

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

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

OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2009

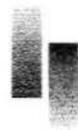
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2009

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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 and each major fund of the Municipality of Guayanilla, Puerto Rico, as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 does not maintain adequate records for capital assets, accumulated depreciation and the related depreciation expense and we were unable to satisfy ourselves about such balances through alternate procedures. Therefore, we were not able to obtain sufficient evidence to satisfy ourselves on the amounts reported as capital assets and accumulated depreciation stated at \$46,800,283 and \$19,437,922, respectively as of June 30, 2009, respectively, and the amount of depreciation expense stated at \$2,526,707 for the year then ended.

Also, the Municipality has classified some amounts owed to contractors as a long-term liability in the accompanying statement of net assets and did not recognize such amounts in the accompanying balance sheet. Such obligation should be recognized as an accrued liability to conform with the accounting principles generally accepted in the United States of America because they were due at June 30, 2009. If the financial statements were corrected for that departure from U.S. generally accepted accounting principles, accrued liabilities, total current liabilities and the deficit in the general fund balance would be increased by \$538,222 in the accompanying statement of net assets and balance sheet, respectively.

In our opinion, except for the effects of classifying the amounts owed to contractors as a long-term liability and of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to satisfy ourselves on the amounts reported as capital assets and related accumulated depreciation, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Municipality of Guayanilla as of June 30, 2009 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, except for the effects of not classifying the \$538,222 as an accrued liability, as discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of each major fund of the Municipality of Guayanilla as of June 30, 2009 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2010, 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 agreements and other matters. 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 management's discussion and analysis and budgetary comparison schedule presented on pages 3 through 11 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. 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.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Municipality. Such information has been subjected to the auditing procedures applied in the audit of the 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 30, 2009

The stamp number 2395381
was affixed to the original
of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2009

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, 2009. 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>2008-2009</u>	<u>2007-2008</u>
The Municipality changes in net assets	\$ 1,316,916	(\$ 1,931,581)
The governmental activities revenue	\$ 3,812,426	\$ 447,779
The governmental activities expenditures	\$ 2,495,510	\$ 2,379,360
The General Fund (the primary operating fund) on a current financial resource basis	(\$ 1,050,617)	(\$ 461,025)
Actual revenues (expenses) exceeded actual expenditures (revenues) - on a budgetary basis	(\$ 640,720)	(\$ 731,765)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (Continued)

	Fiscal Years	
	Increase (decrease)	
	<u>2008-2009</u>	<u>2007-2008</u>
The Municipality issued bonds mainly to finance the capital projects, purchase of equipment and payment of operational debts	\$ 560,000	\$ 3,935,000

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, 2009

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, 2009

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 \$9,700,923 at June 30, 2009, compared to \$9,539,341 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 \$19,265,362 (\$15,127,319 in previous year). The Municipality's net assets is also composed of net liabilities amounting to \$4,515,937 (\$5,756,771 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 \$14,080,376 (\$11,375,523 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.

A decrease of \$2,450,705 in current assets was mainly due mainly to a significant decrease of cash available due to a significant use of cash from Capital Project Fund in the acquisition of capital assets.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (Continued)

The increase of \$2,643,043 in capital assets was due mainly that the capital disbursement exceeds the depreciation expense during the fiscal year 2008-2009. The increase in investment in capital assets of \$4,137,943 was due mainly to a significant increase in the disbursement of capital loans' proceeds to acquire 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, 2009</u>	<u>June 30, 2008</u>
Current assets	\$ 5,930,481	\$ 8,381,186
Capital assets	<u>27,362,362</u>	<u>24,719,319</u>
Total assets	<u>33,292,843</u>	<u>33,100,505</u>
Current liabilities	3,114,977	3,229,507
Non-current liabilities	<u>20,476,943</u>	<u>19,091,955</u>
Total liabilities	<u>23,591,920</u>	<u>22,321,462</u>
Invested in capital assets, net of related debt	19,265,362	15,127,319
Restricted	4,515,937	5,756,771
Unrestricted (deficit)	<u>(14,080,376)</u>	<u>(11,344,749)</u>
Total net assets	<u>\$ 9,700,923</u>	<u>\$ 9,539,341</u>

Changes in Net Assets

The Municipality's net assets increase by \$161,582 during the fiscal year 2008-09 (decrease of \$1,155,334 in the prior fiscal year). Approximately 40 percent (45 percent in previous year) of the Municipality's total revenue came from taxes, while 50 percent (54 percent in previous year) resulted from restricted and unrestricted capital and operating grants, contributions and reimbursements, including federal financial assistance. Charges for Services provided 5 percent of the total revenues during the fiscal years (1 percent in previous year) . 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 an increase in municipal license tax, charges for services and capital grants and contributions during the fiscal year 2008-2009.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (Continued)

