013	180,000
Thereafter	<u>1,775,452</u>
Total	<u>\$2,373,452</u>

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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

6. PROPERTY TAXES (CONTINUED)

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 \$2,061,442 and \$120,171 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 \$877,894 in the general fund relates to municipal license tax collected in fiscal year 2007-08 that will be earned in fiscal year 2008-09.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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	\$251,476
Federal Transit: Capital Investment Grants	211,812
Child and Adult Care Food Program	14,077
Section 8 - Housing Choice Voucher	200,851
Other	<u>1,380</u>
Total	<u>\$679,596</u>

8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008, 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	\$ 7,566,000	\$3,935,000	\$ 404,000	\$11,097,000	\$ 410,000
Notes Payable	475,000		155,000	320,000	165,000
Advances- Department of Treasury	83,332		18,868	64,464	18,868
Property Tax - Department of Treasury	2,409,452		36,000	2,373,452	66,000
Property Tax - CRIM - "Law 42"	2,335,344		273,902	2,061,442	273,902
Property Tax - CRIM - "Law 146"	127,156		6,985	120,171	5,086
Puerto Rico Aqueduct and Sewer Authority	145,478	161,739	129,078	178,139	129,139
Department of Labor and Human Resources	314,597	163,554	314,597	163,554	108,551
Retirement Administration	182,651	37,990		220,641	220,641
Compensated Absences	1,549,707	908,385	546,045	1,912,047	83,714
Income Tax Withheld		61,819		61,819	46,364
Claims and judgments	<u>1,160,000</u>		<u>610,000</u>	<u>550,000</u>	<u>550,000</u>
Total	<u>\$16,348,717</u>	<u>\$5,268,487</u>	<u>\$2,494,475</u>	<u>\$19,122,729</u>	<u>\$2,077,265</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

8. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.
2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition of equipment, construction projects and operational loans payments. During the current year, the Municipality issued bonds for \$3,935,000. Bonds payable outstanding at June 30, 2008 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, 2008</u>
1987 Series	1/1/2011	\$ 194,000	5.00%	\$ 42,000
1988 Series	1/1/2013	270,000	5.00%	90,000
1994 Series	7/1/2008	260,000	5.00% - 7.61%	30,000
1996 Series	1/1/2020	238,000	4.50%	173,000
1998 Series	1/1/2022	122,000	4.50%	97,000
1998 Series	7/1/2023	715,000	2.70% - 6.13%	610,000
2001 Series	7/1/2025	1,300,000	5.00% - 7.50%	1,140,000
2003 Series	7/1/2027	1,230,000	5.00% - 6.50%	1,115,000
2003 Series	7/1/2027	405,000	5.00% - 6.50%	365,000
2003 Series	7/1/2027	875,000	5.00% - 6.00%	765,000
2004 Series	7/1/2028	330,000	4.00% - 5.00%	310,000
2004 Series	7/1/2012	525,000	3.28% - 5.00%	320,000
2005 Series	7/1/2010	130,000	4.37% - 5.00%	55,000
2005 Series	7/1/2025	730,000	4.37% - 5.00%	665,000
2005 Series	7/1/2015	525,000	5.00% - 5.50%	445,000
2006 Series	7/1/2025	835,000	4.77% - 5.31%	795,000
2007 Series	7/1/2031	150,000	6.60% - 7.25%	145,000
2007 Series	7/1/2028	560,000	6.75%	560,000
2008 Series	7/1/2015	185,000	7.50%	185,000
2008 Series	7/1/2033	3,190,000	7.00% - 7.50%	<u>3,190,000</u>

Total general obligation bonds

\$11,097,000

These bonds, except the bonds of \$875,000, are payable from the ad valorem property tax of 1.75% and from sales tax of .3% which are restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

8. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 410,000	\$ 584,378
2010	483,000	678,488
2011	476,000	650,865
2012	493,000	622,262
2013	429,000	594,849
2014-2018	2,252,000	2,556,959
2019-2023	2,674,000	1,794,465
2024-2028	2,655,000	875,282
2029-2033	<u>1,225,000</u>	<u>235,375</u>
Total	<u>\$11,097,000</u>	<u>\$ 8,592,923</u>

