

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE JAYUYA**

**AUDITORIA 2005-2006**

**30 DE JUNIO DE 2006**

OFICINA DEL COMISIONADO  
LE ASISTENTES MUNICIPALES

207 FEB 22 PM 2:09

RECIBIDO  
UNIDAD DE CORREO

*Cant 1107 - 44 206*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA**

**BASIC FINANCIAL STATEMENTS**

**FISCAL YEAR ENDED JUNE 30, 2006**

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

*alc  
m*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
BASIC FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2006  
(WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS  
AND OMB CIRCULAR A-133)**

**TABLE OF CONTENTS**

	Pages
<b>PART I – Financial:</b>	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-7
Basic Financial Statements:	
<b>Governmental-Wide Statements:</b>	
Statement of Net Assets .....	8
Statement of Activities .....	9
<b>Governmental Funds Statements:</b>	
Balance Sheet .....	10-11
Statement of Revenues, Expenditures and Changes in Fund Balances .....	12-13
Notes to the Basic Financial Statements .....	14-28
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund .....	29
Note to Required Supplementary Information .....	30
<b>PART II – Schedule of Expenditures of Federal Awards and Reports Required by</b>	
<b>Government Auditing Standards and OMB Circular A-133:</b>	
Schedule of Expenditures of Federal Awards.....	31-32
Notes to Schedule of Expenditures of Federal Awards .....	33
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards.....	34-35
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance Required by OMB Circular A-133.....	36-37
<b>PART III – Findings and Questioned Costs:</b>	
Schedule of Findings and Questioned Costs.....	38-41
Schedule of Prior Audits' Findings and Questioned Costs .....	42-43

**PART I**  
**FINANCIAL**

*Pedro C. Ortiz Ledée*

Certified Public Accountant

## INDEPENDENT AUDITORS' REPORT

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

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of **Jayuya**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2006, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express an opinion on these basic combined financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. I believe that my audit provide a reasonable basis for my opinion.

In my 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, as of June 30, 2006, 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.

The accompanying Management's Discussion and Analysis and budgetary comparison information on pages 3 through 7 and 29 through 30, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 20, 2006 on my consideration of the Municipality's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

**INDEPENDENT AUDITORS' REPORT**

Page 2

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



CPA Pedro C. Ortiz Ledée  
Certified Public Accountant  
License Number 5200,  
Expires on December 1, 2008

Guayama, Puerto Rico  
December 20, 2006



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

---

The management of **Municipality of Jayuya, Puerto Rico (Municipality)** offers this narrative overview and analysis of the financial activities of the **Municipality** for the fiscal year ended June 30, 2006. The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2004. The financial statements associated with it are described in the following narrative as well as in the Notes to Financial Statements.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. We encourage readers to consider this information with the **Municipality's** basic financial statements that follow.

**FINANCIAL HIGHLIGHTS**

The following are key financial highlights for the fiscal year:

- ❖ The assets of the **Municipality** exceeded its liabilities at June 30, 2006 by \$19.0 million and at June 30, 2005 by \$16.0 million.
- ❖ The **Municipality's** total net assets increased by \$3.0 million during 2006 and \$0.9 thousand during 2005.
- ❖ As of June 30, 2006, the **Municipality's** governmental funds reported combined ending fund balances of \$7.1 million, an increase of \$0.9 thousand from the prior year.
- ❖ At June 30, 2006, the Unrestricted (Deficit) was \$2.3 million. During Fiscal Year 2005-2006 the **Municipality** does not issue debt.
- ❖ The **Municipality's** capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2006 were \$21.6 million.
- ❖ The investment in capital assets for this year was \$1.7 million.
- ❖ Loans principal payments were \$540 thousand and \$473 thousand in 2006 and 2005, respectively.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the **Municipality's** financial statements. The **Municipality's** basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the **Municipality's** finances, in a manner similar to a private-sector business.

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 net assets may serve as a useful indicator of whether the financial position of the **Municipality** is improving or deteriorating.

The **Statement of Activities** presents information showing how the **Municipality's** net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements of the **Municipality** are principally supported by taxes and intergovernmental revenues. The governmental activities of the **Municipality** include general government, public safety, public works, human services and welfare, culture and recreation, physical environment, education and urban development. Property taxes, municipal license tax, state and federal grants finance most of these activities.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The **Municipality**, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**Governmental funds**

The **Municipality's** basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The **Municipality** adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Governmental Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the

	<b>2006</b>	<b>2005</b>
Current and non-current assets .....	\$ 12,262,644	\$ 10,293,055
Capital assets .....	<u>16,985,409</u>	<u>15,914,625</u>
<b>Total Assets .....</b>	<b><u>29,248,053</u></b>	<b><u>26,207,680</u></b>
Current liabilities .....	967,264	624,332
Deferred revenues .....	1,569,888	1,281,079
Long-term liabilities .....	<u>7,663,628</u>	<u>8,252,580</u>
<b>Total Liabilities.....</b>	<b><u>10,200,780</u></b>	<b><u>10,157,991</u></b>
<b>Net Assets:</b>		
Investment in capital assets .....	12,164,409	10,702,625
Restricted .....	9,173,423	7,706,830
Deficit .....	<u>(2,290,559)</u>	<u>(2,359,766)</u>
<b>Total Net Assets.....</b>	<b><u>\$ 19,047,273</u></b>	<b><u>\$ 16,049,689</u></b>

**Municipality**, net assets exceeded liabilities by \$19.0 million as of June 30, 2006 versus \$16.0 million as of June 30, 2005. Our analysis below focuses on the net assets (Table 1) and changes in net assets of the **Municipality's** governmental activities.