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>2009</u>	June 30, <u>2008</u>
Program revenues:		
Charges for services	\$1,047,380	\$ 131,047
Operating grants and contributions	3,165,794	2,952,713
Capital grants and contributions	3,690,710	1,546,470
General revenues:		
Property taxes	2,544,295	2,814,478
Municipal license tax	4,241,797	3,101,859
Sales tax	895,785	811,315
Grants and contributions not restricted to specific programs	3,717,012	3,522,285
Other local taxes	167,026	496,331
Interest and investment earnings	96,729	162,547
Miscellaneous	<u>136,407</u>	<u>351,464</u>
Total revenues	<u>19,702,935</u>	<u>15,890,509</u>
Expense:		
General government	5,628,639	4,675,995
Public safety	1,244,317	989,427
Public works	6,402,737	5,545,510
Culture and recreation	1,565,342	2,712,262
Health and welfare	3,661,686	992,592
Community development	1,654	540,813
Economic development	285,181	914,377
Education	224,996	262,341
Interest on long-term debt	<u>526,801</u>	<u>412,526</u>
Total expenses	<u>19,541,353</u>	<u>17,045,843</u>
Change in net assets	161,582	(1,155,334)
Net assets, beginning of year, as restated	<u>9,539,341</u>	<u>10,694,675</u>
Net assets, end of year	<u>\$ 9,700,923</u>	<u>\$ 9,539,341</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$2,151,261 (\$4,332,685 in previous year), a decrease of \$2,382,275 (\$1,683,289 in previous year) in comparison with the prior year. There are reservations of fund balance amounting to \$4,040,937 (\$3,675,301 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 \$842,547 (\$895,779 in previous year), 2) to pay for capital projects by \$1,975,043 (\$3,596,683 in previous year), 3) for other purposes by \$1,213,097 (\$666,757 in previous year) and 4) to pay encumbrances by \$10,250 (\$31,701 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, 2009, the general fund has a fund balance of (\$1,861,835), ((\$811,218) as of June 30, 2008), 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, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2009, amounts to \$46,800,283 (\$41,630,533 in previous year), net of accumulated depreciation of \$19,437,922 (\$16,911,214 in previous year), leaving a net book value of \$27,362,362 (\$24,719,319 in previous year). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was \$2,643,043 (a decrease of \$ 443,409 in previous year) in terms of net book value. Depreciation charges for the year totaled \$2,526,707 (\$2,436,696 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, 2009 the Municipality has \$1,846,766 (\$3,730,648 as of June 30, 2008) 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 "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS
YEAR ENDED JUNE 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2008-2009.

FINANCIAL CONTACT

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

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

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 661,072
Cash with fiscal agent	3,220,211
Accounts receivable:	
Intergovernmental	1,329,335
Others	719,863
Capital assets	
Land, improvements, and construction in progress	6,440,300
Other capital assets, net of depreciation	20,922,062
Total capital assets	27,362,362
Total assets	33,292,843
Liabilities	
Accounts payable and accrued liabilities	1,285,940
Outstanding checks in excess of cash balance	30,518
Due to other governmental entities	182,669
Interest payable	171,673
Deferred revenues:	
Municipal license tax	1,045,462
Federal grants	398,715
Noncurrent liabilities:	
Due within one year	2,189,347
Due in more than one year	18,287,596
Total liabilities	23,591,920
Net Assets	
Invested in capital assets, net of related debt	19,265,362
Restricted for:	
Capital projects	1,975,043
Debt service	1,317,547
Other purposes	1,223,347
Unrestricted (deficit)	(14,080,376)
Total net assets	\$ 9,700,923

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, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
				Governmental Activities	
General government	\$ 5,628,639		\$ 350,109	\$ 260	\$ (5,278,270)
Public safety	1,244,317	\$ 261,937	69,931	12,046	(900,403)
Public works	6,402,737	41,525	1,075,862	1,890,089	(3,395,261)
Health and welfare	3,661,686	673,430	1,024,937	116,357	(1,846,962)
Culture and recreation	1,565,342	70,488	17,707	692,330	(784,817)
Economic development	285,181		254,528		(30,653)
Community development	1,654		215,952	979,628	1,193,926
Education	224,996		156,768		(68,228)
Interest on long-term debt	526,801				(526,801)
Total governmental activities	\$ 19,541,353	\$ 1,047,380	\$ 3,165,794	\$ 3,690,710	(11,637,469)
General revenues:					
					2,544,295
					4,241,797
					895,785
					167,026
					3,717,012
					96,729
					136,407
					<u>11,799,051</u>
					161,582
					9,539,341
					<u>\$ 9,700,923</u>

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

	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	\$ -	\$ 230,352	\$ 412,608	\$ 18,112		\$ 661,072
Cash with fiscal agent	17,591	-		1,846,766	\$ 1,355,854	3,220,211
Accounts receivable:						
Intergovernmental	-	1,090,564	173,361			1,263,925
Others	116,448	342,567	3,649		133,366	596,030
Due from other funds	1,778,286	1,303,862	351,571	816,755		4,250,474
Total assets	\$ 1,912,325	\$ 2,967,345	\$ 941,189	\$ 2,681,633	\$ 1,489,220	\$ 9,991,712
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 308,534	\$ 722,587	\$ 15,842	\$ 238,977		\$ 1,285,940
Outstanding checks in excess of cash balance	30,518					30,518
Due to other governmental entities	182,669	-				182,669
Due to other funds	2,206,977	1,236,592	339,292	467,613		4,250,474
Deferred revenues:						-
Municipal license tax	1,045,462	-				1,045,462
Federal grant revenues			398,715			398,715
Mature bonds due and payable					475,000	475,000
Interest payable					171,673	171,673
Total liabilities	\$ 3,774,160	\$ 1,959,179	\$ 753,849	\$ 706,590	\$ 646,673	\$ 7,840,451
Fund balances:						
Reserved for:						
Encumbrances	\$ 10,250					\$ 10,250
Capital projects				\$ 1,975,043		1,975,043
Other purposes	17,591	\$ 1,008,166	\$ 187,340			1,213,097
Reserved reported in nonmajor funds:						-
Debt service fund					\$ 842,547	842,547
Unreserved:						-
Undesignated (deficit)	(1,889,676)					(1,889,676)
Total fund balances	\$ (1,861,835)	\$ 1,008,166	\$ 187,340	\$ 1,975,043	\$ 842,547	\$ 2,151,261
Total liabilities and fund balances	\$ 1,912,325	\$ 2,967,345	\$ 941,189	\$ 2,681,633	\$ 1,489,220	\$ 9,991,712