3. Notes Payable- The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. 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, 2008</u>
2003 Series	7/1/2009	\$820,000	5.00% - 6.00%	\$ 140,000
2007 Series	7/1/2031	\$205,000	6.60% - 7.50%	<u>180,000</u>
Total notes payable				<u>\$ 320,000</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>
2009	\$165,000	\$ 24,863
2010	25,000	14,887
2011	30,000	8,625
2012	30,000	6,375
2013	35,000	3,938
2014	<u>35,000</u>	<u>1,312</u>
Total	<u>\$ 320,000</u>	<u>\$ 60,000</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, 2008, as described in Note 6, from property tax advances in excess of actual collections.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

8. LONG-TERM LIABILITIES (CONTINUED)

5. **Compensated absences-** The government-wide statement of net assets includes approximately \$1,022,051, of accrued sick leave benefits, and approximately \$889,996, 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 plans sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

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

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

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

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

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2008, amounted to approximately \$181,244 and \$206,757, respectively.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

9. PENSION PLAN (CONTINUED)

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

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

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

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. Based on legal counsel assessment

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

11. CONTINGENCIES (CONTINUED)

management did not made provision for these legal claims for the year ended in June 30, 2008.

With respect to pending and threatened litigation, the Municipality has not reported liabilities of approximately for 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.

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.

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. SUBSEQUENT EVENT

On September of 2008, the municipality obtained a loan of \$550,000, for the payment of the second and final installment of a lawsuit. The total amount of the transaction was \$1,100,000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES AND OTHER FINANCING SOURCES:</u>				
Property taxes	\$1,768,137	\$1,768,137	\$1,803,334	\$ 35,197
Municipal license tax	3,476,344	3,476,344	3,629,812	153,468
Licenses, permits and other local taxes	687,000	687,000	413,931	(273,069)
Charges for service	99,000	99,000	87,053	(11,947)
Intergovernmental	4,502,920	4,502,920	3,369,854	(1,133,066)
Interest	30,000	30,000	146,852	116,852
Miscellaneous	42,500	42,500	122,590	80,090
Operating transfer from other fund				35,197
Total revenues and other financing sources	<u>10,605,901</u>	<u>10,605,901</u>	<u>9,573,426</u>	<u>(1,032,475)</u>
<u>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</u>				
General government	3,979,918	3,933,822	4,038,121	(104,299)
Public safety	3,292,606	3,163,136	3,409,210	(246,074)
Public works	741,341	738,039	748,197	(10,158)
Health and welfare	804,836	839,538	980,810	(141,272)
Culture and recreation	744,674	888,840	912,678	(23,838)
Public lighting	913,401	913,401	-	913,401
Operating transfer to other fund	129,125	129,125	216,175	(87,050)
Total expenditures, encumbrances and other financing uses	<u>10,605,901</u>	<u>10,605,901</u>	<u>10,305,191</u>	<u>(300,710)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(\$ 731,765)</u>	<u>(\$ 731,765)</u>

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	\$ 9,573,426
Differences-budget to GAAP:	
GAAP adjustment to revenues- Accounts Receivables	<u>1,387,389</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$10,960,815</u>

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	\$10,305,191
Differences-budget to GAAP:	
Non-budgeted expenditures- Accounts Payable & Accruals Expenses	<u>1,116,649</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$11,421,840</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
YEAR ENDED JUNE 30, 2008

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 Fund is the budget ordinance at June 30, 2008 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2008.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U. S. Department of Agriculture (USDA)			
Non-Major Program:			
Pass-through the Commonwealth of Puerto Rico-			
Department of Education:			
Child and Adult Care Food Program	10.558	N/A	\$ 25,606
U.S. Department of Housing and Urban Development (HUD)			
Major Programs:			
Direct Program			
Section 8 Housing Choice Vouchers	14.871	N/A	605,287
Pass-through the Commonwealth of Puerto Rico-Office of			
the Commissioners of Municipal Affairs:			
Community Development Block Grant/States Program	14.228	N/A	996,726
U.S. Department of Transportation (DOT)			
Non-Major Program:			
Pass-through the Commonwealth of Puerto Rico-Transit			
Safety Commission:			
Regional Community Program	20.601	N/A	8,327
U.S. Department of Health and Human Services (HHS)			
Non-Major Programs:			
Pass-through the Commonwealth of Puerto Rico-			
Governor's Office - Elderly Office:			
Child Care & Development Block Grant	93.044	N/A	81,828
Pass-through the Commonwealth of Puerto Rico-			
Administration for Children and Families:			
Child Care & Development Block Grant	93.575	N/A	246,881
Pass-through the Communal Services Institute:			
Community Service Block Grant	93.569	N/A	41,176
U.S. Department of Homeland Security (DHS)			
Non-Major Programs:			
Pass-through the Commonwealth of Puerto Rico-Governor			
Authorized Representative (GAR):			
Public Assistance Grant	83.544	N/A	16,849
Pass-through the Commonwealth of Puerto Rico-Governor			
Office - Public Security Affairs Office:			
Homeland Security Grant Program	97.067	N/A	<u>12,208</u>
Total Expenditures of Federal Awards			<u>\$2,034,888</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

1. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality of Guayanilla, Commonwealth of Puerto Rico (the Municipality) for the fiscal year ended June 30, 2008. The Municipality's reporting entity is disclosed in Note 1 to the Municipality's basic financial statements as of and for the fiscal year ended June 30, 2008.

The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



MENDOZA & RAMOS
Contadores Públicos Autorizados, C.S.P.

P.O. Box 35 • Guayama, Puerto Rico 00785

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

To the Honorable Mayor and
Members of the Municipal Legislature
MUNICIPALITY OF GUAYANILLA, PUERTO RICO

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Guayanilla, Puerto Rico (the "Municipality") as of and for the fiscal year ended June 30, 2008, which collectively comprise Municipality of Guayanilla's basic financial statements and have issued our report thereon dated December 4, 2008. The report on governmental wide financial statement was adverse because 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. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Municipality's financial statements that is more than inconsequential will not be prevented or detected by Municipality's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. See 08-01.

INDEPENDENT AUDITORS' REPORT

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-01 to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 08-01.

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

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

Mendoza & Ramos CPAs

MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
February 24, 2009

Stamp number 2395329 was
affixed to the original of this report.





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

To the Honorable Mayor and
Members of the Municipal Legislature
MUNICIPALITY OF GUAYANILLA, PUERTO RICO

Compliance

We have audited the compliance of the Municipality of Guayanilla, 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 fiscal year ended June 30, 2008. 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; 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 others 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.

As described item 08-02 and 08-03 in the schedule of findings and questioned costs, the Municipality did not comply with requirements regarding Davis Bacon and Suspension and Debarment Standards that are applicable to its Community Development Block Grant Program. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the Fiscal Year Ended June 30, 2008.

INDEPENDENT AUDITORS' REPORT

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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of federal program that is more than inconsequential will not be prevented or detected by the Municipality's internal control. We consider the deficiencies in internal control over control over compliance described in the accompanying schedule of findings and questioned costs as items 08-02 and 08-03 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of federal program will not be prevented or detected by Municipality's internal control. We do not consider any of the deficiencies described in the accompanying schedule of finding and questioned costs to be material weaknesses.

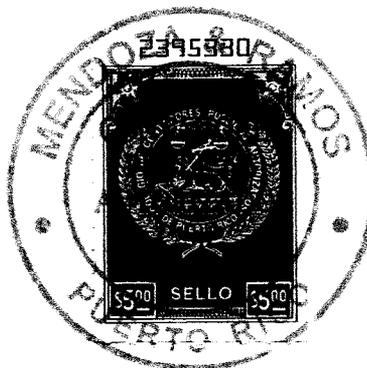
Municipality's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

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

Mendoza & Ramos CPA's

MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.
Guayama, Puerto Rico
February 24, 2009

Stamp number 2395330 was
affixed to the original of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued: Unqualified Opinion Opinion, except for adverse opinion for government-wide financial statement
 Qualified Opinion
 Adverse Opinion
 Disclaimer Opinion

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness (es)? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness (es)? Yes None Reported

Type of auditors’ report issued on compliance for Major Programs:

- Unqualified Opinion
- Qualified Opinion
- Adverse Opinion
- Disclaimer

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

The Municipality’s major programs were:

CFDA Number	Name of Federal Program
14.228	Community Development Block Grant Program / Small Cities
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