The largest portion of the **Municipality's** net assets reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the **Municipality's** net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the **Municipality's** ongoing obligations to citizens and creditors.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Total Net Assets of the Municipality's governmental activities were \$19.0 million. The Unrestricted (Deficit), was approximately of \$2.3 million at June 30, 2006.

**Governmental Activities**

Governmental activities increased the Municipality's net assets. Key elements of this increase are as follows: the Municipality's governmental activities had net expenses of \$4.6 million. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues exceed net expenses by \$2.9 million. The Municipality expended several of the resources restricted projects in the community.

The cost of all governmental activities this year was \$13.7 million. Table 2 presents the cost of each of the Municipality's largest programs.

<b>Table 2</b>		
<b>Changes in Net Assets For Fiscal Years Ending June 30,</b>		
	<b>2006</b>	<b>2005</b>
<b>Revenues:</b>		
<b>Program Revenues:</b>		
Grants and Contributions.....	\$ 9,044,667	\$ 8,407,883
<b>General Revenues:</b>		
Property Taxes .....	1,422,423	1,398,935
Volume of Business Taxes .....	1,112,132	1,132,861
Construction Taxes .....	253,334	963,958
Intergovernmental .....	4,547,723	4,142,180
Other General Revenues.....	290,056	1,625,747
<b>Total revenues</b> .....	<u>16,670,335</u>	<u>17,671,564</u>
<b>Expenses:</b>		
General Administration.....	3,833,747	3,341,767
Public Safety .....	482,702	600,308
Public Works .....	1,432,581	1,575,824
Health and Sanitation .....	543,103	586,452
Culture and Recreation.....	850,052	473,623
Solid Waste Disposal .....	13,723	23,104
Human Services and Welfare.....	4,754,787	7,661,814
Urban Development .....	1,390,006	3,726,064
Education .....	233,006	453,430
Interest Costs .....	139,044	148,337
<b>Total expenses</b> .....	<u>13,672,751</u>	<u>18,590,723</u>
<b>Changes in net assets</b> .....	<b>2,997,584</b>	<b>( 919,159)</b>
Net assets – beginning, as Restated*	<u>16,049,689</u>	<u>16,968,848</u>
<b>Net assets – ending</b> .....	<b><u>\$ 19,047,273</u></b>	<b><u>\$ 16,049,689</u></b>
Prior Period Adjustments.		

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

**Governmental Funds**

The focus of the **Municipality's** governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the **Municipality's** financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2006, the **Municipality's** governmental funds reported combined ending fund balances of \$7.1 million, an increase of \$863 thousand from the prior year.

The **Municipality** has an Unreserved (Deficit) of \$26 thousand in its General Fund. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate prior year obligations \$575 thousand, (2) to pay debt service \$159 thousand or (3) for other restricted purposes \$6.4 million.

**BUDGETARY HIGHLIGHTS**

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds.

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances and other unanticipated revenues. Differences between the original 2006 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ Revenues primarily increased from collections of licenses and permits, construction taxes and intergovernmental revenues.
- ❖ The original budget was amended to increase expenditures between expenditures accounts.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The **Municipality's** investment in capital assets for its governmental type activities as of June 30, 2006 amounted to \$16.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, highways, and bridges. The total increase in the **Municipality's** investment in capital assets for the current fiscal year was \$1.7 million.

Additions during the fiscal year was principally for building construction, purchase of new vehicles and machinery and equipment, necessary to provides services to our citizens. **Table 3** present the major classes of capital assets.

Land .....	\$2.3
Construction in Progress .....	2.5
Buildings.....	10.7
Infrastructure .....	1.3
Motor Vehicles .....	2.3
Machinery and Equipment.....	<u>2.4</u>
 Total Capital Assets.....	 <u>\$21.5</u>

**Long-term Debt**

At June 30, 2006 the **Municipality** had total of \$7.7 million in general obligations and others outstanding debts, as shown in **Table 4**. Of this amount, \$5.9 million comprises debt backed by the full faith and credit of the government and \$1.8 million is other obligations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

General Obligations .....	\$ 5.7
Special Notes.....	0.2
Others.....	<u>1.8</u>
 Total Capital Assets .....	 <u>\$ 7.7</u>

The **Municipality** is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the **Municipality** in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leaves and advances of property taxes. More detailed information about the **Municipality's** long-term liabilities is presented in the notes to the financial statements. The **Municipality** continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

