

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

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



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E. VITTIENON
DIVISION OF PLANNING AND
EVALUATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

***BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY
INFORMATION AND INDEPENDENT
AUDITORS' REPORT
(WITH ADDITIONAL REPORTS REQUIRED
UNDER THE OMB CIRCULAR A-133)***

***AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010***



***Hon. Carlos Delgado-Altieri
Mayor***

***Mrs. Rosario M. Villanueva-Bravo
Finance and Budget Director***

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

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CORRECTIVE ACTION PLAN

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562



Ortiz, Rivera, Rivera & Co.

Certified Public Accountants and Business Advisors

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis Rivera Zúñiga
CPA Zoraida Cruz Claudio

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Isabela as of June 30, 2010, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2010 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 and budgetary comparison information on pages 56 through 57 be presented to supplement the basic financial statement. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtain during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements as a whole. The accompanying supplementary information shown on pages 62 to 65 is presented for purposes of additional analysis as required by the Consolidated Audit Guide for Audits of HUD Programs issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

San Juan, Puerto Rico
December 27, 2010

The stamp 2586327 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

The following discussion will provide an overview of the Municipality's financial activities for the fiscal year ended June 30, 2010 through an analysis of the financial performance of the Municipality of Isabela. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the Municipality as a whole using the economic resources measurement focus and accrual basis of accounting:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2010 by \$64,353,393 (net assets).
- Unrestricted net assets amount to \$5,675,543 in comparison to \$4,881,867 on fiscal year 2009.
- Revenues increased by 5.99% and expenses increased 12% in comparison with fiscal year 2009.
- Net change in net assets amounted to \$5,564,261, a decrease of 15% with respect to prior year's net change, as restated.

Highlights for Fund Financial Statements

Detailed information about the Municipality's most significant funds is found in the funds financial statements, which use the current financial resources measurement focus and modified accrual basis of accounting:

- A net change of \$3,522,663 in the fund balances of the Municipality's governmental funds resulted in total ending fund balances of \$35,409,934 in the fiscal year 2010. Approximately 46% of the total fund balances is unreserved.
- For the fiscal year 2010 the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$858,210 and an unreserved fund balance of \$16,353,532. Unreserved fund balance increased 4% from prior year.

General Financial Highlights

- The investment in capital assets as of June 30, 2010 was \$48,026,690 (net of depreciation).
- Long-term debt increased to \$21,868,403.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$1,704,616.

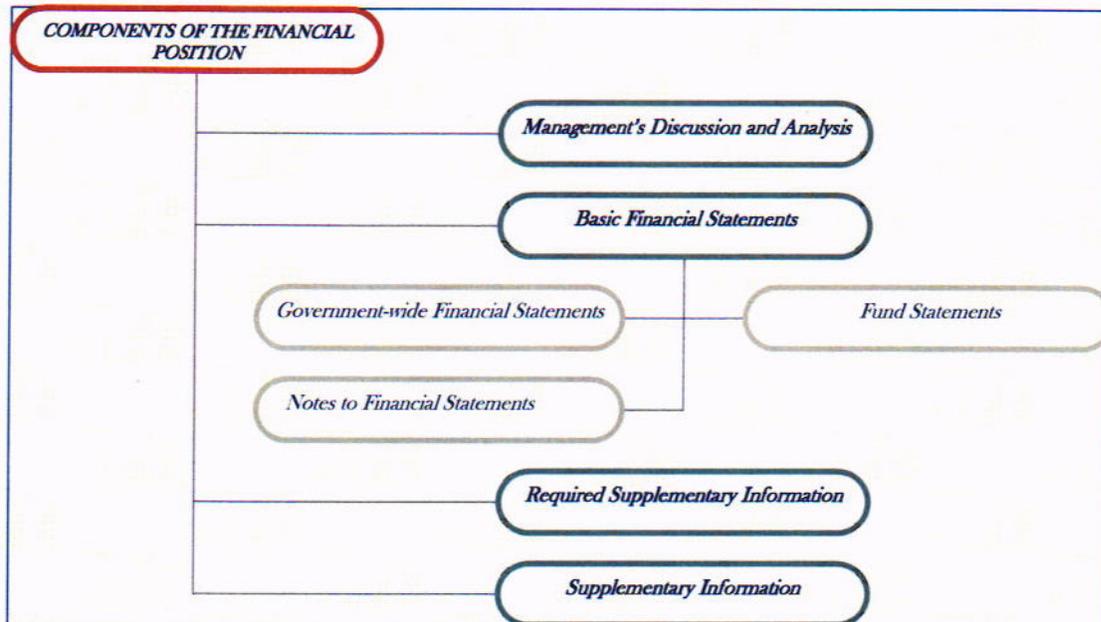
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components: (1) management's discussion and analysis (presented here), (2) basic financial statements (3) required supplementary information and (4) supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

• **Government-Wide Financial Statements**

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the statement of net assets – presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement – the statement of activities – presents information showing how the net assets changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

The government-wide statements reports as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, and community development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

• ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well as by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of expendable resources available at year end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that comply with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

• ***Notes to financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Supplementary information

The supplementary information includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2010 and 2009:

TABLE 1

<i>Summary Statement of Net Assets As of June 30,</i>		
	Governmental Activities	
	2010	2009 (as restated)
Assets		
Current and other assets	\$ 42,545,067	\$ 39,133,826
Capital assets	48,026,690	42,844,081
Total assets	\$ 90,571,757	\$ 81,977,907
Liabilities		
Current and other liabilities	\$ 4,349,961	\$ 4,771,431
Long term liabilities	21,868,403	18,417,344
Total liabilities	26,218,364	23,188,775
Net assets		
Invested in capital assets, net of related debt	39,465,266	38,602,834
Restricted	19,212,584	15,304,431
Unrestricted (deficit)	5,675,543	4,881,867
Total net assets	\$ 64,353,393	\$ 58,789,132

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year increased 9% with respect to prior year.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

Restricted net assets represent resources that are subject to external restrictions on how they may be used.

Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. As of June 30, 2010 the Municipality presented a \$5,675,543 surplus due to positive net change in net assets results for the year then ended.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

Changes in net assets

The following table summarizes the changes in net assets for the years ended June 30, 2010 and 2009:

TABLE 2

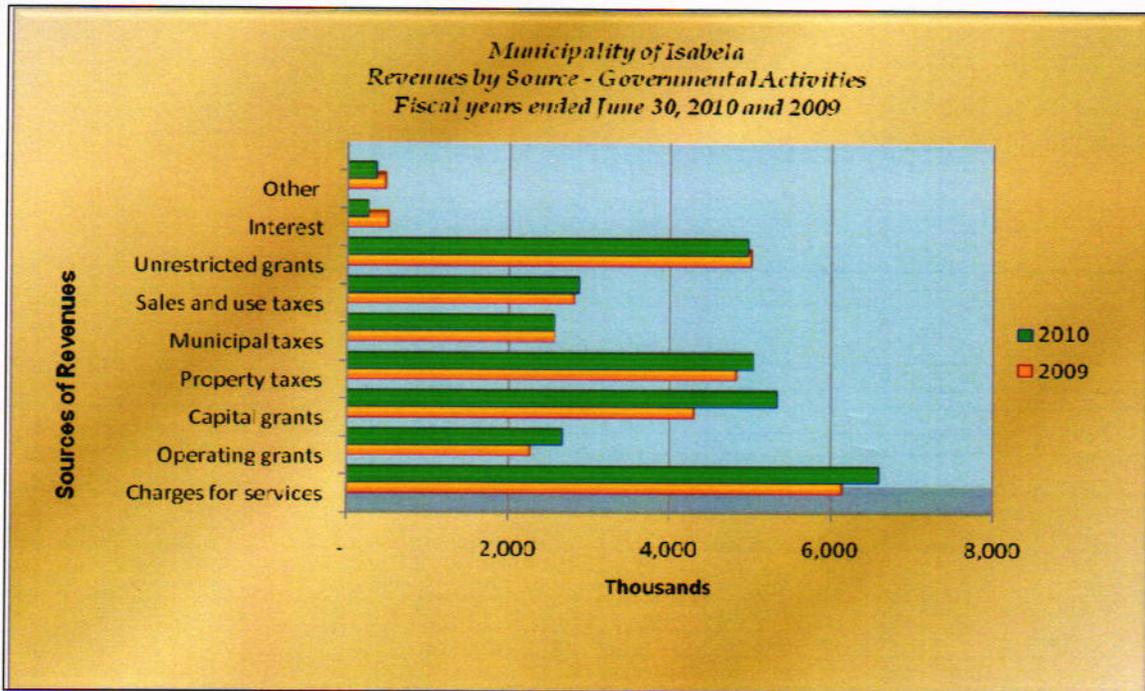
<i>Summary of Change in Net Assets As of June 30,</i>		
	Governmental Activities	
	2010	2009 (as restated)
Program revenues:		
Fees, fines and charges for services	\$ 6,590,673	\$ 6,142,349
Operating grants and contributions	2,666,982	2,274,805
Capital grants and contributions	5,328,876	4,298,499
General revenues:		
Property taxes	5,038,888	4,823,579
Municipal license taxes	2,570,979	2,572,534
Sales and use taxes	2,868,357	2,814,933
Grants and contributions not restricted to specific programs	4,967,871	5,005,790
Interest	261,006	508,637
Other	357,449	478,440
Total revenues	30,651,081	28,919,566
Expenses:		
General government	9,959,645	9,398,653
Public works and sanitation	5,113,603	3,598,173
Public safety	1,145,766	1,124,283
Culture and recreation	1,275,873	1,215,912
Health	3,131,460	2,803,578
Housing, welfare and community development	2,942,614	2,715,396
Education	1,342,927	1,184,836
Interest on long term debt	174,932	327,439
Total expenses	25,086,820	22,368,270
Change in net assets	5,564,261	6,551,296
Net assets-beginning of year	58,789,132	52,237,836
Net assets-end of year	\$ 64,353,393	\$ 58,789,132

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

FIGURE 1



Approximately 22% of the Municipality's revenues came from fees and charges for services, 17% from capital grants, 16% from property taxes and 16% from unrestricted grants. The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 40%, public works and sanitation with 20%, health and housing, welfare and community development with 12% each. Program revenues of the Municipality covered 58% of total expenses.