MUNICIPALITY OF GUAYANILLA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION II-FINANCIAL STATEMENT FINDINGS

FINDING NUMBER	08-01
REQUIREMENT	SIGNIFICANT DEFICIENCIES OVER PROPERTY, PLANT AND EQUIPMENT
CONDITION	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.
CRITERIA	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 Statements No. 34 requires that all capital assets, including infrastructure, must be presented in the Statements of Net Assets and that these assets must be depreciated during its useful life.
CAUSE	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
EFFECT	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.
RECOMMENDATION	We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, to comply with the requirements of the GASB Statement No. 34.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	Actually, the Municipality's Finance Department staffs continue updating the capital assets subsidiary ledger in order to comply with the GASB No. 34 capital assets requirements for the fiscal year ended on June 30, 2009.

Implementation Date: June 30, 2009

Responsible Person: Mr. Adán Feliciano
Finance Department Director

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	08-02
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	COMPLIANCE
NONCOMPLIANCE	DAVIS-BACON ACT
TOPIC SENTENCE	Non-compliance with the Davis-Bacon Act
CONDITION	Municipality did not comply adequately with Davis-Bacon Act applicable regulations. The Municipality did not required to all contractors or subcontractors, for each week in which any contracted work was performed, a copy of the payroll and a statement of compliance. There is no evidence that the Municipality verifies that all laborers employed by the contractors were paid according to the wages established by law.
CRITERIA	As stated in 29 CFR 5.5 (a)(3)(ii)(A), the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the Municipality. The payrolls submitted shall set out accurately and completely all of the information required to be maintained. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. Each payroll submitted shall be accompanied by a "Statement of Compliance", signed by the contractor or subcontractor or his or her agent who pays or supervise the payment of the persons employed under the contract and certifying all the information required under 5.5 (a)(3)(ii)(B) (1) to (3).
CAUSE	The Municipality did not required all contractors the required documentation to ascertain compliance with such requirement.
EFFECT	The Municipality may have procured services from an organization that is not complying with the applicable Department of Labor regulations and could result in cost disallowances by the federal awarding agency.
RECOMMENDATION	The Municipality should require to all contractors whose contracts are funded with CDBG award that complies with this requirement and should verify its compliance trough the designated municipal officer.
QUESTIONED COSTS	None

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING

08-02 (continued)

**MANAGEMENT RESPONSE
AND CORRECTIVE ACTION PLAN**

The Program staff with the duties of a labor standards officer has been properly advised of the need to obtain and monitor the contractors certificated payrolls.

Implementation Date: April 30, 2009

Responsible Person: Mrs. Lumari Torres Pérez
Finance Department Director

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	08-03
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	COMPLIANCE
NONCOMPLIANCE	SUSPENSION AND DEBARMENT
TOPIC SENTENCE	Lack of controls over Suspension and Debarment
CONDITION	<p>The Municipality does not have procedures in place to verify the status of an entity as to suspensions and debarments when contracting services or procuring goods with federal funds.</p> <p>In testing procurement, suspension and debarments, we were not able to find evidence indicating that the Municipality performs procedures to assure that the individuals and entities that receive contracts or subawards are not suspended or debarred from participation in federal programs.</p>
CRITERIA	As stated in 24 CFR 85.35 grantee and subgrantee must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension".
CAUSE	The Municipality has no policies and procedures for the use of the list of parties excluded from federal procurement or non-procurement programs to assure that they do not award assistance to listed parties.
EFFECT	As a result of this deficiency, the Municipality could have procured goods or services from organizations and individuals that are suspended or debarred which could result in cost disallowances by the federal awarding agency.
RECOMMENDATION	The Municipality should amend their procurement procedures and include a step to verify whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. The Municipality should also require the entities or individuals to submit a certification stating that they are not suspended or debarred.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 08-03 (continued)

QUESTIONED COSTS None.

MANAGEMENT RESPONSE
AND CORRECTIVE ACTION PLAN

We included in our procurement procedures a step to verify through the electronic version available on the Internet (<http://epls.arnet.gov>) whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs.