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

Local, national and international economic factors influence the **Municipality's** revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors were considered in preparing the **Municipality's** budget for the 2006 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the **Municipality's** finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the **Municipality's** Finance Department at (787) 828-0900.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**STATEMENT OF NET ASSETS**

June 30, 2006

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Cash and Investments.....	\$ 7,747,085
Cash with Fiscal Agent.....	846,104
Receivables (net):	
Property Taxes.....	1,052
Federal Grants.....	2,964,315
Others.....	704,088
	<u>12,262,644</u>
Capital Assets (Note5):	
Land, Improvements, and Construction in Progress.....	4,824,498
Other Capital Assets, [Net of Depreciation].....	12,160,911
Total Capital Assets.....	<u>16,985,409</u>
<b>TOTAL ASSETS.....</b>	<b><u>29,248,053</u></b>
 <b>LIABILITIES:</b>	
Accounts Payable and Accrued Expense.....	871,120
Accrued Interest.....	96,144
Deferred Revenue.....	1,569,888
Long-Term Liabilities (Note 6):	
Due within One Year.....	1,362,561
Due in More than One Year.....	6,301,067
<b>Total Liabilities.....</b>	<b><u>10,200,780</u></b>
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt.....	12,164,409
Restricted for:	
Special Communities Fund.....	1,132,336
Municipal Hospital Fund.....	208,129
HUD Funds.....	4,525,184
Other Governmental Funds.....	3,147,892
Debt Service.....	159,882
Unrestricted (Deficit).....	<u>(2,290,559)</u>
<b>Total Net Assets.....</b>	<b><u>\$ 19,047,273</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature....	\$ 848,687	\$ -	\$ -	\$ -	\$ (848,687)
General Government.....	3,027,960	-	-	-	(3,027,960)
Public Safety.....	482,702	-	-	-	(482,702)
Public Works.....	1,432,581	-	-	-	(1,432,581)
Culture and Recreation.....	850,052	-	464,628	-	(385,424)
Health and Sanitation.....	543,103	-	-	-	(543,103)
Solid Waste Disposal.....	13,723	202,276	-	-	188,553
Human Services and Welfare.....	4,754,787	2,423,167	2,965,247	-	633,627
Urban Development.....	1,390,006	-	2,659,527	116,725	1,386,246
Education.....	233,006	-	213,097	-	(19,909)
Interest on Long-Term Debt.....	96,144	-	-	-	(96,144)
<b>Total Governmental Activities...</b>	<b>\$ 13,672,751</b>	<b>\$ 2,625,443</b>	<b>\$ 6,302,499</b>	<b>\$ 116,725</b>	<b>(4,628,084)</b>

General Revenues:

Taxes:

Property Taxes, levied for General Purposes.....	1,103,813
Property Taxes, levied for Debt Services.....	318,610
Volume of Business Taxes.....	1,112,132
Construction Taxes.....	253,334
Intergovernmental.....	4,547,723
Rent.....	91,687
Miscellaneous.....	198,369

Total General Revenues and Special Items..... 7,625,668

**CHANGE IN NET ASSETS..... 2,997,584**

Net Assets - Beginning of Year..... 16,049,689

**NET ASSETS - END OF YEAR..... \$ 19,047,273**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

	General Fund	Special Communities Fund	Municipal Hospital Fund	HUD Funds	Other Governmental Funds	Total Funds
<b>ASSETS:</b>						
Cash and Investments (Note 2).....	\$ 620,703	\$ 1,281,259	\$ 609,780	\$ 2,157,786	\$ 3,077,557	\$ 7,747,085
Cash with Fiscal Agent.....	2,554	-	-	-	843,550	846,104
Receivables:						
Property Taxes.....	-	-	-	-	1,052	1,052
Federal Grants.....	-	-	-	2,725,975	238,340	2,964,315
Due from Other Funds.....	1,766,834	-	-	-	687,659	2,454,493
State Government.....	-	126,463	513,073	-	64,552	704,088
<b>Total Assets.....</b>	<b>\$ 2,390,091</b>	<b>\$ 1,407,722</b>	<b>\$ 1,122,853</b>	<b>\$ 4,883,761</b>	<b>\$ 4,912,710</b>	<b>\$ 14,717,137</b>
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Accounts Payable and Accrued Liabilities.....	157,569	-	-	122,743	324,074	604,386
Bonds and Notes Payable.....	-	-	-	-	150,000	150,000
Accrued Interest.....	-	-	-	-	31,111	31,111
Due to Governmental Units.....	181,767	-	-	-	-	181,767
Due to Other Funds.....	615,716	275,386	914,724	41,544	607,123	2,454,493
Deferred Revenue:						
Volume of Business Tax.....	882,970	-	-	-	-	882,970
Federal Grants.....	-	-	-	2,810,145	492,628	3,302,773
<b>Total Liabilities.....</b>	<b>1,838,022</b>	<b>275,386</b>	<b>914,724</b>	<b>2,974,432</b>	<b>1,604,936</b>	<b>7,607,500</b>
<b>Fund Balances:</b>						
Reserve For:						
Encumbrances.....	575,584	-	-	-	-	575,584
Debt Service.....	-	-	-	-	159,882	159,882
Other Purposes.....	2,554	1,132,336	208,129	1,909,329	3,147,892	6,400,240
Unreserved (Deficit).....	(26,069)	-	-	-	-	(26,069)
<b>Total Fund Balances.....</b>	<b>552,069</b>	<b>1,132,336</b>	<b>208,129</b>	<b>1,909,329</b>	<b>3,307,774</b>	<b>7,109,637</b>
<b>TOTAL LIABILITIES AND FUND BALANCES...</b>	<b>\$ 2,390,091</b>	<b>\$ 1,407,722</b>	<b>\$ 1,122,853</b>	<b>\$ 4,883,761</b>	<b>\$ 4,912,710</b>	<b>\$ 14,717,137</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO**