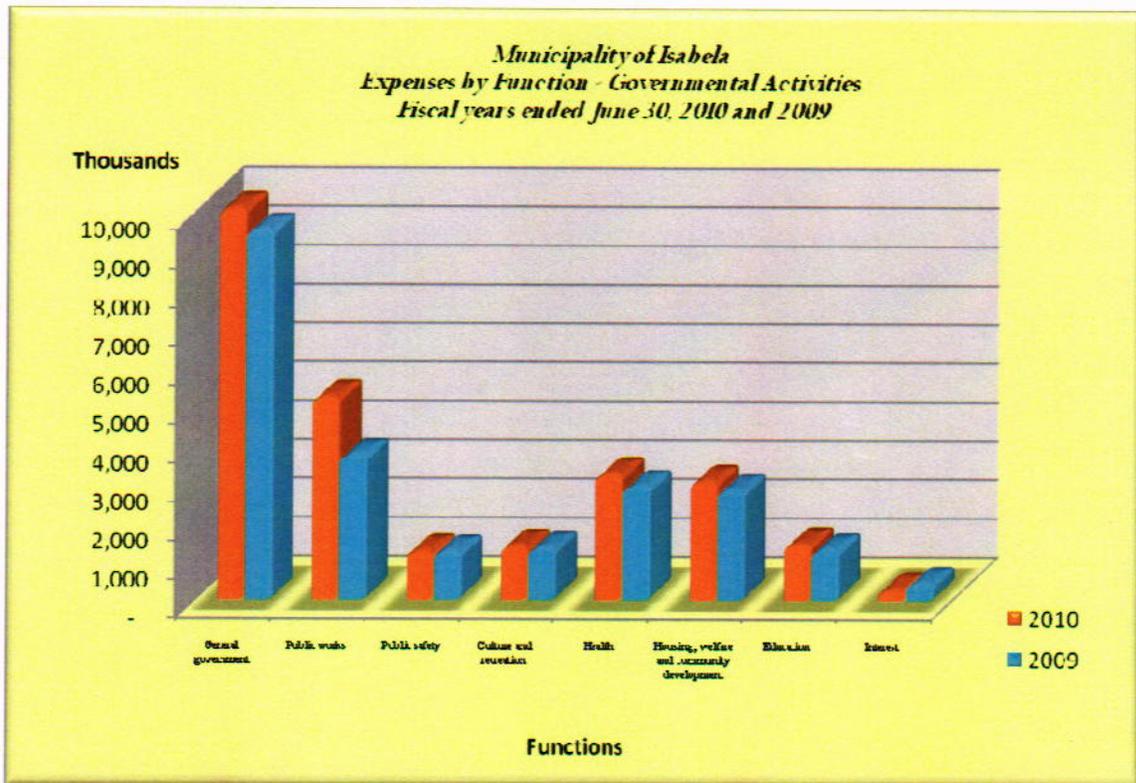
With respect to prior year, revenues reported a net increase of approximately 5.99%. This net increase is primarily the result of: (1) a 24% increase in capital grants due to \$1,533,589 in Commonwealth's stimulus plan funds received from the P.R. Infrastructure Financing Authority and a \$1,428,000 awarded by the P.R. Department of Transportation for the completion of the downtown electrical infrastructure project; (2) a 17% increase in operating grants due to the additional federal funds received under the American Reinvestment and Recovery Act ("ARRA"), including \$232,356 for the Headstart ARRA, Early Headstart and Headstart Expansion programs; (3) a 7% increase in fees, fines and charges for services due to an increase of 15% in the compensation in lieu of taxes received from the P.R. Electric Power Authority (P.R.E.P.A.); (4) a 4% increase in property taxes due to a 25% increase in the property tax collected by the Municipality's debt service fund (CAE); (5) 49% decrease in interest revenue due to a significant decline in the interest rates earned on the certificates of deposit; and (6) finally, a 25% decrease in other revenue due to 52% decrease in donated fixed assets received by the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

FIGURE 2



Expenses increased 12% in comparison with 2009 year. Significant increases were registered on public works with 42%, education with 13%, health with 12%, housing, welfare and community development with 8% and general government with 6%, which were partially offset by a 47% decrease the interest paid on long term debt. The increases in those functions were caused mainly by a 18% increase in the salaries and employee benefits paid to the employees of the public works and sanitation departments; a 168% increase in the noncapital road maintenance costs incurred during fiscal year 2010; a 26% increase in the Headstart program expenses due to the additional ARRA funds received by the Municipality, including Early Headstart and Headstart Expansion; a 13% increase in the expenses incurred by the CIMA health facility; and the implementation of the Homelessness Prevention and Rapid Re-housing program and other ARRA welfare grants received by the Municipality during the fiscal year.

As noted previously, the minimal increase in revenues and the significant increase in expenses caused a decrease of 15% in the net change in net assets with respect to prior fiscal year net change.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

The following table focuses on the cost of each of the Municipality's largest programs as well as each program's net cost (total cost less fees generated by the programs and program – specific intergovernmental aid):

TABLE 3

<i>Net Cost of Municipality's Governmental Activities Fiscal years ended June 30,</i>				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2010	2009 (as restated)	2010	2009 (as restated)
General government	\$ 9,959,645	\$ 9,398,653	\$ 5,115,531	\$ 4,868,638
Public works and sanitation	5,113,603	3,598,173	417,729	663,867
Public safety	1,145,766	1,124,283	1,075,996	918,456
Culture and recreation	1,275,873	1,215,912	1,261,662	738,004
Health	3,131,460	2,803,578	1,081,779	695,848
Housing, welfare and community development	2,942,614	2,715,396	1,062,407	1,003,131
Education	1,342,927	1,184,836	310,253	437,234
Other	174,932	327,439	174,932	327,439
	<u>\$ 25,086,820</u>	<u>\$ 22,368,270</u>	<u>\$ 10,500,289</u>	<u>\$ 9,652,617</u>

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$6,590,673) and other governments and organizations that subsidized certain programs with grants and contributions (\$7,995,858). The \$10,500,289 net cost of services was fully covered by other general revenues including taxes and other grants and contributions not restricted to specific programs.

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2010, the governmental funds reported ending fund balances of \$35,409,934, a net increase of \$3,522,663 in comparison with the prior year. This increase was caused primarily by a net change in the Community Development Block Grant Program of \$1,979,294, \$1,445,790 in the debt service fund, \$1,305,212 in the Commonwealth Legislature Resolutions and (\$1,894,253) in other governmental funds. Of the total fund balances, \$16,181,942 (46%) constitutes an unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

The general fund is the operating fund of the Municipality. For the year ended June 30, 2010, the fund balance of the general fund increased by \$858,210 when compared with the prior year. Of this net change, \$269,527 pertains to special funds included as part of the general fund. The principal components of the net decrease of \$159,249 in revenues are a \$107,698 decrease in property taxes; an increase of \$306,671 in intergovernmental revenue; a decrease of \$277,487 in fees, fines and charges for services; and a \$75,198 decrease in interest. The decrease in property taxes is mainly due to a decrease of \$210,771 in the property taxes collected from prior years. The significant increase in intergovernmental revenue is the result of a 22% increase in the compensation in lieu of taxes received from P.R.E.P.A. The decrease in fees, fines and charges for services is the result of an \$112,538 decrease in construction permits and a \$214,547 decrease in the revenues generated by the CIMA health facility.

The net increase in expenditures of \$805,672 is due to a decrease of \$386,853 in general government; an increase of \$719,027 in public works; a \$309,629 increase in health; an \$179,149 increase in housing, welfare and community development and a decrease of \$67,205 in capital outlays. The significant decrease in general government is the result of a \$156,125 decrease in the grants received from the P.R. Department of Labor under the Law No. 52 and Law No. 82 payroll reimbursement programs and a 61% decrease in the expenditures of several designated funds created for various miscellaneous projects. The increase in public works is the result of an 18% increase in the salaries and employee benefits paid to the employees of the public works and sanitation departments and a \$398,194 increase in the noncapital road maintenance costs incurred during 2009-2010. The increase in health is due to a \$282,643 increase in the expenditures incurred by the CIMA health facility. Finally, the increase in housing, welfare and community development is the result of an increase of \$92,426 in the donations given by the Municipality during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2010 presented a decrease of 2% with respect to prior fiscal year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year 2010, budget revenues were increased by \$1,396,515 due to additional collections of property tax, sales and use taxes, charges for services (mainly construction permits), municipal license tax and other revenue. However, budget transfers-out were increased by the same amount. Actual revenues exceeded the revised budgeted revenues by \$1,735,353 (net). The most significant variances were in property taxes, \$568,444; sales and use taxes, \$376,563; intergovernmental revenue, \$605,151; and other, \$93,939.

A negative variance of \$43,413 between revised budget and actual expenditures was due mainly to net negative variance in general government of \$274,735, which was offset by the net positive variance in the following functions: \$62,195 in public works and sanitation; \$67,963 in public safety; and \$71,021 in housing, welfare and community development expenditures. The actual electric service charges incurred by the Municipality exceeded by \$605,151 (31.75%) the budgeted amounts resulting in the negative variance in the general government function. On the other hand, the Municipality reported less expenditure (net) than appropriations in the public works and sanitation, public safety and housing, welfare and community development functions on payments for salaries and fringe benefits. Actual revenues exceeded actual expenditures by \$1,704,616.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$48,026,690 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of approximately 14% over the prior year.

TABLE 4

<i>Capital Assets, net As of June 30,</i>		
	Governmental Activities	
	2010	2009 (as restated)
Non-depreciable assets:		
Land	\$ 4,247,389	\$ 4,127,389
Construction in progress	5,297,655	6,298,121
Depreciable assets:		
Land improvements	81,179	14,186
Leasehold improvements	323,633	345,627
Buildings and buildings improvements	18,471,857	16,125,108
Infrastructure	14,759,095	11,570,218
Vehicles, machinery and equipment	4,845,882	4,363,432
Total	\$ 48,026,690	\$ 42,844,081

The Municipality's major capital projects that were still in construction as of June 30, 2010 are as follows:

- Construction of Youth Sport and Educational Center - \$2,385,374
- Improvements to the downtown electrical infrastructure - \$2,138,039
- Construction of "Parque Lineal Zona Costera" Phase II- \$389,904

Construction in progress decreased due to the completion of certain construction projects such as renovation of City Hall, "Parque Lineal Zona Costera" Phase I and the improvements to the recreational facilities of the "Parcelas Llanadas" for a total amount of \$4,903,468. However, these retirements were offset by the significant costs incurred in the "Paseo Lineal" Phase I and II and Youth Center projects, whose total additions for fiscal year 2010 amounted to \$3,477,164.

The Municipality reported approximately \$3,605,303 in infrastructure additions during the year, which are composed mainly of capital improvements.

The Municipality acquired a total of \$1,306,375 of equipment during the fiscal year 2010, including one asphalt paver, three trucks, two ambulances and one towing platform for a total amount of \$725,855 financed with the proceeds of the \$1,325,000 general obligation note. Also, additions include \$282,511 related to furniture and fixtures acquired for the renovated City Hall.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

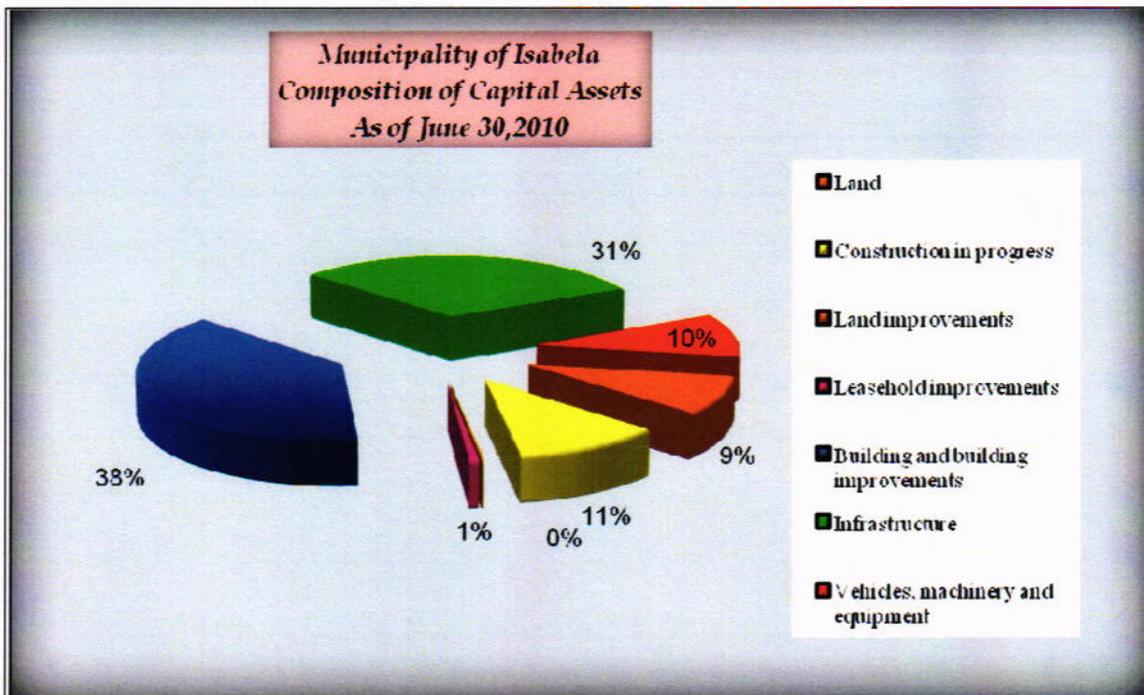
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

The Municipality's fiscal year 2011 consolidated capital budget calls for a significant amount of new and continuous projects including the completion of Phase II and III of the "Parque Lineal Zona Costera" project, construction of a new Youth Sport and Educational Center, improvements to the downtown electrical infrastructure, commencement of the first "green" construction project to be located in the "San Antonio de la Tuna" sector which will include the use of solar energy and recycling of water, construction of a new centralized emergency management center, construction of recreational facilities in the "Urb. Isla Azul," and the creation of a "poblado" in the Planas Community. These projects will be financed through Federal and Commonwealth grants, funds from the Commonwealth Legislature, general obligation bonds and Municipal funds.