Commonwealth of Puerto Rico
Municipality of Guayanilla
Reconciliation of Balance Sheet- Governmental Funds
to the Statement of Net Assets
June 30, 2009

Agregate fund balance reported in the balance sheet - governmental funds \$ 2,151,261

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 27,362,362

Accounts receivables not collected 60 days after the closing date are not recognize in governmental Funds 189,243

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

Bonds payable	(10,772,000)
Notes payable	(155,000)
Advances - Department of Treasury	(45,596)
Property Tax – Department of Treasury	(2,307,452)
Property Tax – CRIM – Law 42	(3,336,788)
Property Tax – CRIM – Law 146	(116,983)
Compensated absences debt	(1,944,067)
Unemployment tax- Department of Labor	(59,640)
Income tax withheld- Department of Treasury	(15,455)
Water & Sewer debt- Puerto Rico Aqueduct and Sewer Authority	(210,740)
Claims and judgments debt	(1,038,222)
Net Assets reported in the accompanying statement of net assets	<u><u>\$ 9,700,923</u></u>

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

	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	\$ 1,945,710				\$ 595,397	\$ 2,541,107
Municipal license and sales taxes	4,784,466				(348,845)	5,133,311
Licenses, permits and other local taxes	286,478					286,478
Charges for services	135,806	\$ 823,901				959,707
Intergovernmental	4,718,492	2,341,587		\$ 1,200,000		8,260,079
Interest	95,904				825	96,729
Federal grants			\$ 2,494,534			2,494,534
Miscellaneous	122,553		-			122,553
Total revenues	12,089,409	3,165,488	2,494,534	1,200,000	945,067	19,894,498
Expenditures						
Current:						
General government	5,164,009	351,671	-	\$ 2,714		5,518,394
Public safety	1,010,277	39,646	147,120	4,812		1,201,855
Public works	5,091,131	585,266	268,682	1,010,712		6,955,791
Health and welfare	1,703,587	1,200,149	678,461	72,826		3,654,823
Culture and recreation	517,520	288,520	19,227	1,713,188		2,538,455
Economic development		254,528	-			254,528
Community development			1,258,717	17,588		1,276,305
Education			224,821			224,821
Debt service:						
Principal					685,000	685,000
Interest					526,801	526,801
Total expenditures	13,486,524	2,719,780	2,597,028	2,821,640	1,211,801	22,836,773
Excess (deficiency) of revenues over (under) expenditures	(1,397,115)	445,708	(102,494)	(1,621,640)	(266,734)	(2,942,275)
Other financing sources (uses)						
Transfers in					213,502	213,502
Transfers out	(213,502)					(213,502)
Advances from governmental entity						-
Long-term debt issued	560,000					560,000
Total other financing sources (uses)	346,498	-	-	-	213,502	560,000
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(1,050,617)	445,708	(102,494)	(1,621,640)	(53,232)	(2,382,275)
Fund balance beginning, as restated	(811,218)	562,458	289,834	3,596,683	895,779	4,533,536
Fund balance, ending	\$ (1,861,835)	\$ 1,008,166	\$ 187,340	\$ 1,975,043	\$ 842,547	\$ 2,151,261

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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, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (2,382,275)

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.	5,169,750
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.	(2,526,707)
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.	735,556
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.	(81,242)
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.	(193,500)
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>(560,000)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 161,582</u></u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

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 a full range of services for its citizens. These services include 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.

The following is a summary of the significant accounting policies of the Municipality:

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by GASB Statement No. 39. 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 (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Municipality. For the most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The statement of net assets presents the reporting entity's nonfiduciary assets and liabilities, with difference reported as net assets. Net assets are reported in three categories:
 - **Invested in Capital Assets, Net of Related Debt** – These consist of capital assets, net of accumulated depreciation and reduced by outstanding balance for bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **Restricted Net Assets** - These result when constraints are placed on net assets' use either externally imposed by creditors, grantors, contributors, and the like or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** - These consist on net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and (3) special items.

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

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

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes and construction excise taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues.

Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

Special items consist of revenues arising from significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Extraordinary items consist of revenues arising from significant transactions or other events that are both unusual in nature and infrequent in occurrence.

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

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

The Municipality classifies the most significant portion of its activities as governmental activities in the accompanying Government-Wide Financial Statements. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the Fund Financial Statements.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

C. Financial reporting presentation

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

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

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

Special Revenue Fund - State and Local 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.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

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

D. Measurement focus, basis of accounting and financial presentation

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

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

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter, 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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

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

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 receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

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

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	\$25
Infrastructure	40 years	\$25
Works of art	10 years	\$25
Vehicles	5 years	\$25
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

5. Review of Carrying Value of Capital Assets for Impairment - The Municipality reviews the carrying value of capital assets for impairment whenever a significant and unexpected decline in service utility of a capital asset occurs.
6. 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.