Implementation Date: March 31, 2009

Responsible Person: Mrs. Lumari Torres Pérez
Finance Department Director

END OF SCHEDULE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2007

Finding Number 07-02 Davis Bacon Act
CFDA 14.228
Questioned Cost None

Finding Number 07-03 Suspension and Debarment
CFDA 14.228
Questioned Cost None

FISCAL YEAR 2006

Finding Number 06-III-01 Special Test And Provisions - Reasonable Rent
CFDA 14.871
Questioned Cost None

Finding Number 06-III-02 Special Test And Provisions - Utility Allowance
CFDA 14.871
Questioned Cost None

FISCAL YEAR 2005

Finding Number 05-II-02 Special Test And Provisions - Reasonable Rent
CFDA 14.871
Questioned Cost None

Finding Number 05-II-03 Special Test And Provisions - Utility Allowance
CFDA 14.871
Questioned Cost None

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2006

Finding Number 06-III-03 Davis Bacon Act
CFDA 14.228
Questioned Cost None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

None

(4) Audit findings is no longer valid:

None

FINANCIAL DATA SCHEDULE
REQUIRED BY THE
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

001

S WITHIN THIS FDS TOOL

RC021
MUNICIPALITY OF GUAYANILLA
Puerto Rico

Non-Asset Management
Unaudited/ A:133
June 30, 2008

secci8@hotmail.com
secci8@hotmail.com

*Denotes required information



2/31/2008, and 03/31/2009

Welcome to the FDS T

Full Accrual Version 8.0

DO NOT USE THE COPY AND PASTE COMMAND

Selected PHA:

PHA Name:

State/Territory:

***Asset Management Type:**

***Submission Type:**

***Fiscal Year End:**

***Submitter Email:**

***Executive Director Email:**

This Tool is only applicable for PHAs with Fiscal Years ending 06/30/2008, 09/30/2008, 12

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Yellow - Colored Cells are Detail Links

Gray - Colored Cells are disallowed entry

		14,871
		Housing Choice Voucher
111	Cash-unrestricted	
112	Cash-restricted-modernization and development	\$67,071
113	Cash-other restricted	
114	Cash-tenant security deposits	
115	Cash - Restricted for payment of current liability	\$215,569
100	Total Cash	

121	Accounts receivable - PHA projects	
122-010	Accounts receivable - HUD other projects - Operating Subsidy	
122-020	Accounts receivable - HUD other projects - Capital fund	
122-030	Accounts receivable - HUD other projects - Other	
122	Accounts receivable - HUD other projects	
124	Account receivable - other government	
125-010	Account receivable - miscellaneous - Not For Profit	
125-020	Account receivable - miscellaneous - Partnership	
125-030	Account receivable - miscellaneous - Joint Venture	
125-040	Account receivable - miscellaneous - Tax Credit	
125-050	Account receivable - miscellaneous - Other	
125-060	Other - Comment	
125	Account receivable - miscellaneous	
126	Accounts receivable - tenants	
126.1	Allowance for doubtful accounts - tenants	
126.2	Allowance for doubtful accounts - other	
127	Notes, Loans, & Mortgages Receivable - Current	
128	Fraud recovery	
128.1	Allowance for doubtful accounts - fraud	
129	Accrued interest receivable	
120	Total receivables, net of allowance for doubtful accounts	

131	Investments - unrestricted	
132	Investments - restricted	
135	Investments - Restricted for payment of current liability	
142	Prepaid expenses and other assets	
143	Inventories	
143.1	Allowance for obsolete inventories	
144	Inter program - due from	
145	Assets held for sale	
150	Total Current Assets	

161	Land	
162	Buildings	
163	Furniture, equipment and machinery - dwellings	
164	Furniture, equipment and machinery - administration	
165	Leasehold improvements	\$21,574
166	Accumulated depreciation	
167	Construction in progress	-\$21,285
168	Infrastructure	
160	Total capital assets, net of accumulated depreciation	