Capital assets composition as of June 30, 2010 follows:

FIGURE 3



More detailed information about the Municipality's capital assets is presented in Note F to the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

Long term debt

At year-end, the Municipality had **Error! No document variable supplied.** in general and special bonds and notes, a decrease of 4% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2010 and 2009:

TABLE 5

<i>Outstanding Long-term Debt As of June 30,</i>		
	Governmental Activities	
	2010	2009
General and special obligation bonds and notes	\$ 8,387,024	\$ 8,779,024
Note payable to CRIM – LIMS	98,530	159,564
Note Payable to CRIM – prior years delinquent accounts	63,368	66,248
Note payable to Puerto Rico Solid Waste Authority	61,126	98,545
Note payable to Puerto Rico Treasury Department	160,617	313,416
Note payable to PR Employee Retirement System Administration	-	59,110
Note payable-Section 108 Loan Guarantee	4,581,000	1,200,000
Landfill obligation	4,581,315	4,319,525
Compensated absences	2,934,663	2,692,772
Christmas Bonus	413,223	401,898
Claims and judgments	-	3,000
Payable to CRIM – property tax advances	45,490	49,056
Payable to PREPA	542,047	275,186
Total	\$ 21,868,403	\$ 18,417,344

The increase in the note payable-Section 108 Loan Guarantee is the result of the issuance of a \$3,650,000 advance during fiscal year 2010. In addition, the increase in the notes payable to PREPA is the result of an excess of the annual energy charges incurred by the Municipality over the contribution in lieu of taxes ("CELI") for the fiscal year 2009, which was recorded both a long term debt and an account receivable from the agency. More detailed information about the Municipality's long term liabilities is presented in Note H to the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2011 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 17.8%, which compares with the Commonwealth rate of 16.6%.

The Municipality applied a conservative approach in development budget estimates. Amount available for appropriations in the General Fund for the fiscal year 2011 total \$16,276,205, an increase of approximately 10% with respect to prior fiscal year estimates. Budgeted expenditures are expected to be reduced accordingly to the decrease of budgeted revenues. In addition to the estimated budget for the general fund, the Municipality has submitted Federal and Commonwealth funds proposals for welfare and community development as well as for capital improvements and public works funds.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Director of Finance at PO Box 507, Isabela, Puerto Rico 00602.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 17,596,342
Receivables, net:	
Municipal License Taxes	574
Sales and use taxes (note L)	275,485
Other (note C)	369,370
Due from:	
Commonwealth Government (note D)	2,469,707
Federal Government (note D)	1,078,267
Restricted assets:	
Cash and investments	12,821,585
Cash with fiscal agent	7,495,574
Investment held with fiscal agent (note B)	242,215
Deferred bond issuance costs, net of accumulated amortization of \$33,274	43,049
Inventories and Supplies	152,899
Capital Assets (note F):	
Land and construction in progress	9,545,044
Other capital assets, net	38,481,646
	<u>48,026,690</u>
Total assets	\$ 90,571,757
LIABILITIES	
Accounts payable and accrued liabilities	\$ 1,733,044
Interest payable	61,017
Due to:	
Commonwealth Government (note D)	119,110
Deferred revenues:	
Municipal license taxes	2,308,279
Federal grants	128,511
Long-term liabilities (note H):	
Due within one year	1,964,141
Due in more than one year	19,904,262
Total liabilities	26,218,364
NET ASSETS	
Invested in capital assets, net of related debt	39,465,266
Restricted for:	
Capital projects	10,525,451
Debt service	6,061,020
Other specified purposes	2,626,113
Unrestricted	5,675,543
Total net assets	\$ 64,353,393

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2010

Assets	Major Funds						Total Governmental Funds
	General	Community Development Block Grant Program	Head Start	Debt Service	Commonwealth Legislature Resolutions	Other Governmental Funds	
Cash and investments	\$ 17,596,342	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,596,342
Receivables, net:							
Municipal License Taxes	574	-	-	-	-	-	574
Sales and use taxes	231,519	-	-	43,966	-	-	275,485
Other (note C)	349,503	3,114	-	-	5,004	11,749	369,370
Due from:							
Commonwealth Government (note D)	1,284,571	-	-	33,025	4,200	1,147,911	2,469,707
Federal Government (note D)	-	151,630	461,840	-	-	464,797	1,078,267
Other funds (note E)	2,763,803	-	-	-	1,545	9,068	2,774,416
Advances to other funds (note E)	152,899	-	-	-	1,307,497	-	1,307,497
Inventories and Supplies	197,351	-	-	-	-	-	152,899
Restricted assets:							
Cash and investments	-	3,210,630	1,761	-	4,351,346	5,060,497	12,821,585
Cash with fiscal agent	-	-	-	6,637,841	-	857,733	7,495,574
Investment held with fiscal agent	-	-	-	-	-	242,215	242,215
Total assets	\$ 22,576,562	\$ 3,365,374	\$ 463,601	\$ 6,714,832	\$ 5,669,592	\$ 7,793,970	\$ 46,583,931
Liabilities and fund balances (deficit)							
Liabilities:							
Accounts payable and accrued liabilities	\$ 528,134	\$ 415,323	\$ 108,962	\$ -	\$ 360,816	\$ 319,809	\$ 1,733,044
Matured bonds and interest payable	-	-	-	426,533	-	-	426,533
Due to:							
Commonwealth Government (note D)	119,110	-	-	-	-	-	119,110
Other funds (note E)	10,613	68,825	354,639	-	-	2,340,339	2,774,416
Advances from other funds	1,307,497	-	-	-	-	-	1,307,497
Deferred revenues (notes G, K and L):							
Municipal license taxes	2,308,279	-	-	-	-	-	2,308,279
Sales and use tax	23,531	-	-	-	-	-	23,531
Intergovernmental - Commonwealth Government	1,117,328	-	-	-	2,900	472,118	1,592,346
Intergovernmental - Federal grants	-	95,500	171,590	-	-	488,825	755,915
Other	131,226	-	-	-	1,381	719	133,326
Total liabilities	\$ 5,545,718	\$ 579,648	\$ 635,191	\$ 426,533	\$ 365,097	\$ 3,621,810	\$ 11,173,997
Fund balances (deficit):							
Reserved for:							
Inventories	152,899	-	-	-	-	-	152,899
Encumbrances	339,919	-	-	-	-	-	339,919
Debt service	-	-	-	6,288,299	-	-	6,288,299
Capital projects	-	2,785,726	-	-	3,873,899	3,790,634	10,450,259
Other specified purposes	184,494	-	-	-	123,099	381,526	689,119
Advances (note E)	-	-	-	-	1,307,497	-	1,307,497
Undersigned:							
Designated for future years expenditures:							
General fund	3,470,830	-	-	-	-	-	3,470,830
Undesignated (deficit):							
General fund	12,882,702	-	(171,590)	-	-	-	12,882,702
Special revenue funds	-	-	(171,590)	-	-	-	(171,590)
Total fund balances (deficit)	\$ 17,030,844	\$ 2,785,726	\$ (171,590)	\$ 6,288,299	\$ 5,304,495	\$ 4,172,160	\$ 35,409,934
Total liabilities and fund balances (deficit)	\$ 22,576,562	\$ 3,365,374	\$ 463,601	\$ 6,714,832	\$ 5,669,592	\$ 7,793,970	\$ 46,583,931

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total governmental fund balances:	\$	35,409,934
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		48,026,690
Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Deferred charges - bond issuance costs		43,049
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:		
Receivables:		
Property taxes-General Fund (current year)	\$	934
Charges for services		179,913
Interest		2,100
Sales and use tax - Municipal Development Fund		23,531
Due from Commonwealth Government:		
P.R. Department of Labor (Law No. 52 and 82)		91,736
P.R. Department of Education		222,000
P.R. Electric Power Authority (PREPA)		542,047
P.R. Infrastructure Financing Authority		2,900
P.R. Infrastructure Financing Authority - "PINI"		81,535
P.R. Department of Correction and Rehabilitation		13,989
Christmas Bonus Reimbursement		191,929
Grant from P.R. Solid Waste Authority		152,360
Grant from P.R. Department of Transportation		29,402
Grant from Rural Development Corporation		92,127
Grant from P.R. Department of Family - "Pres"		122,699
Due from Federal Government:		
Federal Grant-State and Community Highway Safety		24,111
Federal Grant-Child Care		336,332
Federal Grant-Head Start		171,590
Federal Grant-CDBG		95,371
		2,376,606
Interest liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		(14,483)
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds and notes	(8,007,024)	
Note payable to CRIM-LIMS	(98,530)	
Note payable to CRIM-financing of delinquent accounts	(63,368)	
Note payable to P.R. Solid Waste Authority	(61,126)	
Note payable to P.R. Treasury Department	(160,617)	
Note payable to HUD-Section 108 Loan Guarantee	(4,581,000)	
Payable to PREPA	(542,047)	
Compensated absences	(2,934,663)	
Christmas Bonus	(413,223)	
Estimated solid waste landfill closure and post-closure costs	(4,581,315)	
Payable to CRIM-excess of property tax advances	(45,490)	
		(21,488,403)
Net assets of governmental activities:	\$	64,353,393

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) -
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2010