7. Compensated absences - Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.
8. 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.
9. 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. *Debt Service* - Represents net assets available to finance future debt service payments.
 - c. *Other Purposes* - Represents net assets available for specific use and/or legally segregated for other specific future use. In addition includes encumbrances which 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

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

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

- a. Transfers - Legally required transfers that are reported when incurred as "Transfer-in" by the recipient fund and as "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.
- c. Risk financing - The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2009 amounted to approximately \$176,443. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$280,251 for workers compensation insurance covering all municipal employees.

11. Future Adoption of Accounting Pronouncements - The GASB has issued the following standards that have effective dates after June 30, 2009:

- GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets (GASB No. 51). This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009.
- GASB Statement No. 52, Land and Other Real Estates Held as Investment by Endowments (GASB No. 52). This Statement requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the method and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported as fair value. This Statement is effective for periods beginning after June 30, 2009.
- GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB No. 53). This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. This Statement is effective for periods beginning after June 15, 2009.
- GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB No. 54). This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement is effective for periods beginning after June 15, 2010.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

2. DEPOSITS

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

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

Of these risks there is only one applicable to the Municipality as follows:

Custodial credit risk - In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC). In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. The Municipality's management has concluded that at June 30, 2009 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

The Municipality's cash balances in commercial banks of \$230,352, \$412,608 and \$18,112 in the 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, 2009.

The deposits at GDB of approximately \$1,846,766, that is restricted principally for capital projects in the capital project fund - state and local grants, the \$17,591 in the general fund that is principally for operational debts and the \$1,355,854 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, 2009, the tax rates were as follows:

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

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2009, net of allowance for uncollectible. Municipal license taxes collected prior to June 30, but pertaining to the next fiscal year is recorded as deferred revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (Continued)

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

Intergovernmental receivable in Special Revenue Fund - State & Local Grants and Federal Grants represent \$1,090,564 and \$173,361, respectively. Intergovernmental receivable in State & Local Grants represent amounts owed to the Municipality by State Governmental entities. Receivable from Federal Grants represent expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivables:

	<u>Amounts</u>
<u>SRF- State and Local Grants:</u>	
Infrastructure Financing Authority of Puerto Rico - PINI	\$ 852,952
Department of Labor and Human Resources	<u>237,612</u>
Total	<u>\$1,090,564</u>
 <u>SRF- Federal Grants:</u>	
Community Development Block Grant - State's Program	\$ 16,182
Department of Families and Child Care	21,308
Traffic Law Enforcement Block Grant	26,756
Home land Security Grant	14,189
FEMA - Disaster Assistance	35,368
Other	<u>59,558</u>
Sub-Total	<u>\$ 173,361</u>
Total	<u>\$ 1,263,925</u>

C. Other Receivables - Other accounts receivable as of June 30, 2009, are as follows:

<u>Concepts:</u>	<u>Amount</u>
General Fund	
Municipal licence tax	\$ 1,813
Sales tax	45,130
Local taxes	32,248
Interest	4,912
School maintenance charges	19,703
Rent	5,740
Fines	<u>6,902</u>
Sub-Total	<u>116,448</u>
 <u>Special Revenue Fund- Charges for Health Services</u>	 <u>342,567</u>
<u>Special Revenue Fund- Federal Grants</u>	<u>3,649</u>
<u>Debt Service Fund</u>	
Sales tax	29,979
Property Tax	<u>103,387</u>
Sub-Total	<u>133,366</u>
Total	<u>\$596,030</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

4. INTERFUND TRANSACTIONS

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

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	SRF- State & Local Grants	Reimbursable Expenditures	\$1,036,968
General Fund	SRF - Federal Grants (FG)	Reimbursable Expenditures	279,460
General Fund	CPF - Capital Project Fund	Payment of Interest	461,858
SRF - SLG	SRF - Federal Grants	Reimbursable Expenditures	59,842
SRF - SLG	CPF - Capital Project Fund	Reimbursable Expenditures	5,744
SRF - SLG	General Fund	Reimbursable Expenditures	1,238,276
CPF	SRF - State & Local Grants	Reimbursable Expenditures	121,163
CPF	General Fund	Reimbursable Expenditures	695,592
SRF - FG	General Fund	Reimbursable Expenditures	273,110
SRF - FG	SRF - State & Local Grants	Reimbursable Expenditures	<u>78,461</u>
Total			<u>\$4,250,474</u>