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

JUNE 30, 2006

**Total Fund Balances – Governmental Funds (Page 10 )..... \$ 7,109,637**

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 8)  
are different because:

Capital Assets used in governmental activities are not financial resources and therefore are  
not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets .....	\$ 4,824,498	
Depreciable Capital Assets.....	15,463,988	
Infrastructure Assets.....	1,296,131	
Accumulated Depreciation.....	<u>(4,599,208)</u>	
Total Capital Assets.....		16,985,409

Some of the Municipality's revenues will be collected after year-end but are not available  
soon enough to pay for the current period's expenditures and therefore are deferred in  
the funds:

CDBG .....	2,615,855
------------	-----------

Some liabilities are not due and payable in the current period and therefore are not reported  
in the funds. Those liabilities consist of:

General Bonds and Notes Payable.....	5,865,600	
Compensated Absences.....	1,161,770	
Social Security Debt.....	4,327	
Municipal Revenue Collection Center.....	<u>631,931</u>	
Total Long-Term Liabilities .....		( 7,663,628)

**Total Net Assets of Governmental Activities (Page 9)..... \$19,047,273**

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	Special Communities Fund	Municipal Hospital Fund	HUD Funds	Other Governmental Funds	Total Funds
<b>REVENUES</b>						
Property Taxes.....	\$ 1,103,813	\$ -	\$ -	\$ -	\$ 318,610	\$ 1,422,423
Volume of Business Taxes.....	1,112,132	-	-	-	-	1,112,132
Federal Assistanes.....	-	-	-	800,199	943,942	1,744,141
Intergovernmental.....	4,547,723	1,876,670	2,423,167	-	2,324,422	11,171,982
Licenses and Permits.....	253,334	-	-	-	-	253,334
Rent.....	91,687	-	-	-	-	91,687
Miscellaneous.....	400,645	-	-	-	-	400,645
<b>Total Revenues.....</b>	<b>7,509,334</b>	<b>1,876,670</b>	<b>2,423,167</b>	<b>800,199</b>	<b>3,586,974</b>	<b>16,196,344</b>
<b>EXPENDITURES</b>						
Current:						
Mayor and Municipal Legislature.....	813,743	-	-	-	-	813,743
General Government.....	2,840,108	-	-	-	-	2,840,108
Public Safety.....	472,502	-	-	-	-	472,502
Public Works.....	1,221,867	-	-	-	-	1,221,867
Culture and Recreation.....	435,769	-	-	-	379,235	815,004
Health and Sanitation.....	556,826	-	-	-	-	556,826
Human Services and Welfare.....	511,448	879,603	2,433,056	14,752	904,399	4,743,258
Urban Development.....	39,551	-	-	1,330,244	1,558,654	2,928,449
Education.....	-	-	-	-	233,006	233,006
Capital Outlay.....	441	-	-	-	247,839	248,280
Debt Service:						
Principal.....	-	-	-	-	363,300	363,300
Interest and Other Charges.....	-	-	-	-	96,144	96,144
<b>Total Expenditures.....</b>	<b>6,892,255</b>	<b>879,603</b>	<b>2,433,056</b>	<b>1,344,996</b>	<b>3,782,577</b>	<b>15,332,487</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers - In.....	-	-	-	-	336,201	336,201
Transfers - Out.....	(336,201)	-	-	-	-	(336,201)
<b>Total Other Financing Sources and Uses.....</b>	<b>(336,201)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>336,201</b>	<b>-</b>
<b>Net Change in Fund Balances.....</b>	<b>280,878</b>	<b>997,067</b>	<b>(9,889)</b>	<b>(544,797)</b>	<b>140,598</b>	<b>863,857</b>
Fund Balance - Beginning as Restated (Note 13)....	271,191	135,269	218,018	2,454,126	3,167,176	6,245,780
<b>Fund Balances - Ending.....</b>	<b>\$ 552,069</b>	<b>\$ 1,132,336</b>	<b>\$ 208,129</b>	<b>\$ 1,909,329</b>	<b>\$ 3,307,774</b>	<b>\$ 7,109,637</b>