	Major Funds						Total Governmental Funds
	General	Community Development Grant Program	Head Start	Debt Service	Commonwealth Legislature Resolutions	Other Governmental Funds	
Revenues:							
Taxes:							
Property taxes (note J)	\$ 3,470,242	-	\$ -	\$ 1,637,365	\$ -	\$ -	\$ 5,107,607
Municipal license taxes (note K)	2,575,753	-	-	-	-	-	2,575,753
Sales and use taxes (note L)	2,532,209	-	-	353,399	-	-	2,885,608
Intergovernmental:							
Commonwealth government (note M)	7,519,159	-	-	-	1,012,528	3,351,903	11,883,590
Federal government	-	1,525,483	851,623	-	-	976,466	3,353,572
Fees, fines and charges for services	3,814,921	-	-	-	-	-	3,814,921
Interest	101,454	38,021	-	5,706	34,104	81,871	261,156
Other	300,155	-	-	-	-	14,000	314,155
Total revenues	20,313,893	1,563,504	851,623	1,996,470	1,046,632	4,424,240	30,196,362
Expenditures:							
Current:							
General government	8,751,082	197,608	-	-	-	51,274	8,999,964
Public works and sanitation	3,810,021	2,165	-	-	11,017	305,592	4,128,795
Public safety	986,695	-	-	-	-	55,925	1,042,620
Culture and recreation	589,752	70	-	-	-	12,739	602,561
Health	3,085,874	-	-	-	-	-	3,085,874
Housing, welfare and community development	1,536,036	628,459	-	-	-	720,488	2,884,983
Education	-	-	942,780	-	-	330,027	1,272,807
Capital outlays	315,140	2,118,453	80,433	-	-	2,691,440	7,009,412
Debt service:							
Principal	-	269,000	-	417,000	-	-	686,000
Interest	-	20,114	-	128,664	-	-	148,778
Bond issuance costs	-	-	-	-	-	349	349
Total expenditures	19,074,600	3,235,869	1,023,213	545,664	1,814,963	4,167,834	29,862,143
Excess (deficiency) of revenues over expenditures	1,239,293	(1,672,365)	(171,590)	1,450,806	(768,331)	256,406	334,219
Other financing sources (uses):							
Proceeds from Section 108 Loan Guarantee advances - CDBG	-	3,650,000	-	-	-	-	3,650,000
Payment of debt - PREPA	(461,556)	-	-	-	-	-	(461,556)
Transfers in	118,283	1,659	-	-	2,084,549	37,810	2,242,301
Transfers out	(37,810)	-	-	(5,016)	(11,006)	(2,188,469)	(2,242,301)
Total other financing sources (uses)	(381,083)	3,651,659	-	(5,016)	2,073,543	(2,150,659)	3,188,444
Net change in fund balances (deficit)	858,210	1,979,294	(171,590)	1,445,790	1,305,212	(1,894,253)	3,522,663
Fund balances at beginning of year, as restated (note S)	16,172,634	806,432	-	4,842,509	3,999,283	6,066,413	31,887,271
Fund balances (deficit) at end of year	\$ 17,030,844	\$ 2,785,726	\$ (171,590)	\$ 6,288,299	\$ 5,304,495	\$ 4,172,160	\$ 35,409,934

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES (DEFICIT) - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2010**

Net change in fund balances (deficit) - total governmental funds: **\$ 3,522,663**

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

Governmental funds reports capital assets outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for capital assets:	\$ 7,009,412	
Less: current year depreciation	<u>(1,839,305)</u>	5,170,107

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset:

(151,657)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Property taxes-General Fund (current year)	934	
Property taxes-General Fund (prior year)	3,566	
P.R. Department of Labor (Law No. 52 and 82)	70,181	
P.R. Department of Education	82,000	
P.R. Department of Transportation	24,780	
P.R. Electric Power Authority (PREPA) (current year)	485,611	
P.R. Infrastructure Financing Authority	2,900	
P.R. Infrastructure Financing Authority - "PINI"	81,535	
P.R. Solid Waste Authority	146,355	
Rural Development Corporation	37,030	
Grant from P.R. Department of Family - "Pres"	39,566	
Christmas Bonus Reimbursement (current year)	191,929	
Sales and use tax- Municipal Development Fund	23,531	
Federal Grant-State and Community Highway Safety	24,111	
Federal Grant-Child Care	110,054	
Federal Grant-Head Start	171,590	
Federal Grant-CDBG	44,979	
Charges for services	179,913	
Interest	2,100	
Donated capital assets	<u>43,294</u>	1,765,959

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (DEFICIT) - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2010**

Revenues reported in funds which are not reported as revenues in the Statement of Activities:		
Intergovernmental subsidy prior years - General Fund	\$ 73,219	
Sales and use tax- Municipal Development Fund (prior year)	24,374	
Sales and use tax- Debt Service Fund (prior year)	16,408	
P.R. Department of Education (prior year)	35,000	
P.R. Department of Labor (Law No. 52 and 82)	197	
P.R. Department of Transportation	288,806	
P.R. Department of Correction and Rehabilitation	13,771	
P.R. Infrastructure Financing Authority (prior year)	142,264	
P.R. Electric Power Authority (PREPA) (prior year)	218,750	
Charges for services	47,535	
Construction permits	38,194	
Municipal license tax	4,774	
Interest (prior year)	2,250	
Federal Grant-CDBG	166,279	
Federal Grant-State and Community Highway Safety	20,540	
Federal Grant- Homeland Security	32,210	
Christmas Bonus Reimbursement (prior year)	<u>186,669</u>	\$ (1,311,240)
Proceeds from Section 108 Loan Guarantee advances - CDBG are other financing sources in the governmental funds, but an increase of long-term liabilities in the Statement of Net Assets:		
		(3,650,000)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds principal payments-Debt Service Fund (net change)		25,000
Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets:		
General obligation bonds and notes	392,000	
Other long term liabilities	<u>1,448,696</u>	1,840,696
Governmental funds report the effect of bond issuance costs as expenditure when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:		
Bond issuance costs	349	
Amortization of bond issuance costs	<u>(3,431)</u>	(3,082)
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 the governmental funds:		
Compensated absences	(241,891)	
Municipal solid waste landfill (net change)	(261,790)	
Judgment and legal claims (net change)	-	
Christmas bonus	(413,223)	
P.R. Electric Power Authority (PREPA)	(728,417)	
Accrued interest (net change)	<u>1,136</u>	(1,644,185)
Change in net assets of governmental activities:		<u><u>\$ 5,564,261</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Isabela was founded in 1819. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen (14) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

1. *Financial reporting entity*

The financial reporting entity included in this report consists of the financial statements of the Municipality of Isabela (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and,
 - 1) The primary government can impose its will on the potential component unit and/or,
 - 2) A financial benefit/ burden exists between the primary government and the potential component unit.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

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

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

Based on the above criteria there are no potential component units which should be included as part of the financial statements.

2. *Basis of presentation, measurement focus and basis of accounting*

The financial report of the Municipality consists of the Management's Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

Management's Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

Basic financial statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long-lived) assets and receivables as well as long-term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

Private-sector standards of accounting and financial reporting issued 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. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Statements

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users (for Head Start Program Funds).

The Municipality reports the following major governmental funds:

General Fund: This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

Community Development Block Grant Program Fund (CDBG): CDBG fund (including CDBG - ARRA) is used to account for revenues sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

Head Start Program Fund: Head Start fund (including Head Start - ARRA) is used to account for revenues sources for the related activities that promote school readiness by enhancing the social and cognitive development of low-income children through the provisions of comprehensive health, educational, nutritional, social and other services.

Debt Service Fund: Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Commonwealth Legislature Resolutions Fund: The Commonwealth Legislative Resolutions Fund is used to account for grants from the Commonwealth's Legislature.

The governmental funds reported in the fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. 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 Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenues susceptible to accrual include property taxes, recognized as revenues in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met, and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

The Municipality reports in the governmental funds statements deferred revenues which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) (2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long term portions of debt must be included).

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information:

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

3. *Deposits and investments*

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the Governmental Development Bank for Puerto Rico ("GDB"). Investment currently reported consist of a non-rated guaranteed investment contract ("GIC") managed by GDB. The GIC is valued at cost.

4. *Restricted assets*

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law. Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 10, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

6. *Interfund receivables and payables*

Activity among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to 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 among funds are reported as "due from/to other funds".

7. *Inventories*

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Assets, as management believes is not significant.

Inventory of medicines and medical supplies of the Municipality's Advanced Medical Center ("CIMA") is capitalized and valued at cost using the first-in, first-out method.

8. *Capital assets*

Capital assets reported in the governmental activities in the Statements of Net Assets include property, plant, equipment and infrastructure, (e.g., roads, bridges, sidewalks, and similar items). The Municipality defines capital assets (except for infrastructure assets) as assets that have an individual cost of \$500 or more and have a useful life of one or more years. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Land improvements	50
Buildings and building improvements	50
Leasehold improvements	Lease term
Infrastructure	10-50
Vehicles, machinery and equipment	5-10

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

9. *Deferred bond issuance costs*

Bond issuance costs are reported as deferred charges and amortized as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

10. *Long-term obligations*

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consist of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

11. *Compensated absences*

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness).

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

12. Fund balances and Net Assets

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balances represent portions that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balances:

- Encumbrances: Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.
- Inventories Represent the valuation amount assigned for the restriction and use of resources accounted in inventory on hand.
- Debt Service: Represent net assets available to finance future debt service payments.
- Capital Projects: Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed.
- Other specified purposes: Represent amounts to be used for future expenditures of Federal and Commonwealth's grants as well as funds reserved through enabling legislation passed by the government itself, to be used to finance activities other than construction or capital improvement commitments.
- Advances: Represents the non-current portion of interfund loans.

Fund balance unreserved-designated represents amounts assigned by Management for future spending to finance operational costs which are not legally segregated.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In the government-wide statements net assets are segregated into three categories:

Invested in capital assets, net of related debt:	Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
Restricted net assets:	Represent net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
Unrestricted net assets:	Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

13. Interfund transactions

The Municipality reports certain transactions as transfers, which are legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

14. Risk financing

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of Isabela consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is monthly deducted from advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by the CRIM. Settled cases have not exceeded insurance coverage for any of the past three years.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

15. *Use of estimates*

The preparation of the basic financial statements in accordance 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 and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

16. *Future adoption of accounting pronouncements*

The GASB has issued the following statements, which the Municipality has not yet adopted:

	<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
54	Fund Balance Reporting and Governmental Fund Type Definition	June 30, 2011
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	June 30, 2012
59	Financial Instruments Omnibus	June 30, 2011
60	Accounting and Financial Reporting for Service Concession Arrangements	June 30, 2013
61	The Financial Reporting Entity: Omnibus – on amendment of GASB Statement No. 14 and 34	June 30, 2013

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

NOTE B – DEPOSITS AND INVESTMENT

1. *Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name.

At year-end, the Municipality's bank balance of deposits in commercial banks amounting to \$29,223,575 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year-end the Municipality's bank balance in governmental banks amounts to \$7,495,574.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE B – DEPOSITS AND INVESTMENT - Continued

2. Investment

The investment held with fiscal agent consists of a non-participating investment contract (non-rated guaranteed investment contract, "GIC"). This represents the investment of the undisbursed proceeds of the \$3,010,000 special obligation bond under custody of GDB, the Municipality's fiscal agent, pursuant to the bond purchase agreement. The GIC have an outstanding balance of \$242,215 as of June 30, 2010 earning interest at a variable rate (LIBOR minus .125%, .340% as of June 30, 2010), have an original maturity of 90 days and is due on August 3, 2010. The GIC outstanding balance is valued at cost.

NOTE C – RECEIVABLES - OTHER

Accounts receivable – Others as of June 30, 2010 follows:

	Amount
CIMA – third-party payors	\$ 308,984
CIMA – capitation	25,302
Interest	26,652
Miscellaneous	8,432
	\$ 369,370

Certain amounts receivable are recorded as deferred revenue in the governmental funds statements since they are not available as required by current standards. See related note G.