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>\$ 213,502</u>

5. CAPITAL ASSETS

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

5. CAPITAL ASSETS (CONTINUED)

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2008</u>	<u>Transfers in &</u> <u>Additions</u>	<u>Transfers out &</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital asset, not being depreciated:				
Land	\$1,720,789			\$1,720,789
Construction in progress	<u>1,519,485</u>	<u>\$ 4,719,511</u>	<u>(\$ 1,519,485)</u>	<u>4,719,511</u>
Total capital assets not being depreciated	<u>3,240,274</u>	<u>4,719,511</u>	<u>(1,519,485)</u>	<u>6,440,300</u>
Capital assets, being depreciated:				
Buildings	\$16,469,012	875,172		\$17,344,184
Buildings improvements	8,605,806			8,605,806
Infrastructure	6,054,210	644,313		6,698,523
Equipment	2,889,848	93,849		2,983,697
Vehicles	<u>4,371,383</u>	<u>356,390</u>	<u>-</u>	<u>4,727,773</u>
Total capital assets being depreciated	<u>\$38,390,259</u>	<u>\$ 1,969,724</u>	<u>-</u>	<u>\$40,359,983</u>
Less accumulated depreciation for:				
Buildings	\$ 5,922,751	503,965		\$ 6,426,716
Buildings improvements	2,744,456	261,915		3,006,371
Infrastructure	2,858,349	1,089,647		3,947,996
Equipment	2,071,725	283,981		2,355,707
Vehicles	<u>3,313,933</u>	<u>387,198</u>	<u>-</u>	<u>3,701,132</u>
Total accumulated depreciation	<u>\$16,911,214</u>	<u>\$ 2,526,707</u>	<u>-</u>	<u>\$19,437,922</u>
Total capital assets being depreciated, net	<u>\$21,479,045</u>	<u>\$ (556,983)</u>	<u>-</u>	<u>\$20,922,062</u>
Governmental activities capital assets, net	<u>\$24,719,319</u>	<u>\$ 4,162,528</u>	<u>(\$ 1,519,485)</u>	<u>\$27,362,362</u>

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

Governmental activities:

General government	\$ 112,166
Public safety	69,249
Public works	1,428,886
Culture and recreation	489,840
Health and welfare	78,664
Community development	317,074
Economic development	30,653
Education	<u>175</u>
Total depreciation expense - governmental activities	<u>\$ 2,526,707</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

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 2008-2009 the CRIM, preliminarily, advanced to the Municipality of Guayanilla the amount of \$58,568 in excess of the tax actually collected by the CRIM which will be collected during the fiscal year 2010-2011. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

7. SALES TAX

On July 4, 2006, the Governor of Puerto Rico signed into law the Taxpayer Justice Act (Act No.117, H.B. 2193). The new law imposes a municipal sales tax at a rate of 1.5% (effective July 1, 2006) and the Commonwealth sales tax at the rate of 5.5%, with an effective date of November 15, 2006. Conversely, the Commonwealth of Puerto Rico eliminated the excise tax of 6.6% on some imports (taxes on cigarettes, liquor, and cars are still in effect) and implemented the sales and use tax ("sales tax") system. Accordingly with this law the municipal sales tax is administered at the local level, and the Commonwealth sales tax is administered through the Puerto Rico Treasury Department. Consequently, separate registration and filing forms are required of retailers.

In fiscal year 2007-2008, the Municipal Legislature of the Municipality of Guayanilla approved an Ordinance establishing a citizenship contribution of 1.0% over all business or personal transactions related to sale of goods and/or services made on the Municipalities boundaries. The resources collected due to this tax assesment will be used in local activities like improvements in health services, improvements in the control and management of solid waste disposal and recycling programs, public improvements, improvements of public safety, and maintenance of all public facilities of the Municipality.

Any person/corporation is required to register with each municipality in which it conducts commercial transactions and in the Puerto Rican Treasury to obtain a Retailer's Registration Certificate, exemption certificates, and tax returns forms. The retailers are required to file and send monthly sales tax returns by the 20th day following the month in which the tax was collected.

Also, on July 29, 2007, the Governor of Puerto Rico signed into Law an amendment of Act No. 117, H.B. 2193 known as Act No. 80. The most significant amendments were: first, to uniform the tax rate at 7% of which the municipalities will collect 1% and the Puerto Rico Treasury Department the other 6%, .05% of the 6% belongs to the municipality and it is distributed through three separate funds: Municipal Development Fund, Municipal Redention Fund and Municipal Improvements Fund; secondly the establishment of a Local Commercial Rule and the elimination of source and nexus rules to impose the sale and use tax.

These funds are administered by the Government Development Bank for Puerto Rico. Finally, the Law restricts the use of the funds by the municipalities to certain specific activities.

8. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the general fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
Employee Retirement System (ERS)	\$ 162,015
P.R. Treasury Department	9,543
PR Telephone Company	5,673
AEELA	<u>5,438</u>
Total	<u>\$ 182,669</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

9. DEFERRED REVENUES

- A. Municipal License Tax - The deferred revenues of approximately \$1,045,462 in the general fund relates to municipal license tax collected in fiscal year 2008-2009 that will be earned in fiscal year 2009-2010.
- 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	\$126,417
Federal Transit: Capital Investment Grants	248,783
Child and Adult Care Food Program	19,091
Other	<u>4,424</u>
Total	<u>\$398,715</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, 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	\$11,097,000	\$ 560,000	\$ 410,000	\$11,247,000	\$ 523,000
Notes Payable	320,000		165,000	155,000	25,000
Advances - Department of Treasury	64,464		18,868	45,596	18,868
Property Tax - Department of Treasury	2,373,452		66,000	2,307,452	102,000
Property Tax - CRIM - "Law 42"	3,401,221		64,433	3,336,788	68,481
Property Tax - CRIM - "Law 146"	120,171		3,188	116,983	5,086
Puerto Rico Aqueduct and Sewer Authority	178,139	161,740	129,139	210,740	210,740
Department of Labor and Human Resources	163,554	128,093	232,007	59,640	59,640
Retirement Administration	220,641		220,641		
Compensated Absences	1,912,047	775,002	742,982	1,944,067	122,855
Income Tax Withheld	61,819		46,364	15,455	15,455
Claims and Judgments	<u>550,000</u>	<u>1,038,222</u>	<u>550,000</u>	<u>1,038,222</u>	<u>1,038,222</u>
Totals	<u>\$20,462,508</u>	<u>\$2,663,057</u>	<u>\$2,648,622</u>	<u>\$20,476,943</u>	<u>\$2,189,347</u>