*OK Jayuya  
15/03/2007*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<b>Net Change in Fund Balances – Total Governmental Funds (Page 12).....</b>		<b>\$ 863,857</b>
Amounts reported for Governmental Activities in the Statement of Activities (Page 9) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Urban Development and Capital Outlay .....	\$ 1,674,306	
Depreciation Expense.....	<u>(603,522)</u>	
Excess of Capital Outlay over Depreciation Expense.....		1,070,784
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. ....		2,615,855
Revenues in the Statement of Revenues that correspond to Prior Year resources are recorded as Revenue in the Statement of Activities .....		(2,141,864)
Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were. ....		540,400
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in Water Company Debt .....	\$ 22,050	
Decrease in CRIM Debt.....	53,621	
Decrease in Social Security Debt.....	960	
Increase in Compensated Absences .....	<u>( 28,079)</u>	
Total Additional Expenditures.....		<u>48,552</u>
<b>Change in Net Assets of Governmental Activities (Page 9) .....</b>		<b><u>\$ 2,997,584</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

---

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The **Municipality of Jayuya, Puerto Rico (Municipality)** was founded in the year 1911, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 12 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

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

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The **Municipality** adopted the provisions of GASBS No. 34, No. 37 and No. 38. They require new information and restructure much of the information that governments have presented in the past.

The accompanying basic financial statements present the financial position and the results of operations of the **Municipality** and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2006, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

**A. Financial Reporting Entity**

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the **Municipality's** financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the **Municipality** to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the **Municipality**.

**B. Measurement Focus and Basis of Accounting**

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Municipality** indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the **Municipality** as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2006, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

---

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

**Government-wide Financial Statements**

The government-wide financial statements (the **Statement of Net Assets** and the **Statement of Activities**) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**Governmental Fund Financial Statements**

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the **Municipality** may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For some grants, funds must be expended by the **Municipality** on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2006, has been reported only in the government-wide financial statements.

**C. Financial Statement Presentation**

The basic financial statements include both government-wide (based on the **Municipality** as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the **Municipality** as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

**Government-wide Financial Statements**

The government-wide financial statements (the **Statement of Net Assets** and the **Statement of Activities**) report information of all the activities of the **Municipality**. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the **Statement of Net Assets** is designed to be similar to bottom line results for the **Municipality** and its governmental activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets and long-term obligations.

The **Statement of Net Assets** presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

---

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

**C. Financial Statement Presentation (continuation)**

- **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted Net Assets** – These results when constraints are placed on net assets use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – These consists of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The **Statement of Activities** is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

**Governmental Fund Financial Statements**

The fund financial statements (the **Balance Sheet** and the **Statement of Revenues, Expenditures, and Changes in Fund Balances**) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the **Municipality's** actual experience conforms to the budgeted fiscal plan.

Since the governmental fund statements are presented in a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and a separate explanation for each differences.

The **Municipality** reports its financial position (**Balance Sheet**) and results of operations (**Statement of Revenues, Expenditures and Changes in Fund Balance**) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

The new model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The **Municipality** reports the following major fund:

General Fund – This is the general operating fund of the **Municipality**. It is used to account for all financial resources, except those required to be accounted for in another fund.

Special Communities Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Law for Special Communities. The primary objectives of these assignments is the development of projects for low income families in special communities.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

---

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

Municipal Hospital Fund – This is the fund used to account for all the transactions of the Municipality Hospital (CDT). The primary objectives of this fund is to provide to the community medical services such as emergency doctors, pediatricians, gynecologists and others.

HUD Funds – This is the fund used to account for all the transactions of the HUD Awards. The primary objectives of this program is the development of viable communities by providing decent housing, rent assistance, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide **Statement of Net Assets**.

**D. Budgetary Data**

The **Municipality** annually adopts the Budget Resolution for all operating funds of the **Municipality** except for certain restricted accounts of Proprietary Funds and Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The **Municipality's** Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the **Municipality** (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the **Municipality**; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. **Municipality's** Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The **Municipality** follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the **Municipality** to continue making payments for its operating and other expenses until the new budget is approved.
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

---

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 9).
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

**E. Cash, Cash Equivalent and Investment**

The Director of Finance of the **Municipality** is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the **Municipality** and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the **Municipality's** bonds and notes issued in accordance with law.

**F. Receivable**

Receivable are stated nets of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the **Municipality** for reimbursement of expenditures incurred pursuant to federally funded programs.

**G. Inventories**

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

**H. Capital Assets**

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The **Municipality's** capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<b>CAPITAL ASSETS</b>	<b>YEARS</b>
Buildings and site Improvements	40
Infrastructure	40
Works of art	10
Motor Vehicles, furniture and fixtures	5
Machinery and Equipments	3-5

**I. Compensated Absences**

The **Municipality** accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The **Municipality's** employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The **Municipality** accrued a liability for compensated absences, which meet the following criteria:

1. The **Municipality's** obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by **Municipality's** employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2006.