NOTE D – DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2010 follows:

	Commonwealth Government	Federal Government
<u>Major fund - General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 542,047	\$ -
Municipal Revenue Collection Center (CRIM) – property taxes	126,961	-
P.R. Department of Treasury – Christmas bonus reimbursement	191,929	-
P.R. Department of Education	222,000	-
P.R. Department of Health	60,860	-
P.R. Department of Labor – Law No. 52	81,513	-
Others	59,261	-
<u>Major fund – CDBG fund:</u>		
Office of Commissioner of Municipal Affairs – CDBG	-	6,681
U.S. Department of Housing and Urban Development – CDBG	-	110,731
U.S. Department of Housing and Urban Development – CDBG-AR	-	34,218

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE D – DUE FROM (TO) GOVERNMENTAL ENTITIES - Continued

	Commonwealth Government	Federal Government
<u>Major fund – Head Start fund:</u>		
U.S. Department of Health and Human Services – Head Start	-	441,610
U.S. Department of Health and Human Services – Head Start – AR	-	20,230
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes	33,025	-
<u>Major fund – Commonwealth Legislature Resolutions fund:</u>		
Commonwealth Legislative Resolutions	4,200	-
<u>Other governmental funds:</u>		
P.R. Infrastructure Financing Authority (PRIFA) – “PINI” Funds	549,815	-
Solid Waste Authority-Landfill improvements	146,355	-
P.R. Department of Family – Pres	122,699	-
Government Development Bank for Puerto Rico – CELI	112,947	-
Rural Development Corporation	92,127	-
P.R. Department of Family – Child Care	-	411,703
P.R. Traffic Safety Commission	-	43,302
Others	123,968	9,792
	\$ 2,469,707	\$ 1,078,267

See note G for detail of amounts due from governmental entities recorded as deferred revenue.

2. Amounts due to governmental entities as of June 30, 2010 follows:

	Commonwealth Government
Employees Retirement System of the Government of the Commonwealth of P.R. (current debt)	\$ 90,986
P.R. Aqueduct and Sewer Authority (PRASA)	18,385
P.R. Department of Labor - unemployment	9,739
	\$ 119,110

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE E - INTERFUND TRANSACTIONS

1. Due from/to other funds:

Amounts due from/to other funds represent advances to other funds for payroll and payroll taxes expenditures, as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major funds:	
	CDBG	\$ 68,825
	Head Start	354,639
	Other governmental funds:	
	Child Care	538,435
	TANF	175,712
	Traffic Safety Commission	206,794
	PRIFA - "PINI" Fund	311,496
	Section 8 HCV	100,487
	Rural Development Corporation	129,173
	Solid Waste Authority	132,156
	P.R. Dept. of Transportation	253,109
	P.R. Dept. of Family - Pres	122,700
	Others	370,277
		<u>\$ 2,763,803</u>
Commonwealth		
Legislative Resolutions:	Major funds:	
	General Fund	<u>\$ 1,545</u>
Other governmental funds:	Major funds:	
WIA	General Fund	<u>\$ 9,068</u>

2. Advances to(from) other funds:

Advances to (from) other funds in the amount of \$1,307,497 represent long term advances by the Commonwealth Legislature Resolutions Fund to the General Fund in previous years to cover operational expenditures.

3. Transfers in (out):

Transfers among individual funds were made for operational purposes. Transfers include (1) interest earned on restricted cash with fiscal agent in the debt service fund and operating and capital improvement loans in other governmental funds which are transferred to the general fund (2) interest in Commonwealth Legislature Resolutions funds which is transferred to the general fund and, (3) principal and interest payments of long-term debt transferred from the general fund to the debt service fund. The amount of \$2,084,549 was transferred to reclassify a special fund to the Commonwealth Legislature Resolutions Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE F – CAPITAL ASSETS

1. *Capital assets and depreciation activity as of and for the year ended June 30, 2010 is as follows:*

	<u>Balance July 1, 2009 as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 4,127,389	\$ 120,000	\$ -	\$ 4,247,389
Construction in progress	6,298,121	4,029,792	5,030,258	5,297,655
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets not being depreciated:	10,425,510	4,149,792	5,030,258	9,545,044
Capital assets, being depreciated:				
Land improvements	14,650	68,282	-	82,932
Buildings and building improvements	19,344,494	3,056,476	-	22,400,970
Leasehold improvements	505,233	17,600	-	522,833
Infrastructure	13,592,124	3,605,303	180,299	17,017,128
Vehicles, machinery and equipment	8,550,759	1,306,375	33,140	9,823,994
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets being depreciated	42,007,260	8,054,036	213,439	49,847,857
Less accumulated depreciation for:				
Land improvements	464	1,289	-	1,753
Buildings and building improvements	3,219,386	709,727	-	3,929,113
Leasehold improvements	159,606	39,594	-	199,200
Infrastructure	2,021,905	278,908	42,780	2,258,033
Vehicles, machinery and equipment	4,187,327	809,787	19,002	4,978,112
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	9,588,688	1,839,305	61,782	11,366,211
Total capital assets being depreciated, net	<hr/>	<hr/>	<hr/>	<hr/>
	32,418,572	6,214,731	151,657	38,481,646
Governmental activities capital assets, net	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 42,844,082	\$ 10,364,523	\$ 5,181,915	\$ 48,026,690

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

Governmental activities:

General government	\$ 166,492
Public works and sanitation	723,017
Public safety	103,147
Culture and recreation	673,313
Health	45,586
Welfare and community development	57,631
Education	70,119
	<hr/>
Total depreciation expense, governmental activities	<u>\$ 1,839,305</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE F – CAPITAL ASSETS - Continued

2. Property lien:

The Municipality entered into a financing agreement with the US Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and community Act of 1974, as amended. The agreement, for a maximum commitment of \$4,850,000 will finance the construction of a Youth Sports and Education Center. The repayment of funds is guaranteed through appropriation of funds from the Community Development Block Grant Program (Entitlement). As part of the contract agreement between HUD and the Municipality, additional guarantees are required. The Municipality should agree to declare and furnish to HUD, a property lien, satisfactory to HUD in form and substance of HUD's ownership interest in the property to be constructed (including land), specifying an estimate of fair market value of not less than \$6,062,500.

On June 29, 2009 the Municipality signed a deed of a voluntary first mortgage in the amount of \$6,062,500 in favor of HUD of all of its estate, right, title and interest in and to the Mortgaged Property, which includes the parcel of land on which the project is located and the property to be constructed. During the 20-year Section 108 note repayment term, it will not be permitted or suffered the use of any of the property for any purpose other than the use for which the same was intended at the time the Mortgage be executed. Upon default under the Contract for Loan Guarantee Assistance under Section 108, HUD, at its options, may declare the whole indebtedness secured to be due and payable, in which event HUD shall have the right immediately to foreclose the Mortgage.

NOTE G – DEFERRED REVENUES – GOVERNMENTAL FUNDS

Deferred revenues - Intergovernmental Commonwealth Government represent revenues not available as required by current standards and for Federal Grants represent resources received before allowable expenditures are incurred or resources not available as required by current standards. A detail of these balances follows:

	Commonwealth Government	Federal Grants	Other
<u>Major fund - General fund:</u>			
P.R. Electric Power Authority (PREPA)	\$ 542,047	\$ -	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	191,929	-	-
P.R. Department of Education	222,000	-	-
P.R. Department of Health	48,688	-	-
P.R. Department of Labor – Law No. 52	81,513	-	-
Others	31,151	-	-
CIMA – third-party payors	-	-	131,226

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE G – DEFERRED REVENUES – GOVERNMENTAL FUNDS - Continued

	<u>Commonwealth Government</u>	<u>Federal Grants</u>	<u>Other</u>
<u>Major fund – CDBG fund:</u>			
Office of Commissioner of Municipal Affairs – CDBG	-	6,810	-
U.S. Department of Housing and Urban Development – CDBG	-	54,472	-
U.S. Department of Housing and Urban Development – CDBG - AR	-	34,218	-
<u>Major fund – Head Start fund:</u>			
U.S. Department of Health and Human Services – Head Start	-	166,666	-
U.S. Department of Health and Human Services –Head Start – AR	-	4,924	-
<u>Major fund – Commonwealth Legislature Resolutions fund:</u>			
Commonwealth Legislative Resolutions	2,900	-	-
Interest	-	-	1,381
<u>Other governmental funds:</u>			
P.R. Infrastructure Financing Authority (PRIFA) – “PINI” Funds	81,535	-	-
Solid Waste Authority-Landfill improvements	146,355	-	-
P.R. Department of Family – Pres Rural Development Corporation	122,699	-	-
P.R. Department of Family – Child Care	-	336,332	-
P.R. Traffic Safety Commission	-	24,111	-
P.R. Department of Justice –Public Safety Partnership and Community Policing Grants – AR	-	125,000	-
Others	29,402	3,382	719
	<u>\$ 1,592,346</u>	<u>\$ 755,915</u>	<u>\$ 133,326</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE H – LONG-TERM DEBT

1. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2010:

	<u>Balance at July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2010</u>	<u>Due within one year</u>
General, Special Obligations Bonds and Notes	\$ 8,779,024	\$ -	\$ 392,000	\$ 8,387,024	\$ 419,000
Note payable to CRIM- LIMS	159,564	-	61,034	98,530	64,720
Note payable to CRIM –Financing of delinquent accounts	66,248	-	2,880	63,368	2,880
Note payable to P.R. Solid Waste Authority	98,545	-	37,419	61,126	38,509
Note Payable to P.R. Treasury Department	313,416	-	152,799	160,617	160,617
Note payable to ERS	59,110	-	59,110	-	-
Note payable – Section 108 Loan Guarantee	1,200,000	3,650,000	269,000	4,581,000	269,000
Landfill Obligation	4,319,525	261,790	-	4,581,315	-
Compensated absences	2,692,772	563,835	321,944	2,934,663	251,460
Christmas bonus	401,898	413,223	401,898	413,223	413,223
Claims and judgments	3,000	-	3,000	-	-
Payable to CRIM- excess of property tax advances over actual collections	49,056	-	3,566	45,490	45,490
Payable to PREPA	275,186	728,417	461,556	542,047	299,242
	<u>\$ 18,417,344</u>	<u>\$ 5,617,265</u>	<u>\$ 2,166,206</u>	<u>\$ 21,868,403</u>	<u>\$ 1,964,141</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE H – LONG-TERM DEBT – Continued

2. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2010 amount to \$8,387,024. All these bonds are serviced by the Governmental Development Bank for Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by law. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued.