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 \$560,000. Bonds payable outstanding at June 30, 2009 are as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

10. LONG-TERM LIABILITIES (CONTINUED)

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2009</u>
1987 Series	1/1/2011	\$ 194,000	5.00%	\$ 29,000
1988 Series	1/1/2013	270,000	5.00%	74,000
1996 Series	1/1/2020	238,000	4.50%	162,000
1998 Series	1/1/2022	122,000	4.50%	92,000
1998 Series	7/1/2023	715,000	2.70% - 6.13%	590,000
2001 Series	7/1/2025	1,300,000	5.00% - 7.50%	1,110,000
2003 Series	7/1/2027	1,230,000	5.00% - 6.50%	1,085,000
2003 Series	7/1/2027	405,000	5.00% - 6.50%	355,000
2003 Series	7/1/2027	875,000	5.00% - 6.00%	740,000
2004 Series	7/1/2028	330,000	4.00% - 5.00%	300,000
2004 Series	7/1/2012	525,000	3.28% - 5.00%	245,000
2005 Series	7/1/2010	130,000	4.37% - 5.00%	30,000
2005 Series	7/1/2025	730,000	4.37% - 5.00%	640,000
2005 Series	7/1/2015	525,000	5.00% - 5.50%	400,000
2006 Series	7/1/2025	835,000	4.77% - 5.31%	770,000
2007 Series	7/1/2031	150,000	6.60% - 7.25%	140,000
2007 Series	7/1/2028	560,000	6.75%	550,000
2008 Series	7/1/2015	185,000	7.50%	185,000
2008 Series	7/1/2033	3,190,000	7.00% - 7.50%	3,190,000
2009 Series	7/1/2033	560,000	2.43% - 7.00%	560,000
Total general obligation bonds				<u>\$11,247,000</u>

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 (CONTINUED)
YEAR ENDED JUNE 30, 2009

10. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 523,000	\$ 703,813
2011	521,000	685,690
2012	538,000	653,937
2013	479,000	623,199
2014	500,000	592,505
2015-2019	2,617,000	2,474,010
2020-2024	2,834,000	1,620,387
2025-2029	2,245,000	706,804
2030-2033	<u>990,000</u>	<u>153,425</u>
Total	<u>\$11,247,000</u>	<u>\$ 8,213,770</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</u> <u>Date</u>	<u>Original</u> <u>Amount</u>	<u>Range of</u> <u>Interest rates</u>	<u>Balance at</u> <u>June 30, 2009</u>
2007 Series	7/1/2031	\$205,000	6.60% - 7.50%	\$ 155,000

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 25,000	\$ 10,687
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>\$ 155,000</u>	<u>\$ 30,937</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, 2009, 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 (CONTINUED)
YEAR ENDED JUNE 30, 2009

10. LONG-TERM LIABILITIES (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, 2009, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$2,307,452 and is payable as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u> <u>Amount</u>
2010	\$ 102,000
2011	120,000
2012	130,000
2013	180,000
2014	180,000
2015-2019	990,000
2020-2023	605,452
Total	<u>\$2,307,452</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. As of June 30, 2009, the related unpaid balance presented in the statement of net assets amounted to approximately \$3,336,788 and is payable as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Amount</u>
2010	\$ 68,482	205,421
2011	72,784	201,118
2012	77,358	196,545
2013	82,218	191,684
2014	87,384	186,518
2015-2019	526,513	842,999
2020-2024	714,056	655,456
2025-2029	968,402	401,110
2030-2034	739,591	82,116
Total	<u>\$3,336,788</u>	<u>\$2,962,965</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

10. LONG-TERM LIABILITIES (CONTINUED)

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 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). As of June 30, 2009, the related unpaid balance presented in the statement of net assets amounted to approximately \$116,983 and is payable as follows:

<u>Year Ending June 30.</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2010	\$ 5,086	\$ 7,276
2011	5,086	6,959
2012	5,086	6,643
2013	5,086	6,326
2014	5,086	6,010
2015-2019	25,430	25,309
2020-2024	25,430	17,399
2025-2029	25,430	9,490
2030-2032	<u>15,263</u>	<u>1,898</u>
Total	<u>\$ 116,983</u>	<u>\$ 87,310</u>

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5. Compensated absences - The government-wide statement of net assets includes approximately \$1,110,343, of accrued sick leave benefits, and approximately \$833,724, of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

11. 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, 2009, amounted to approximately \$224,596 and \$253,449, respectively.

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

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

11. PENSION PLAN (Continued)

Required contributions for the fiscal year and two preceding years were as follows:

Type of Contribution	Contributions to Retirement Plan					
	June 30, 2009		June 30, 2008		June 30, 2007	
	Law 447	Reforma 2000	Law 447	Reforma 2000	Law 447	Reforma 2000
Required	\$ 116,473	\$136,975	\$108,576	\$98,180	\$120,457	\$ 106,213
Actual	\$ 116,473	\$136,975	\$108,576	\$98,180	\$120,457	\$ 106,213

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

12. 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.