<b>BALANCE JULY 1, 2005</b>	<b>NEW ISSUES</b>	<b>RETIREMENTS AND CURRENT MATURATES</b>	<b>BALANCE JUNE 30, 2006</b>	<b>CURRENT PORTION</b>	<b>LONG-TERM PORTION</b>
<u>\$ 1,133,691</u>	<u>\$ 28,079</u>	<u>\$ -</u>	<u>\$ 1,161,770</u>	<u>\$ 847,961</u>	<u>\$ 313,809</u>

**J. Insurance**

The **Municipality** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the **Municipality** are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the **Municipality's** insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the **Municipality**.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

**K. Interfund Transactions**

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The Municipality has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Residual Equity Transfers – Nonrecurring or no routine transfers of equity between funds. During the Fiscal Year 2005-2006 no transfers of this kind was made.

**L. Reservations of Fund Balance – Governmental Funds**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former. Reserves for debt service and other specific purposes are examples of the latter.

**M. Claims and Judgments**

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The Long-Term Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

**N. Use of Estimates**

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

**NOTE 2 CASH AND CASH EQUIVALENTS**

The Municipality's cash and cash equivalents at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2006, the market value of investments recorded in Special Revenue Fund approximated its carrying value as follow:

CERTIFICATE OF DEPOSIT ISSUED BY	PRINCIPAL NUMBER	INTEREST AMOUNT	RATE	EXPIRATION DATE
Popular Bank of Puerto Rico	1110000074	\$ 500,383	2.00%	01-15-06
Popular Bank of Puerto Rico	1110000076	500,054	2.00%	01-15-06
Popular Bank of Puerto Rico	1110000077	200,436	2.00%	02-06-06
Popular Bank of Puerto Rico	1110000078	100,000	2.00%	01-06-06
Popular Bank of Puerto Rico	1110000079	300,000	2.00%	01-18-06
Popular Bank of Puerto Rico	1110000080	500,000	2.00%	07-07-05
Popular Bank of Puerto Rico	1110000082	600,000	2.00%	07-07-05
Popular Bank of Puerto Rico	1110000083	<u>1,500,000</u>	2.15%	08-20-05
TOTAL .....		<u>\$ 4,200,873</u>		

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 3 INTERFUND TRANSFER AND BALANCES**

**A. INTERFUND TRANSFERS**

Transfers are indicative of funding for subsidies of various operations.

**INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS**

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Other Governmental Fund	\$ 144,654	Special Revenue
General Fund	Other Governmental Fund	<u>191,547</u>	Debt Service
	<b>TOTAL</b>	<b><u>\$ 336,201</u></b>	

**B. INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Interfund receivables and payables at June 30, 2006 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Special Communities	\$ 275,386
General Fund	HUD Funds	41,544
General Fund	Other Fund	607,123
General Fund	Municipal Hospital	914,724
Other Funds	General Fund	<u>615,716</u>
<b>TOTAL</b>		<b><u>\$2,454,493</u></b>

**NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2006, balance due to other governmental units, consists of the following:

	<u>AMOUNT</u>
Water & Sewer Authority .....	\$ 8,239
General Service Administration .....	2,725
State Retirement System Administration .....	38,142
State Department of Labor .....	131,052
ELA Employees Association.....	<u>1,609</u>
<b>TOTAL .....</b>	<b><u>\$ 181,767</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 5 CAPITAL ASSETS**

Capital Assets activities for the fiscal year ended June 30, 2006 was as follows:

DESCRIPTION	BALANCE JULY 1, 2005	ADJUSTMENTS	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2006
<b>Non-Depreciable Capital Assets:</b>					
Land .....	\$ 2,321,971	\$ -	\$ 18,620	\$ -	\$ 2,340,591
Construction in Progress .....	<u>1,864,854</u>	-	<u>619,053</u>	-	<u>2,483,907</u>
Total Non-Depreciable Capital Assets	<u>4,186,825</u>	-	<u>637,673</u>	-	<u>4,824,498</u>
<b>Depreciable Capital Assets:</b>					
Buildings .....	10,205,071	-	500,000	-	10,705,071
Infrastructure .....	1,296,131	-	-	-	1,296,131
Machinery and Equipment .....	1,916,564	-	393,871	-	2,310,435
Motor Vehicles .....	<u>2,305,720</u>	-	<u>142,762</u>	-	<u>2,448,482</u>
Total Depreciable Capital Assets .....	<u>15,723,486</u>	-	<u>1,036,633</u>	-	<u>16,760,119</u>
<b>Less Accumulated Depreciation:</b>					
Buildings .....	(1,087,566)	-	(193,168)	-	(1,280,734)
Infrastructure .....	(103,873)	-	(19,447)	-	(123,320)
Machinery and Equipment .....	(1,204,578)	-	(210,921)	-	(1,415,499)
Motor Vehicles .....	<u>(1,599,669)</u>	-	<u>(179,986)</u>	-	<u>(1,779,655)</u>
Total Accumulated Depreciation .....	<u>(3,995,686)</u>	-	<u>(603,522)</u>	-	<u>(4,599,208)</u>
Total Depreciable Capital Assets (Net)	<u>11,727,800</u>	-	<u>433,111</u>	-	<u>12,160,911</u>
<b>CAPITAL ASSETS, NET</b> .....	<u>\$15,914,625</u>	<u>\$ -</u>	<u>\$ 1,070,784</u>	<u>\$ -</u>	<u>\$16,985,409</u>

Depreciation expenses were charged to governmental functions/programs as follows:

	AMOUNT
General Government .....	\$ 193,504
Mayor and Municipal .....	34,944
Public Safety .....	10,200
Public Works .....	210,714
Urban Development .....	107,583
Human Services and Welfare .....	11,529
Culture and Recreation .....	<u>35,048</u>
Total Depreciation Expenses .....	<u>\$ 603,522</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 6 GENERAL LONG-TERM DEBTS**

**A. GENERAL OBLIGATIONS BONDS**

The principal long-term obligations of the **Municipality** are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The **Municipality's** obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 8).