A detail of the general and special obligation bonds and notes as of June 30, 2010 follows:

	Outstanding Amount
1996 general obligation bonds of \$525,000 due in annual installments ranging from \$13,000 to \$36,000 through January 1, 2021; bearing interest at 4.50%	\$ 317,000
1999 general obligation bonds of \$410,000 due in annual installments ranging from \$11,000 to \$29,000 through January 1, 2024; bearing interest at 4.50%	305,024
2000 general obligation bonds of \$305,000 due in annual installments ranging from \$20,000 to \$40,000 through July 1, 2010; bearing interest at rates ranging from 2.70% to 7.81% (4.30% at June 30, 2010)	40,000
2001 general obligation bonds of \$3,455,000 due in annual installments ranging from \$45,000 to \$290,000 through July 1, 2026; bearing interest rates ranging from 5.00% to 7.50% (1.28% at June 30, 2010)	2,920,000
2006 general obligation bonds of \$255,000 due in annual installments ranging from \$5,000 to \$25,000 through July 1, 2029; bearing interest rates ranging from 4.37% to 5.31% (4.50% at June 30, 2010)	230,000
2006 general obligation bonds of \$600,000 due in annual installments ranging from \$25,000 to \$60,000 through July 1, 2021; bearing interest rates ranging from 6.60% to 7.25% (1.53% at June 30, 2010)	525,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE H – LONG-TERM DEBT – Continued

	Outstanding Amount
2006 general obligation bonds of \$3,010,000 due in annual installments ranging from \$40,000 to \$260,000 through July 1, 2031; bearing interest rates ranging from 5.69% to 6.75% (6.75% at June 30, 2010)	\$ 2,875,000
2008 general obligation note of \$1,325,000 due in annual installments ranging from \$150,000 to \$240,000 through July 1, 2015; bearing interest rates ranging from 1.53% to 7.50% (1.53% at June 30, 2010)	1,175,000
	\$ 8,387,024

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2010 follows:

June 30,	Principal	Interest
2011	\$ 419,000	\$ 460,468
2012	406,000	521,382
2013	438,000	490,331
2014	474,000	456,799
2011	506,000	423,804
2016-2020	2,006,000	1,688,877
2021-2025	2,053,024	993,075
2026-2030	1,585,000	316,814
2031-2032	500,000	15,863
Totals	\$ 8,387,024	\$ 5,367,413

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE H – LONG-TERM DEBT – Continued

3. Other long-term liabilities

	Outstanding Amount
<p>Note payable to CRIM (LIMS) – On June 27, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$519,187 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$34,817 including interest of 5.95% and is due on November 28, 2011. The amount is repaid with unrestricted funds through withholdings from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows:</p>	<p>\$ 98,530</p>

June 30,	Principal	Interest
2011	\$ 64,719	\$ 4,914
2012	33,811	1,006
Totals	\$ 98,530	\$ 5,920

<p>Note payable to CRIM (Financing of delinquent accounts)– On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$471,041, to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non-revolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next twenty-five years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years any collection from those delinquent accounts was credited to the loan principal. After the fifth year period the loan outstanding balance was restructured for a twenty-five years period. The amount is repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows:</p>	<p>\$ 63,368</p>
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE H - LONG-TERM DEBT - Continued

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 2,880	\$ 3,897
2012	2,880	3,717
2013	2,880	3,538
2014	2,880	3,359
2015	2,880	3,180
2016-2020	14,402	13,213
2021-2025	14,402	8,734
2026-2030	14,402	4,255
2031-2032	5,762	448
Totals	<u>\$ 63,368</u>	<u>\$ 44,341</u>

Note payable to Puerto Rico Solid Waste Authority - On September 17, 2004, the Municipality entered into a financing agreement with the P.R. Solid Waste Authority for a total amount of \$307,944 for unpaid operating lease charges related to equipment used in the Municipality's landfill. The agreement is in the form of a non-interest bearing note (imputed interest of 6%) payable in semiannual installments of \$20,000 (including interest) and a final payment of \$22,944 in January 1, 2012. The note balance as of June 30, 2010 is net of an unamortized discount of \$1,818 and is being paid from unrestricted funds. Debt service requirements in future years are as follows:

\$ 61,126

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 38,509	\$ 1,491
2012	22,617	327
Totals	<u>\$ 61,126</u>	<u>\$ 1,818</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE H – LONG-TERM DEBT – Continued

Note Payable–Puerto Rico Treasury Department- On February 16, 2007 the Municipality settled a legal case for \$825,000 and refinanced this debt on a long-term basis through a \$728,622 non-interest bearing note (imputed interest rate is 5.00%), from the Puerto Rico Department of the Treasury. The note is payable in monthly installments of \$13,750 (including interest) through June 30, 2011. The note balance as of June 30, 2010 is net of an unamortized discount of \$4,383 and will be repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows:

\$ 160,617

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 160,617	\$ 4,383

Note payable Section 108 Loan Guarantee – The Municipality entered into a financing agreement with the US Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. The agreement, for a maximum commitment of \$4,850,000 will finance the construction of a Youth Sports and Education Center. On October 1, 2007 the Municipality received \$1,200,000 on advance funds under a \$1,345,000 variable/fixed rate note dated July 12, 2007, bearing interest at LIBOR + .20% and due on August 1, 2013. On August 20, 2009 the Municipality received \$3,650,000 representing the remaining advance funds under a \$4,850,000 variable/fixed rate note dated June 29, 2009 bearing interest at LIBOR + .20% and due on August 1, 2026. The VRF Note is designed to convert to a fixed rate note on its Conversion Date. The following Commitment Schedule to the Note represents the agreed-upon repayment schedule referred to in the Section 108 commitment against which the Municipality requests advances when funds are needed. The schedule of principal and interest to the fixed rate Note will be filed out as of the Conversion Date based on the cumulative amount of advances per principal due date that the Municipality has received on or before such date. The Note will be repaid from appropriation of funds from the Community Development Block Grants/ Entitlement Grants Program. Interest payments on fiscal year 2009-2010 amounts to \$20,114. Debt service requirements in future years are as follows:

\$ 4,581,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE H – LONG-TERM DEBT – Continued

June 30,	Principal
2011	\$ 269,000
2012	269,000
2013	269,000
2014	269,000
2015	269,000
2016-2020	1,346,000
2021-2025	1,350,000
2026-2027	540,000
Totals	\$ 4,581,000

Subsequent to June 30 (July 21, 2010) the variable/fixed rate note was converted to a \$4,312,000 fixed rate note due on August 1, 2026. The face amount of the note was based on the outstanding balance of the cumulative amount of advances the Municipality received on or before the conversion date. Total payment of \$5,593,311 (including interest of \$1,281,311) will be repaid from appropriation of funds from the Community Development Block Grants/ Entitlement Grants Program.

Landfill obligation – represents the outstanding balance of the estimated liability for landfill closure and post-closure care costs, based on a 95% usage of the landfill. The total estimate for these costs amounts to \$4,800,000 as of June 30, 2010.	\$ 4,581,315
Compensated absences – includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. Amount is repaid with unrestricted funds.	\$ 2,934,663
Christmas Bonus – represents the accrued portion corresponding to fiscal year 2009-2010 of the Christmas bonus to be paid in December 2010.	\$ 413,223
Payable to CRIM – represents the balance owed to CRIM at June 30, 2010 for excess of advances of property tax and other subsidies over preliminary amount of property tax collections for the fiscal year ended 2010. The amount will be repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM).	\$ 45,490

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE H – LONG-TERM DEBT – Continued

Payable to PREPA - As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority ("PREPA") should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax ("CELI") based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2009 the Municipality's annual energy charges amounted to \$1,831,561 but the CELI obligation amounted to \$1,103,144. The excess amount of \$728,417 was recorded as a payable and a receivable for the same amount and will be amortized over a three-year period. As of June 30, 2010 the outstanding amount of \$542,047 includes a balance of \$56,436 from fiscal year 2008 and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:

\$ 542,047

June 30	Principal
2011	\$ 299,241
2012-2015	242,806
Totals	\$ 542,047

NOTE I – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS

Commonwealth and Federal laws and regulations require the Municipality to place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations. As a result of this study, the Municipality has recognized an estimated liability for future closure and post-closure care costs.

The recognition of this liability is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs has an outstanding balance of \$4,581,315 as of June 30, 2010, which is based on a 95% usage of the landfill. It is estimated that an additional \$218,685 will be recognized as closure and post-closure care expenditures between the balance sheet date and the date the landfill is expected to be filled to capacity (April 2011). The estimated total current costs of the landfill closure and post-closure care (\$4,800,000) is based on the amount that would be paid if all the equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of June 30, 2010. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. As of June 30, 2010, the Municipality has not made contributions to finance closure and post-closure care costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE J – PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2010 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	<u>2.00%</u>	<u>2.00%</u>
Total tax rate:	7.03%	9.03%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	<u>(.20%)</u>	<u>(.20%)</u>
Total percent to be paid by taxpayers:	<u>6.83%</u>	<u>8.83%</u>

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. 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. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A net payable of \$45,490 resulting from the settlement for fiscal year 2009 is recorded as other long-term debt in the government wide financial statements since it will not be paid with current available financial resources. A net receivable of \$934 resulting from the settlement for fiscal year 2010 is recorded in the general fund as deferred revenue since is not available as required by current standards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE K – MUNICIPAL LICENSE TAXES

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15. During the fiscal year ended June 30, 2010 the tax rates were as follows:

Financial business – 1.50% of gross revenues

Other organizations – .50% of gross revenues, except organizations in Special Development Urban Areas which apply: up to \$100,000 - .30% of gross revenues, and from \$100,001 up to \$200,000 - .40%.

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$2,308,279 is recorded as deferred revenues.

NOTE L – SALES AND USE TAXES

On July 4, 2006 the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The municipal sales and use tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The municipal sales and use tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within Municipal limits. The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006.

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which amend Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE L – SALES AND USE TAXES - Continued

Amount collected by the PRDT (the remaining .5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by the Act and,
- c. .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

The Municipal Legislature approved the Municipal Ordinance No. 15 Series 2007-2008 to conform to dispositions of Act 80.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10th day of each month based on the tax collected in the preceding month. A total \$172,974 sales and use tax receivable represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts; \$58,545 and \$43,966 represents amounts of "Municipal Development Fund" and "Municipal Redemption Fund", respectively collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30. The amount of \$23,531 related to Municipal Development Fund is recorded as deferred revenue since is not available as required by current standards.

NOTE M – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the General Fund are comprised of the following:

	<u>Amount</u>
Amount of municipal subsidies and equalization fund sent by CRIM	\$ 4,657,767
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	2,367,707
Reimbursement from Commonwealth Government of Christmas Bonus expenditure	293,769
Reimbursement from Commonwealth Government of Law 52 program expenditures	25,851
Reimbursement from Commonwealth government – other programs expenditures	174,065
	<u>\$ 7,519,159</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE N - RETIREMENT PLAN

1. *Plan description*

Regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities and certain public corporations not having their own retirement systems. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of 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 System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE N – RETIREMENT PLAN - Continued

2. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current and the previous three fiscal years, which is equal to the required contribution, follows:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>
2010	\$ 236,930	\$ 234,155
2009	\$ 245,219	\$ 210,758
2008	\$ 241,665	\$ 148,108

NOTE O – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note N, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year 2010, costs related to these post employment benefits amounted to \$187,411.

NOTE P – COMMITMENTS

1. Operating leases

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to \$398,527. Management believes that the summary of the future minimum rental commitments under non-cancelable equipment leases with terms exceeding one year is not significant.