13. 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.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$500,000 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

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.

14. CAPITAL ASSETS REPORTED VALUE

The Municipality has not maintained complete and adequate records related to the Capital Assets reported in governmental activities of the government-wide financial statements and, therefore, such condition would affect the amounts of assets, net assets, and expenses of the governmental activities. The Municipality expects to compile documents and other information in the next fiscal years in order to attain complete and accurate records of its Capital Assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

15. BEGINNING FUND BALANCE AND NET ASSETS RESTATEMENTS

The beginning Fund Balance and Governmental Activities Net Assets have been restated by approximately \$200,851 and (\$1,169,702), respectively, to properly present the previously reported fund balance and net assets at June 30, 2008. The restatement is mainly due to:

a-	The correction of the balance due to a governmental agency erroneously reported	(\$1,370,553)
b-	The change in accounting principles to recognize the revenue in a federal program grant when the funds are received instead of when they are disbursed	<u>200,851</u>
	TOTAL	<u>\$ 1,169,702</u>

MUNICIPALITY OF GUAYANILLA

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

YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 1,815,637	\$ 1,815,637	\$ 2,245,535	\$ 429,898
Municipal license tax	4,705,584	4,705,584	4,793,064	87,480
Licenses, permits and other local taxes	446,350	446,350	312,111	(134,239)
Charges for service	73,000	73,000	95,167	22,167
Intergovernmental	3,982,477	3,982,477	4,718,492	736,014
Interest	110,000	110,000	119,399	9,399
Miscellaneous	122,000	122,000	146,916	24,916
Operating transfer from other fund				-
Total revenues and other financing sources	\$ 11,255,049	\$11,255,049	\$ 12,430,683	\$1,175,634
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
General government	\$ 3,825,310	\$ 3,828,866	\$ 4,209,802	\$ (380,937)
Public works				
	4,632,321	4,532,231	5,127,064	(594,833)
Public safety	753,254	752,688	950,195	(197,507)
Health and welfare	954,786	1,109,078	1,665,283	(556,205)
Culture and recreation	856,504	818,684	905,556	(86,872)
Operating transfer to other fund	232,875	213,502	213,502	-
Total expenditures, encumbrances and other financing uses	\$ 11,255,049	\$ 11,255,049	\$ 13,071,402	\$ (1,816,353)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	-	-	(\$ 640,720)	(\$ 640,720)
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$ 12,430,683
Basis Differences-budget to GAAP:				
Long-Term Debt Issued				560,000
GAAP adjustment to revenues - Accounts Receivables				(341,276)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				\$12,649,409
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$13,071,402
Basis Differences-budget to GAAP:				
Encumbrances for supplies and equipment ordered but received are reported in the year the order is placed for budgetary reporting purposes				(74,603)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial purposes				(213,503)
Non-budgeted expenditures - Accounts Payable & Accruals Expenses				916,729
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				\$13,700,026

MUNICIPALITY OF GUAYANILLA

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

YEAR ENDED JUNE 30, 2009

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

MUNICIPALITY OF GUAYANILLA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

<u>FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE</u>	<u>CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Agriculture:		
Pass-through the Commonwealth of Puerto Rico - Department of Education: Child and Adult Care Food Program.....	10.558	\$ 15,433
U.S. Department of Housing and Urban Development:		
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioners of Municipal Affairs: Community Development Block Grant Program	14.228	1,258,717
Direct Program: Section 8 Housing Choice Voucher Program	14.871	<u>575,641</u>
Total U.S. Department of Housing and Urban Development.....		<u>1,834,358</u>
U.S. Department of Transportation:		
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission: Alcohol Traffic Safety and Drunk Driving Prevention Incentive.....	20.601	31,736
U.S. Department of Health and Human Services:		
Pass-through the Commonwealth of Puerto Rico - Governor's Office - Elderly Office Special Program for the Aging - Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	101,982
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families: Child Care & Development Block Grant	93.575	<u>244,047</u>
Total U.S. Department of Health and Human Services.....		<u>346,029</u>
U.S. Department of Homeland Security:		
Direct Program: Public Assistance Grant Program	83.544	130,283
Pass-through the Commonwealth of Puerto Rico -		

MUNICIPALITY OF GUAYANILLA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

U.S. Department of Homeland Security: (Continued)

Governor Authorized Representative (GAR):		
Disaster Grants – Public Assistance	97.036	42,962
Pass-through the Commonwealth of Puerto Rico –		
Governor Office – Public Security Affairs Office		
Homeland Security Grant Program	97.067	<u>169,991</u>
Total U.S. Department of Homeland		
Security		<u>204,273</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,570,792</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

MUNICIPALITY OF GUAYANILLA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2009

NOTE 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 year ended June 30, 2009. 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, 2009.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.

The financial transactions are recorded by the Municipality in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.

Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3: FEDERAL CFDA NUMBER

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

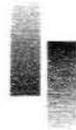
NOTE 4: PASS THROUGH GRANTOR'S NUMBER

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

NOTE 5: MAJOR PROGRAMS

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

END OF NOTES



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

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

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

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

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, 2009, which collectively comprise Municipality of Guayanilla's basic financial statements and have issued our report thereon dated December 30, 2009. The report's opinion on governmental wide financial statement was qualified because does not maintained adequate records regarding capital assets, accumulated depreciation and related depreciation expense 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

We consider the deficiencies described in the accompanying schedule of finding and questioned costs to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as finding number 09-01 and 09-02.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 09-01 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 agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other 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 findings 09-01 and 09-02.

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

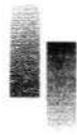
This report is intended solely for the information and use of the management, Municipal Legislature, Office of the Commissioner of Municipal Affairs, federal awarding agencies, state funding agencies, and pass-through entities, and other regulatory agencies, and is not intended to be and should not be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

Mendoza & Ramos CPAs
MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
March 15, 2010

Stamp number 2395382 was
affixed to the original of this
report.





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

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

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

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

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 year ended June 30, 2009. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. 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 in the accompanying Schedule of findings and questioned costs, the Municipality did not comply with the requirements that are applicable to its major programs, as follows:

Reference Number	Compliance Requirement	Major Program
09-03	Suspension and Debarment	Community Development Block Grant / Small Cities
09-04	Davis-Bacon	Community Development Block Grant / Small Cities

Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to such programs.

INDEPENDENT AUDITORS' REPORT

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

Internal Control Over Compliance

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing 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 the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below.

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 do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

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 other regulatory agencies, 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
March 15, 2010

Stamp number 2395383 was
affixed to the original of this
report.



MUNICIPALITY OF GUAYANILLA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Financial Statements

Type of auditors' report issued:

- Unqualified 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
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, 2009

FINDING	09-01
CATEGORY	INTERNAL CONTROL
NONCOMPLIANCE	CAPITAL ASSETS
TOPIC SENTENCE	Fixed \ Capital Assets and Expenditures – Subsidiary Ledger.
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, 2010. Implementation Date: June 30, 2010 Responsible Person: Mr. Adán Feliciano Finance Department Director

MUNICIPALITY OF GUAYANILLA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINDING	09-02
CATEGORY	INTERNAL CONTROLS
TOPIC SENTENCE	ACCOUNTING SYSTEM
CONDITIONS	The accounting system and manuals used by the Municipality to account and register the financial transactions during the fiscal year does not provide for the summarization of transactions that permit the preparation of Municipality's financial statements in conformity with the General Accepted Accounting Principles of the United States of America (GAAP).
CRITERIA	According to Article 8.010 (a) and (b) of Law Num. 81 for the Municipalities of Puerto Rico, the computerized system and the procedures of accounting and property will be design so that it allows the Municipality to carry out its functions, at the same time as they serve to maintain an uniform and coordinated accounting, that provide a complete picture of the financial operations of the Municipality and the necessary financial information that assist the Municipality Legislature, the Governor, and the Secretary of the Puerto Rico Treasury Department in the performance of its respective responsibilities. Municipalities accounting will be based on funds, Generally Accepted Accounting Principles and the requirements established by the Governmental Accounting Standard Board. Also the pronouncements of the National Committee on Governmental Accounting and the "Blue Book" will be used to design municipalities' accounting systems and fiscal procedures.
CAUSES	Municipality's accounting system and financial reports are subject to State's agencies requirements which does not allow nor provide the Municipality with the necessary tools capable of recapturing the financial information and provide financial statements.
EFFECT	The lack of an adequate accounting system which can captures all the financial information and generates Municipality's financial statements for each fiscal year affect the Municipality ability to measure the financial and nonfinancial performance of programs and activities; adequately safeguard significant assets and properly record various transactions; and hinder the Municipality from having reliable financial information to operate in an economical, efficient, and effective manner. Sound decisions on the current results and future direction of vital programs and policies are made more difficult without timely, reliable and useful financial performance information.

MUNICIPALITY OF GUAYANILLA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINDING	09-02 (Continued)
RECOMMENDATION	The Municipality should establish and implement the necessary measures that allow the summarization of the financial transactions in order to prepare the financial statements in conformity with GAAP.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>We are considering alternatives to for the acquisition of a new accounting software, and therefore, we will hope to solve our accounting system condition in a near future. But in a short term, we implemented the Peachtree accounting software as an alternate tool in order to maintain monthly reconciled records of all of our funds.</p> <p>Implementation Date: June 30, 2010</p> <p>Responsible Person: Mr. Adán Feliciano Finance Department Director</p>

MUNICIPALITY OF GUAYANILLA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINDING	09-03
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	Non compliance over suspension and debarments
CONDITIONS	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 which are granted with contracts are not suspended or debarred from participation if federal programs.
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 nonprocurement programs. The Municipality should also require the entities or individuals to submit a certification stating that they are not suspended or debarred.

MUNICIPALITY OF GUAYANILLA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINDING	09-03 (Continued)
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>We will include 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.</p> <p>Implementation Date: April 30, 2010</p> <p>Responsible Person: Mrs. Lumari Torres Pérez Finance Department Director</p>
FINDING	09-04
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.219) 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).

MUNICIPALITY OF GUAYANILLA, PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

(1) Audit Findings not corrected or Partially Corrected:

Finding Number	CFDA	Questioned Cost	Comments
05-III-08 Davis Bacon Act	14.228	None	Situation Still Prevails

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

NONE

(3) Audit findings is no longer valid:

NONE

END OF SCHEDULE