General obligations bonds as of June 30, 2006, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
<b>General Obligations Bonds:</b>	
\$300,000 Series 1985, for operational purposes, payable in annual installments ranging from \$6,000 to \$21,000, excluding interests at 5.00%, through January 1, 2010 .....	\$ 76,000
\$650,000, Series 1987, for operational purposes, payable in annual installments ranging from \$30,000 to \$35,000, excluding interests at 8.50%, through July 1, 2007 .....	35,000
\$905,000, Series 1987, for construction purposes, payable in annual installments ranging from \$45,000 to \$50,000, excluding interests at 9.00%, through July 1, 2007 .....	50,000
\$70,000, Series 1988, for operational purposes, payable in quarterly installments of \$875, excluding interests at 8.00%, through July 1, 2007 .....	3,500
\$325,000 Series 1991, for operational purposes, payable in annual installments ranging from \$6,000 to \$25,000, excluding interests at 6.00%, through January 1, 2015 .....	182,000
\$400,000, Series 1996, for operational purposes, payable in semiannual installments ranging from \$10,000 to \$40,000, excluding interests at 8.00%, through July 1, 2016 .....	265,000
\$505,000, Series 1999, for construction purposes, payable in semiannual installments ranging from \$10,000 to \$40,000, excluding variable interests from 6.31% to 7.50%, through July 1, 2022 .....	415,000
\$117,200, Series 1997, for operational purposes, payable in annual installments ranging from \$3,000 to \$7,900, excluding interests at 4.50%, through January 1, 2022 .....	93,100
\$1,000,000, Series 2001, for construction purposes, payable in annual installments ranging from \$50,000 to \$100,000, excluding interests at 4.08%, through August 1, 2003 (Paid through SBGP Fund) .....	835,000
\$3,000,000, Series 2002, for construction purposes, payable in annual installments ranging from \$165,000 to \$195,000, excluding interests at 5.00, through August 1, 2022 (Paid through SBGP Fund).....	2,835,000
\$155,000, Series 2003, for purchase of equipment, payable in annual installments ranging from \$20,000 to \$25,000, excluding interests at 5.50%, through July 1, 2009 .....	75,000
\$420,000, Series 2003, for operational purposes, payable in annual installments ranging from \$10,000 to \$30,000, excluding interests at 5.50%, through July 1, 2027 .....	390,000
\$410,000, Series 2004, for construction purposes, payable in annual installments ranging from \$5,000 to \$40,000, excluding interests at 7.00%, through July 1, 2028 .....	<u>380,000</u>
<b>Total General Obligations – Bonds .....</b>	<b><u>5,634,600</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 6 GENERAL LONG-TERM DEBTS (continuation)**

**Notes Payable:**

DESCRIPTION	AMOUNT
\$385,000, Series 2002, for purchase of equipment, payable in semiannual installments ranging from \$45,000 to \$65,000, excluding interests at 7.25%, through July 1, 2008.....	130,000
\$161,000, Series 2004, for construction purposes, payable in semiannual installments ranging from \$19,000 to \$28,000, excluding interests at 5.50%, through July 1, 2010.....	<u>101,000</u>
<b>Total Notes Payable.....</b>	<b><u>231,000</u></b>
<b>Total General Obligations Bonds and Notes.....</b>	<b><u>\$5,865,600</u></b>

The annual requirements to amortize the general obligations outstanding as of June 30, 2006 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2007	\$ 514,600	\$ 313,223	\$ 827,823
2008	428,300	286,840	715,140
2009	367,500	268,975	636,475
2010	357,700	251,719	609,419
2011	424,900	366,436	791,336
2012-2016	1,514,900	954,178	2,469,078
2017-2021	1,334,800	541,650	1,876,450
2022-2026	827,900	131,440	959,340
2027-2031	<u>95,000</u>	<u>7,475</u>	<u>102,475</u>
<b>TOTAL</b>	<b><u>\$5,865,600</u></b>	<b><u>\$3,121,937</u></b>	<b><u>\$ 8,987,537</u></b>

**B. OTHER LONG-TERM DEBTS**

Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE JULY 1, 2005	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2006
Property Taxes – MRCC.	\$ 685,552	\$ -	\$ 53,621	\$ 631,931
Social Security Debt.....	5,287	-	960	4,327
Water Company.....	22,050	-	22,050	-
Compensated Absences.	<u>1,133,691</u>	<u>28,079</u>	<u>-</u>	<u>1,161,770</u>
<b>TOTAL.....</b>	<b><u>\$1,846,580</u></b>	<b><u>\$ 28,079</u></b>	<b><u>\$ 76,631</u></b>	<b><u>\$1,798,028</u></b>