2. Construction

The Municipality has commitments at June 30, 2010 of approximately \$4,928,380 for construction, improvements or renovation of certain capital assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE Q – CONTINGENCIES

1. Federal and Commonwealth grants

Projects financed by Federal and Commonwealth's Grants are subject to audits by grantors and other governmental agencies in order to determine that the expenditures comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

2. Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. However, it is the opinion of the Municipality and the legal counsels that, based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

NOTE R – FUND BALANCE DEFICITS

The Head Start fund and certain special funds included as other governmental funds in the fund statements disclosed fund balance deficits as follows:

	<u>Amount</u>
Major Fund:	
Head Start	<u>\$ 171,590</u>
Other Governmental Funds:	
P.R. Traffic Safety Commission	<u>\$ 24,111</u>
Child Care (SENDEC and Summer Camp funds)	<u>\$ 335,216</u>
Recycling 2000	<u>\$ 139,339</u>
PINI fund	<u>\$ 81,535</u>
P.R. Department of Family - Pres	<u>\$ 122,699</u>

The deficits results from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for these reimbursement (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 5 – NET ASSETS \ FUND BALANCE RESTATEMENTS

The following table disclosed the net change in net assets and fund balances at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

Description	Fund Balances		Net Assets
	Other Governmental Funds	Community Development Block Grant Fund	Government- wide statements
Fund Balance / net assets, at beginning of year, as previously reported	\$ 7,089,516	\$ (216,671)	\$ 58,162,963
Reclassification of Section 108 Loan Guarantee special fund to the Community Development Block Grant Fund	(1,023,103)	1,023,103	-
Balance of construction in progress of an infrastructure asset - improvements to streets and roads not recorded in previous year	-	-	708,293
Correction of error, accumulated depreciation on disposal of infrastructure asset in previous year	-	-	(82,124)
Fund Balance / net assets, at end of year, as restated	<u>\$ 6,066,413</u>	<u>\$ 806,432</u>	<u>\$ 58,789,132</u>

REQUIRED SUPPLEMENTARY INFORMATION

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 4,866,654	\$ 4,939,873	\$ 5,508,317	\$ 568,444
Municipal license taxes	2,341,589	2,571,224	2,575,179	3,955
Sales and use taxes	2,060,000	2,150,029	2,526,592	376,563
Intergovernmental	4,070,753	4,088,434	4,693,585	605,151
Fees, fines and charges for services	1,319,158	1,763,628	1,835,104	71,476
Interest	150,000	131,882	147,707	15,825
Other	50,000	609,599	703,538	93,939
Total revenues	14,858,154	16,254,669	17,990,022	1,735,353
Expenditures:				
Current:				
General government	7,515,950	7,701,115	7,975,850	(274,735)
Public works and sanitation	2,976,351	2,978,279	2,916,084	62,195
Public safety	1,112,557	1,056,064	988,101	67,963
Culture and recreation	625,019	618,019	592,068	25,951
Health	842,105	647,252	643,060	4,192
Housing, welfare and community development	1,576,846	1,464,146	1,393,125	71,021
Total expenditures	14,648,828	14,464,875	14,508,288	(43,413)
Excess of revenues over expenditures	209,326	1,789,794	3,481,734	1,691,940
Other financing uses:				
Transfers out	(209,326)	(1,789,794)	(1,789,794)	-
Total other financing uses	(209,326)	(1,789,794)	(1,777,118)	12,676
Excess of revenues over expenditures and other financing uses	\$ -	\$ -	\$ 1,704,616	\$ 1,704,616

The accompanying notes to required supplemental information are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

June 30, 2010

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

NOTE B - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

June 30, 2010

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	\$ 1,704,616
Budget to GAAP differences:	
Entity differences:	
Non budgeted funds recorded as revenues for financial reporting purposes:	2,208,461
Non budgeted funds recorded as expenditures for financial reporting:	(4,332,891)
Non budgeted transfers in:	2,760,139
Non budgeted transfers out:	(366,182)
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis:	846,450
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(1,375,661)
Revenues recorded in budgetary basis but not for financial reporting purposes:	(573,765)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	156,143
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(169,100)
Net change in fund balance (GAAP basis):	<u>\$ 888,124</u>

SUPPLEMENTARY INFORMATION

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

COMBINED BALANCE SHEET - GENERAL FUND
JUNE 30, 2010

Assets	General Fund (01)	Special Funds Unreserved-GF	Special Funds Designated-GF	Special Funds Reserved-GF	Sub-total	Eliminations	Total General Fund
Cash and investments	\$ 10,585,926	\$ 2,979,260	\$ 4,031,156	\$ -	\$ 17,596,342	\$ -	\$ 17,596,342
Receivables, net:							
Municipal License Taxes	574	-	-	-	574	-	574
Sales and use taxes	231,519	-	-	-	231,519	-	231,519
Other	12,769	336,734	-	-	349,503	-	349,503
Due from:							
Commonwealth Government	1,117,986	152,596	13,989	-	1,284,571	-	1,284,571
Other funds	4,170,123	11,351	-	-	4,181,474	1,417,671	2,763,803
Inventories and Supplies	-	152,899	-	-	152,899	-	152,899
Restricted assets:							
Cash	-	-	-	197,351	197,351	-	197,351
Total assets	\$ 16,118,897	\$ 3,632,840	\$ 4,045,145	\$ 197,351	\$ 23,994,233	\$ 1,417,671	\$ 22,576,562
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	\$ 382,113	\$ 77,090	\$ 65,309	\$ 3,620	\$ 528,132	\$ -	\$ 528,133
Due to:							
Commonwealth Government	119,110	-	-	-	119,110	-	119,110
Other funds	1,545	922,486	495,017	9,237	1,428,285	1,417,672	10,613
Advances from other funds	1,307,498	-	-	-	1,307,498	-	1,307,498
Deferred revenues:							
Municipal license taxes	2,308,279	-	-	-	2,308,279	-	2,308,279
Sales and use tax	23,531	-	-	-	23,531	-	23,531
Commonwealth Government	962,915	140,424	13,989	-	1,117,328	-	1,117,328
Other	-	131,226	-	-	131,226	-	131,226
Total liabilities	\$ 5,104,991	\$ 1,271,226	\$ 574,315	\$ 12,857	\$ 6,963,389	\$ 1,417,672	\$ 5,545,718
Fund balance:							
Reserved for:							
Inventories	-	152,899	-	-	152,899	-	152,899
Encumbrances	339,919	-	-	-	339,919	-	339,919
Other specified purposes	-	-	-	184,494	184,494	-	184,494
Unreserved:							
Designated for future years expenditures	-	-	3,470,830	-	3,470,830	-	3,470,830
Undesignated	10,673,987	2,208,715	-	-	12,882,702	-	12,882,702
Total fund balances	\$ 11,013,906	\$ 2,361,614	\$ 3,470,830	\$ 184,494	\$ 17,030,844	\$ -	\$ 17,030,844
Total liabilities and fund balances	\$ 16,118,897	\$ 3,632,840	\$ 4,045,145	\$ 197,351	\$ 23,994,233	\$ 1,417,672	\$ 22,576,562

The accompanying notes to required supplemental information are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2010

	General Fund (01)	Special Funds Unreserved-GF	Special Funds Designated-GF	Special Funds Reserved-GF	Sub-total	Eliminations	Total General Fund
Revenues:							
Taxes:							
Property taxes	\$ 3,470,242	\$ -	\$ -	\$ -	\$ 3,470,242	\$ -	\$ 3,470,242
Municipal license taxes	2,575,753	-	-	-	2,575,753	-	2,575,753
Sales and use taxes	2,532,209	-	-	-	2,532,209	-	2,532,209
Intergovernmental:							
Commonwealth government	7,319,243	57,097	13,771	129,048	7,519,159	-	7,519,159
Fees, fines, and charges for services	1,819,901	1,995,020	-	-	3,814,921	-	3,814,921
Interest	87,929	13,525	-	-	101,454	-	101,454
Other	300,155	-	-	-	300,155	-	300,155
Total revenues	18,105,432	2,065,642	13,771	129,048	20,313,893	-	20,313,893
Expenditures:							
Current:							
General government	8,238,274	173,573	339,235	-	8,751,082	-	8,751,082
Public works and sanitation	2,884,938	35,518	889,565	-	3,810,021	-	3,810,021
Public safety	986,695	-	-	-	986,695	-	986,695
Culture and recreation	589,752	-	-	-	589,752	-	589,752
Health	643,060	-	-	5,329	3,085,874	-	3,085,874
Housing, welfare and community development	1,393,004	2,437,485	78,924	64,108	1,536,036	-	1,536,036
Capital outlays	5,986	89,298	209,676	10,180	315,140	-	315,140
Total expenditures	14,741,709	2,735,874	1,517,400	79,617	19,074,600	-	19,074,600
Excess (deficiency) of revenues over expenditures	3,363,723	(670,232)	(1,503,629)	49,431	1,239,293	-	1,239,293
Other financing sources (uses):							
Payment of debt - PREPA	(461,556)	-	-	-	(461,556)	-	(461,556)
Transfers in	169,951	1,161,192	1,598,947	-	2,930,090	2,811,807	118,283
Transfers out	(2,483,435)	(52,703)	(313,479)	-	(2,849,617)	(2,811,807)	(37,810)
Total other financing sources (uses)	(2,775,040)	1,108,489	1,285,468	-	(381,083)	2,811,807	(381,083)
Net change in fund balances (deficit)	588,683	438,257	(218,161)	49,431	858,210	2,811,807	858,210
Fund balances at beginning of year	10,425,223	1,923,337	3,688,991	135,063	16,172,634	-	16,172,634
Fund balances at end of year	\$ 11,013,906	\$ 2,361,614	\$ 3,470,830	\$ 184,494	\$ 17,030,844	\$ 2,811,807	\$ 17,030,844

The accompanying notes to required supplemental information are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2010

Line Item No.	Description	14.871
		Housing Choice Vouchers
Balance Sheet		
111	Cash - unrestricted	\$ 192,507
113	Cash - other restricted	\$ 69,262
100	Total cash	\$ 261,769
121	Accounts receivable - PHA projects	\$ 1,741
122	Accounts receivable - HUD other projects	\$ 331
125	Accounts receivable - miscellaneous	\$ 484
126.2	Allowance for doubtful accounts - other	\$ (1,768)
120	Total receivables, net of allowance for doubtful accounts	\$ 788
150	Total Current Assets	\$ 262,557
164	Furniture, equipment and machinery - administration	\$ 26,450
166	Accumulated depreciation	\$ (11,658)
160	Total capital assets, net of accumulated depreciation	\$ 14,792
180	Total Non-current Assets	\$ 14,792
190	Total Assets	\$ 277,349
312	Accounts payable <= 90 days	\$ 350
322	Accrued compensated absences - current portion	\$ 3,402
345	Other current liabilities	\$ 8,932
347	Inter-program - due to	\$ 100,487
310	Total Current Liabilities	\$ 113,171
300	Total Liabilities	\$ 113,171
508.1	Invested in Capital Assets, Net of Related Debt	\$ 14,792
511.1	Restricted Net Assets	\$ 68,910
512.1	Unrestricted Net Assets	\$ 80,476
513	Total Equity/Net Assets	\$ 164,178
600	Total Liabilities and Equity/Net Assets	\$ 277,349
Income Statement		
70600-010	Housing assistance payments	\$ 294,099
70600-020	Ongoing administrative fees earned	\$ 53,721
70600-070	Admin fee calculation description	
70600	HUD PHA operating grants	\$ 347,820
71500	Other revenue	\$ 14,000
700	Total Revenue	\$ 361,820
91100	Administrative salaries	\$ 34,730
91200	Auditing fees	\$ 5,000
91500	Employee benefit contributions- administrative	\$ 4,806
91600	Office expenses	\$ 3,890
91800	Travel	\$ 1,405
91000	Total Operating - Administrative	\$ 49,831

The accompanying notes to required supplemental information are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION (CONTINUED)**

JUNE 30, 2010

96200	Other general expenses	\$	756
96210	Compensated absences	\$	437
96600	Bad debt - other	\$	-
96000	Total Other General Expenses	\$	1,193
96900	Total Operating Expenses	\$	51,024
97000	Excess Revenue Over Operating Expenses	\$	310,796
97300-050	All Other	\$	292,775
97300	Housing assistance payments	\$	292,775
97350	HAP Portability-in	\$	12,272
97400	Depreciation expense	\$	2,253
900	Total Expenses	\$	358,324
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$	3,496
11030	Beginning equity	\$	160,682
11170-001	Administrative Fee Equity - Beginning Balance	\$	93,096
11170-010	Administrative Fee Revenue	\$	53,721
11170-020	Hard to House Fee Revenue	\$	-
11170-021	FSS Coordinator Grant	\$	-
11170-030	Audit Costs	\$	-
11170-040	Investment Income	\$	-
11170-045	Fraud Recovery Revenue	\$	-
11170-050	Other Revenue	\$	14,000
11170-051	Comment For Other Revenue		(\$12,272)
11170-060	Total Admin Fee Revenues	\$	67,721
11170-080	Total Operating Expenses	\$	51,024
11170-090	Depreciation	\$	2,253
11170-095	Housing Assistance Portability In	\$	12,272
11170-100	Other Expenses	\$	-
11170-101	Comment For Other Expense		
11170-110	Total Expenses	\$	65,549
11170-002	Net Administrative Fee	\$	2,172
11170-003	Administrative Fee Equity - Ending Balance	\$	95,268
11170	Administrative Fee Equity	\$	95,268