171-010	Notes, Loans, & mortgages receivable - Non-current - Not For Profit	
171-020	Notes, Loans, & mortgages receivable - Non-current - Partnership	
171-030	Notes, Loans, & mortgages receivable - Non-current - Joint Venture	
171-040	Notes, Loans, & mortgages receivable - Non-current - Tax Credit	
171-050	Notes, Loans, & mortgages receivable - Non-current - Other	
171-060	Other - Comment	
171	Notes, Loans, & mortgages receivable - Non-current	
172-010	Notes, Loans, & mortgages receivable - Non-current - past due - Not For Profit	
172-020	Notes, Loans, & mortgages receivable - Non-current - Partnership	
172-030	Notes, Loans, & mortgages receivable - Non-current - Joint Venture	
172-040	Notes, Loans, & mortgages receivable - Non-current - Tax Credit	
172-050	Notes, Loans, & mortgages receivable - Non-current - Other	
172-060	Other - Comment	
172	Notes, Loans, & mortgages receivable - Non-current - past due	

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 Gray - Colored Cells are disallowed entry

No	Description	Total Programs	Disallowed Choice Variables
			14,871
173	Grants receivable - Non-current		
174-010	Other assets - Not For Profit		
174-020	Other assets - Partnership		
174-030	Other assets - Joint Venture		
174-040	Other assets - Tax Credit		
174-050	Other assets - Other		
174-060	Other - Comment		
174	Other assets		
176-010	Investment in Joint venture - Not For Profit		
176-020	Investment in Joint venture - Partnership		
176-030	Investment in Joint venture - Joint Venture		
176-040	Investment in Joint venture - Tax Credit		
176-050	Investment in Joint venture - Other		
176-060	Other - Comment		
176	Investment in joint venture		
180	Total Non-current Assets		
190	Total Assets		

311	Bank overdraft		
312	Accounts payable <= 90 days		
313	Accounts payable > 90 days past due		
321	Accrued wage/payroll taxes payable		
322	Accrued compensated absences - current portion		
324	Accrued contingency liability		\$3,333
325	Accrued interest payable		
331-010	Accounts payable - HUD PHA Programs - Operating Subsidy		
331-020	Accounts payable - HUD PHA Programs - Capital fund		
331-030	Accounts payable - HUD PHA Programs - Other		
331	Accounts payable - HUD PHA Programs		
332	Accounts payable - PHA Projects		
333	Accounts payable - other government		
341	Tenant security deposits		\$84,656
342-010	Deferred revenue - Operating Subsidy		
342-020	Deferred revenue - Capital fund		
342-030	Deferred revenue - Other		
342	Deferred revenue		
343-010	CFFP		
343-020	Capital Projects/ Mortgage Revenue		
343	Current portion of long-term debt - capital projects/mortgage revenue bonds		
344	Current portion of long-term debt - operating borrowings		
345	Other current liabilities		
346	Accrued liabilities - other		
347	Inter program - due to		
348-010	Loan liability - current - Not For Profit		
348-020	Loan liability - current - Partnership		
348-030	Loan liability - current - Joint Venture		
348-040	Loan liability - current - Tax Credit		
348-050	Loan liability - current - Other		
348-060	Other - Comment		
348	Loan liability - current		
310	Total Current Liabilities	\$87,989	\$87,989

351-010	Long-term debt - CFFP		
351-020	Long-term - Capital Projects/ Mortgage Revenue		
351	Capital Projects/ Mortgage Revenue Bonds		
352	Long-term debt, net of current - operating borrowings		
353	Non-current liabilities - other		
354	Accrued compensated absences- Non-current		
355-010	Loan liability - Non-current - Not For Profit		\$9,998
355-020	Loan liability - Non-current - Partnership		
355-030	Loan liability - Non-current - Joint Venture		
355-040	Loan liability - Non-current - Tax Credit		
355-050	Loan liability - Non-current - Other		
355-060	Other - Comment		

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Yellow - Colored Cells are Detail Links

Gray - Colored Cells are disallowed entry

	Description	Total Program	Housing Choice Vouchers
			14,871
355	Loan liability - Non-current		
356	FASB 5 Liabilities		
357	Accrued Pension and OPEB Liability		
350	Total Non-current liabilities		
300	Total Liabilities		
508.1	Invested in capital assets, net of related debt		
511.1	Restricted Net Assets		\$289
512.1	Unrestricted Net Assets		\$215,569
513	Total Equity/Net Assets		-\$30,916
600	Total Liabilities and Equity/Net assets		