This amount corresponds to the administrative fees earned on the portability in vouchers administered by the Municipality (\$1,728) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 09-10

The accompanying notes to required supplemental information are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

**SUPPLEMENTARY INFORMATION – FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION (CONTINUED)**

JUNE 30, 2010

11180-001	Housing Assistance Payments Equity - Beginning Balance	\$	67,586
11180-010	Housing Assistance Payments Revenues	\$	294,099
11180-015	Fraud Recovery Revenue	\$	-
11180-020	Other Revenue	\$	-
11180-021	Comment For Other Revenue		
11180-025	Investment Income	\$	-
11180-030	Total HAP Revenues	\$	294,099
11180-080	Housing Assistance Payments	\$	292,775
11180-100	Total Housing Assistance Payments Expenses	\$	292,775
11180-002	Net Housing Assistance Payments	\$	1,324
11180-003	Housing Assistance Payments Equity - Ending Balance	\$	68,910
11180	Housing Assistance Payments Equity	\$	68,910
11190-210	Total ACC HCV Units		1,032
11190	Unit Months Available		1,032
11210	Unit Months Leased		917

The accompanying notes to required supplemental information are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTE TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE

June 30, 2010

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Entity Identifying Number (note B)	Federal Expenditures (notes A and B)
U.S. Department of Agriculture			
Passed-through program from:			
<u>P.R. Department of Education</u>			
Child and Adult Care Food Program	10.558	CCC-205	\$ 107,520
U.S. Department of Housing and Urban Development			
Direct programs:			
Section 8 Housing Choice Vouchers Program	14.871	N/A	347,820
CDBG - Entitlement Grants Cluster:			
Community Development Block Grants / Entitlement Grants	14.218	N/A	1,061,928
Community Development Block Grant ARRA Entitlement Grants (CDBG-R) - (Recovery Act Funded)	14.253	N/A	339,249
Total CDBG - Entitlement Grants Cluster:			1,401,177
Community Development Block Grant_ Section 108 Loan Guarantees	14.248	N/A	1,830,027
ARRA - Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262	N/A	99,699
Passed-through program from:			
<u>Office of Commissioner of Municipal Affairs:</u>			
Community Development Block Grant / State's Program (State-Administered Small Cities Program)	14.228	FD-32, AF-32, AB-32, FC-32	4,665
Subtotal U.S. Department of Housing and Urban Development			3,683,388
U.S. Department of Transportation			
Passed-through program from:			
<u>P.R. Traffic Safety Commission</u>			
State and Community Highway Safety	20.600	10-06-21, 10-03-78	60,394
U.S. Department of Health and Human Services			
Direct programs:			
Head Start Cluster:			
Head Start	93.600	N/A	790,857
ARRA - Head Start	93.708	N/A	232,356
Total Head Start Cluster:			1,023,213
Passed-through programs from:			
<u>P.R. Office of the Ombudsman for the Elderly:</u>			
Aging Cluster:			
Special Programs for the Aging_Tittle III Part B_ Grants for Supportive Services and Senior Centers	93.044	100254R2	12,430
ARRA - Aging Congregate Nutrition Services for States	93.707	090248R2	42,104
Total Aging Cluster:			54,534
<u>P.R. Department of Family - Families and Children Administration:</u>			
CCDF Cluster:			
Child Care Development Block Grant	93.575	2008-2009-050, 2009-2010-059	361,263
ARRA - Child Care Development Block Grant	93.713	G 0901-PRCCD7, ARRA - 080	9,461
Total CCDF Cluster:			370,724
Subtotal U.S. Department of Health and Human Services:			1,448,471
U.S. Department of Homeland Security			
Passed-through programs from:			
<u>P.R. Governor Office - Office of Public Safety Affairs:</u>			
State Homeland Security Program (SHSP)	97.073	2007-GE-T7-0043	5,598
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	2007-GE-T7-0043	4,750
Subtotal U.S. Department of Homeland Security:			10,348
Total Expenditures of Federal Awards			\$ 5,310,121

See notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2010

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

State or local government redistributions of federal awards to the Municipality, known as “pass-through awards”, should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

NOTE C – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

CFDA No. / Description	Community Development Block Grant Program Fund	Head Start Program Fund	Other Governmental Funds
10.558	\$ -	\$ -	\$ 107,520
14.871	-	-	347,820
14.218	1,061,928	-	-
ARRA – 14.253	339,249	-	-
14.248	1,830,027	-	-
14.228	4,665	-	-
ARRA – 14.262	-	-	99,699
20.600	-	-	60,394
93.600	-	790,857	-
ARRA – 93.708	-	232,356	-
93.044	-	-	12,430
ARRA – 93.707	-	-	42,104

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2010

NOTE D – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS – Continued

<u>CFDA No. / Description</u>	<u>Community Development Block Grant Program Fund</u>	<u>Head Start Program Fund</u>	<u>Other Governmental Funds</u>
93.575	-	-	361,263
ARRA – 93.713	-	-	9,461
97.073	-	-	5,598
97.074	-	-	4,750
Total federal awards expenditures:	3,235,869	1,023,213	1,051,039
Total non-federal awards expenditures:	-	-	3,116,795
Total expenditures, fund statements:	<u>\$ 3,235,869</u>	<u>\$ 1,023,213</u>	<u>\$ 4,167,834</u>

NOTE E – LOAN GUARANTEE LOAN OUTSTANDING

The Municipality received on October 1, 2007 \$1,200,000 on advance funds under a \$1,345,000 variable/fixed rate note dated July 12, 2007. On August 20, 2009 the Municipality received \$3,650,000 representing the remaining advance funds under a \$4,850,000 variable/fixed rate note dated June 29, 2009. The federal award will finance the construction of a Youth Sports and Education Center. The Municipality expended \$1,830,027 from these proceeds during fiscal year 2009-2010. The following represents the loan outstanding balance as of June 30, 2010:

<u>CFDA No.</u>	<u>Program Name</u>	<u>Loan Outstanding Balance</u>
14.248	Community Development Block Grants_ Section 108 Loan Guarantees	<u>\$ 4,581,000</u>

NOTE F – SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the Municipality provided federal awards to subrecipients as follows:

<u>CFDA No.</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.262	ARRA – Homeless Prevention and Rapid-Re-Housing Program Technical Assistance	<u>\$ 99,699</u>

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Isabela, as of and for the year ended June 30, 2010, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 27, 2010. 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 Municipality of Isabela's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a control deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatements of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we have reported to management of the Municipality of Isabela in a separate letter dated December 27, 2010.

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

San Juan, Puerto Rico
December 27, 2010

Ortiz, Rivera, Rivera & Co.

The stamp 2586328 was affixed to the original of this report



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

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

Compliance

We have audited Municipality of Isabela's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Isabela' major federal programs for the year ended June 30, 2010. Municipality of Isabela' 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 Municipality of Isabela' management. Our responsibility is to express and opinion on Municipality of Isabela' 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. 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 Municipality of Isabela' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Isabela compliance with those requirements.

In our opinion, the Municipality of Isabela complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 10-1.

Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

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

San Juan, Puerto Rico
December 27, 2010

The stamp 2586329 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Municipality of Isabela.
- b. There were no significant deficiencies on internal control.
- c. No instances of noncompliance material to the financial statements of Municipality of Isabela were disclosed during the audit.
- d. There were no significant deficiencies on internal controls over major programs.
- e. The auditors' report on compliance with requirements applicable to federal award programs for the Municipality of Isabela expressed an unqualified opinion.
- f. Audit findings relative to the major federal award programs for Municipality of Isabela are reported in number 3 of this schedule.
- g. The programs tested as major programs include:
 - 1) Section 8 – CFDA No. 14.871
 - 2) Community Development Block Grants – Section 108 Loan Guarantees – CFDA No. 14.248
 - 3) Community Development Block Grants / Entitlements Grants – CFDA No. 14.218
 - 4) Community Development Block Grants ARRA / Entitlements Grants – CFDA. No. 14.253
 - 5) Head Start – CFDA No. 93.600
 - 6) Head Start ARRA – CFDA No. 93.708
 - 7) Child Care Development Block Grant – CFDA No. 93.575
 - 8) Child Care Development Block Grant – CFDA No. 93.713
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Isabela was determined to be a low-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
AUDIT**

a. Child and Development Block Grant – CFDA No. 93.575

• **Condition 10-1**

The Municipality did not comply with the requirement of preparing and filing its federal financial reports on a timely basis. During our examination, we noted that the Municipality did not send on time the quarterly report for the following period ended:

<u>Report</u>	<u>Period</u>	<u>Date to be submitted</u>	<u>Date Submitted</u>	<u>Submitted Late</u>
Expenditures Report	October to December 2009	01/15/2010	04/14/2010	X
Expenditures Report	January to March 2010	04/15/2010	05/19/2010	X
Expenditures Report	April to June 2010	7/15/2010	08/18/2010	X

Criteria

The Contract Number 241-2010-000085, into the Municipality and ACUDEN (the Agency) establish on clause number seven, an accrued expenditures report for the quarter ended June 30, 2010 should be submitted during the first ten calendar days of the following month. In addition, a balance sheet or final report should be submitted for the quarter ended September 30, 2010 during the first fifteen calendar days of the following month.

Cause

The above situation occurred because the Municipality did not ensure to verify its reporting requirements for this program.

Effect

The program is not in compliance with the reporting regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Recommendation

The Municipality should verify and become familiar with all administrative requirements applicable to each federal financial assistance program, especially when new grants are received. This can be achieved by obtaining the information applicable to the program from the pass-thru grantor, federal grantor, or the Catalog of Federal Domestic Assistance ("CFDA"), which is available from the federal government.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ISABELA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Program</u>	<u>Finding / Noncompliance</u>	<u>Status</u>
Community Development Block Grant CFDA No. 14.218	Condition 09-1 The Municipality did not include in the construction contracts a provision or for compliance with the Copeland "Anti-Kickback" Act and the Contract Work Hour and Safety Standards Act sections 103 and 107.	Condition was corrected.
Child Care Development Block Grant CFDA No. 93.575	Condition 09-2 The Municipality submitted late the quarterly reports for Fund request (Form CC-004) of October 2008, January 2009 and April 2009 to ACUDEN.	Condition still prevails.

CORRECTIVE ACTION PLAN

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF ISABELA

CORRECTIVE ACTION PLAN
FISCAL YEAR ENDED JUNE 30, 2010

Liaison Officer: Rosario M. Villanueva Position: Finance Director

Principal Officer
or Authorized
Representative: Carlos O. Delgado Position: Mayor

CERTIFY THAT THIS INFORMATION IS CORRECT _____ Date: December 30, 2010


Signature of Principal Officer or Authorized Representative

Finding Number	Program	Noncompliance	Corrective Action Plan	Questioned Cost	Status
10-1	Child Care and Development Block Grant	Reporting	Finance Director has been instructed to implement the internal controls that help to complete the reporting of the Child Care Program in a timely matter. The report is to be submitted on the first days after the quarter is finished.	None	Still in process