70300	Net tenant rental revenue		
70400	Tenant revenue - other		
70500	Total Tenant Revenue		

70600-010	Housing assistance payments		
70600-020	Ongoing administrative fees earned		\$520,319
70600-030	Hard to house fee revenue		\$84,968
70600-031	FSS Coordinator		
70600-040	Actual independent public accountant audit costs		
70600-050	Total preliminary fees earned		
70600-060	All other fees		
70600-070	Admin fee calculation description		
70600	HUD PHA operating grants		

70610	Capital grants		
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70710	Management Fee		
70720	Asset Management Fee		
70730	Book-Keeping Fee		
70740	Front Line Service Fee		
70750	Other Fees		
70700	Total Fee Revenue		

70800	Other government grants		
71100-010	Housing Assistance Payment		
71100-020	Administrative Fee		
71100	Investment income - unrestricted		
71200	Mortgage interest income		
71300	Proceeds from disposition of assets held for sale		
71310	Cost of sale of assets		
71400-010	Housing Assistance Payment		
71400-020	Administrative Fee		
71400	Fraud recovery		
71500	Other revenue		
71600	Gain or loss on sale of capital assets		\$3,320
72000-010	Housing Assistance Payment		
72000-020	Administrative Fee		
72000	Investment income - restricted		
70000	Total Revenue	608,607	608,607

91100	Administrative salaries		
91200	Auditing fees	62,043	\$62,043
91300	Management Fee		
91310	Book-Keeping Fee		
91400	Advertising and Marketing		
91500	Employee benefit contributions - administrative		
91600	Office Expenses		\$13,844
91700	Legal Expense	3,844	\$3,844

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Item No.	Description	Total Program	Housing Choice Vouchers
91800	Travel		
91810	Allocated Overhead		
91900	Other		
91000	Total Operating-Administrative		
92000	Asset Management Fee		
92100	Tenant services - salaries		
92200	Relocation Costs		
92300	Employee benefit contributions - tenant services		
92400	Tenant services - other		
92500	Total Tenant Services		
93100	Water		
93200	Electricity		
93300	Gas		
93400	Fuel		
93500	Labor		
93600	Sewer		
93700	Employee benefit contributions - utilities		
93800	Other utilities expense		
93000	Total Utilities		
94100	Ordinary maintenance and operations - labor		
94200	Ordinary maintenance and operations - materials and other		
94300-010	Ordinary Maintenance and Operations Contracts - Garbage and Trash Removal Contracts		
94300-020	Ordinary Maintenance and Operations Contracts - Heating & Cooling Contracts		
94300-030	Ordinary Maintenance and Operations Contracts - Snow Removal Contracts		
94300-040	Ordinary Maintenance and Operations Contracts - Elevator Maintenance Contracts		
94300-050	Ordinary Maintenance and Operations Contracts - Landscape & Grounds Contracts		
94300-060	Ordinary Maintenance and Operations Contracts - Unit Turnaround Contracts		
94300-070	Ordinary Maintenance and Operations Contracts - Electrical Contracts		
94300-080	Ordinary Maintenance and Operations Contracts - Plumbing Contracts		
94300-090	Ordinary Maintenance and Operations Contracts - Extermination Contracts		
94300-100	Ordinary Maintenance and Operations Contracts - Janitorial Contracts		
94300-110	Ordinary Maintenance and Operations Contracts - Routine Maintenance Contracts		
94300-120	Ordinary Maintenance and Operations Contracts - Misc Contracts		
94300	Ordinary Maintenance and Operations Contracts		
94500	Employee benefit contribution - ordinary maintenance		
94000	Total Maintenance		
95100	Protective services - labor		
95200	Protective services - other contract costs		
95300	Protective services - other		
95500	Employee benefit contributions - protective services		
95000	Total Protective Services		
96110	Property Insurance		
96120	Liability Insurance		
96130	Workmen's Compensation		
96140	All Other Insurance		
96100	Total Insurance Premiums		
96200	Other general expenses		
96210	Compensated absences		
96300	Payments in lieu of taxes		
96400	Bad debt - tenant rents		
96500	Bad debt - mortgages		
96600	Bad debt - other		
96800	Severance expense		

14,871

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		14:871	
Line Item No.	Description	Total Programs	Housing Choice Vouchers
96000	Total Other General Expenses		
96710	Interest of Mortgage (or Bonds) Payable		
96720	Interest on Notes Payable (Short and Long Term)		
96730	Amortization of Bond Issue Costs		
96700	Total Interest Expense and Amortization Cost		
96900	Total Operating Expenses		
97000	Excess Revenue Over Operating Expenses		
97100	Extraordinary maintenance		
97200	Casualty losses- Non-capitalized		
97300-010	Mainstream 1 & 5 year		
97300-020	Home-Ownership		
97300-025	Litigation		
97300-030	Hope IV		
97300-035	Moving to Work		
97300-040	Tenant Protection		
97300-050	All Other		
97300	Housing assistance payments		\$494,445
97350	HAP Portability-in		
97400	Depreciation expense		
97500	Fraud losses		\$410
97800	Dwelling units rent expense		
90000	Total Expenses		
10010	Operating transfer in		
10020	Operating transfer out		
10030-010	Not For Profit		
10030-020	Partnership		
10030-030	Joint Venture		
10030-040	Tax Credit		
10030-050	Other		
10030-060	Other Comment		
10030	Operating transfers from / to primary government		
10040	Operating transfers from / to component unit		
10070	Extraordinary items, net gain/loss		
10080	Special items, net gain/loss		
10091	Inter Project Excess Cash Transfer In		
10092	Inter Project Excess Cash Transfer Out		
10093	Transfers between Programs and Projects - in		
10094	Transfers between Programs and Projects - out		
10100	Total other financing sources (uses)		
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ 34,021	\$ 35,021
11020	Required Annual Debt Principal Payments		
11030	Beginning equity		
11040-010	Prior period adjustments and correction of errors - Editable		
11040-020	Prior period adjustments and correction of errors - Editable		
11040-030	Prior period adjustments and correction of errors - Editable		
11040-040	Prior period adjustments and correction of errors - Editable		
11040-050	Prior period adjustments and correction of errors - Editable		
11040-060	Prior period adjustments and correction of errors - Editable		
11040-070	Equity Transfers		
11040-080	Equity Transfers		
11040-090	Equity Transfers		
11040-100	Equity Transfers		
11040-110	Equity Transfers		
11040	Prior period adjustments, equity transfers, and correction of errors		
11170-001	Administrative Fee Equity- Beginning Balance	(35,536)	-35,536

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Description		Total Programs	Housing Choice Vouchers
11170-010	Administrative Fee Revenue		14,871
11170-020	Hard to House Fee Revenue		
11170-021	FSS Coordinator Grant		
11170-030	Audit Costs		
11170-040	Investment Income		
11170-045	Fraud Recovery Revenue		
11170-050	Other Revenue		
11170-051	Comment for Other Revenue		\$82
11170-060	Total Admin Fee Revenues		
11170-080	Total Operating Expenses		
11170-090	Depreciation		
11170-095	Housing Assistance Portability In		
11170-100	Other Expenses		
11170-101	Comment for Other Expense		
11170-110	Total Expenses		
11170-002	Net Administrative Fee		
11170-003	Administrative Fee Equity- Ending Balance		
11170	Administrative Fee Equity		
11180-001	Housing Assistance Payments Equity - Begining Balance		
11180-010	Housing Assistance Payment Revenues		\$186,457
11180-015	Fraud Recovery Revenue		
11180-020	Other Revenue		
11180-021	Comment for Other Revenue		\$3,238
11180-025	Investment Income		
11180-030	Total HAP Revenues		
11180-080	Housing Assistance Payments		
11180-090	Other Expenses		
11180-091	Comments for Other Expenses		
11180-100	Total Housing Assistance Payments Expenses		
11180-002	Net Housing Assistance Payments		
11180-003	Housing Assistance Payments Equity-Ending Balance		
11180	Housing Assistance Payments Equity		
11190-210	Total ACC HCV Units		
11190-220	Unfunded Units		1,752
11190-230	Other Adjustments		
11190	Unit Months Available		
11210	Unit Months Leased		1512
11270	Excess Cash		
11610	Land Purchases		
11620	Building Purchases		
11630	Furniture & Equipment-Dwelling Purchases		
11640	Furniture & Equipment-Administrative Purchases		
11650	Leasehold Improvements Purchases		
11660	Infrastructure Purchases		
13510	CFFP Debt Service Payments		
13901	Replacement Housing Factor Funds		