**C. CHANGES IN GENERAL LONG-TERM DEBTS**

The following is a summary of changes in long-term debts for the year ended June 30, 2006:

DESCRIPTION	BALANCE JULY 1, 2005	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2006	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General.....	\$6,049,000	\$ -	\$ 459,400	\$5,589,600	\$ 426,600	\$5,163,000
Special.....	357,000	-	81,000	276,000	88,000	188,000
Others Debts....	<u>1,846,580</u>	<u>28,079</u>	<u>76,631</u>	<u>1,798,028</u>	<u>847,961</u>	<u>950,067</u>
<b>TOTAL.....</b>	<b><u>\$8,252,580</u></b>	<b><u>\$ 28,079</u></b>	<b><u>\$ 617,031</u></b>	<b><u>\$7,663,628</u></b>	<b><u>\$1,362,561</u></b>	<b><u>\$6,301,067</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

---

**NOTE 7 DEBT RETIREMENT**

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the **Municipality** (See Note 9).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the **Municipality** (See Note 7). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

**NOTE 8 PROPERTY TAXES**

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the **Municipality** and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.28% for real property and 6.28% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively, belongs to the **Municipality**. From the portion belonging to the **Municipality**, 6.00% and 4.00%, respectively, represents the **Municipality's** basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund.

The remaining portion belonging to the **Municipality** of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the Debt Service Fund (See Note 8). The **Municipality** has not reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 assessed valuation on residential units occupied by their owners. However, the **Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

The **Municipality** grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with an annual net sales volume of less than \$150,000. The Municipal Revenue Collection Center advances to the **Municipality**, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the **Municipality** the amounts collected from taxpayers and applied to outstanding advances.

The **Municipality** records as revenue in the general fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center.

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipal Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

**NOTE 9 VOLUME OF BUSINESS TAX**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the **Municipality** and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.30% for all other organizations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

---

**NOTE 9 VOLUME OF BUSINESS TAX (continuation)**

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

**NOTE 10 INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

**NOTE 11 EMPLOYEE'S RETIREMENT PLAN**

The Employee's Retirement System of the Government of Puerto Rico and its instrumentality (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentality and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentality, Assistants of the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The **Municipality** adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The **Municipality** contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation for each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 11 EMPLOYEE'S RETIREMENT PLAN (continuation)**

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2006 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2006 was approximately \$184,222. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2006. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940.

**NOTE 12 CONTINGENCIES**

**A. CLAIMS AND JUDGMENTS**

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

---

**NOTE 12 CONTINGENCIES (continuation)**

**B. FEDERAL GRANTS**

In the normal course of operations, the **Municipality** receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**NOTE 13 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS**

The following schedule reconciles the June 30, 2005 Fund Balances, as previously reported to Beginning Fund Balances, as restated, July 1, 2005.

<b>FUND BALANCE RESTATED</b>	<b>MUNICIPAL HOSPITAL FUND</b>	<b>STATE ASSIGNMENT FUND</b>	<b>OTHER GOVERNMENTAL FUND</b>
Fund Balance (Deficit), as Reported, June 30, 2005.....	\$	- \$1,400,241	\$1,984,953
Major Fund Reclassification.....	<u>218,018</u>	<u>(1,400,241)</u>	<u>1,182,223</u>
Beginning Fund Balance (Deficit) as Restated, July 1, 2005 .....	<u>\$ 218,018</u>	<u>\$ -</u>	<u>\$3,167,176</u>

**END OF NOTES**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>BUDGETARY FUND BALANCE, JULY 1, 2005</b>	<b>\$ 271,191</b>	<b>\$ 271,191</b>	<b>\$ 271,191</b>	<b>\$ -</b>
<b>Resources (Inflows)</b>				
Property Taxes.....	1,103,813	1,103,813	1,103,813	-
Volume of Business Taxes.....	1,100,000	1,100,000	1,112,132	12,132
Intergovernmental Revenues.....	4,494,200	4,595,952	4,547,723	(48,229)
License and Permits.....	527,527	527,408	253,334	(274,074)
Rent.....	35,000	95,000	91,687	(3,313)
Miscellaneous.....	187,000	186,700	400,645	213,945
<b>Total Resources (Inflows).....</b>	<b>7,447,540</b>	<b>7,608,873</b>	<b>7,509,334</b>	<b>(99,539)</b>
<b>Amounts Available for Appropriation.....</b>	<b>7,718,731</b>	<b>7,880,064</b>	<b>7,780,525</b>	<b>(99,539)</b>
<b>Charges to Appropriations (Outflows)</b>				
Mayor and Municipal Legislature.....	824,874	895,854	865,757	30,097
General Government.....	2,603,880	2,893,382	2,729,016	164,366
Public Safety.....	603,616	478,468	472,746	5,722
Public Work.....	1,148,473	1,354,990	1,316,493	38,497
Culture and Recreation.....	642,694	501,214	458,637	42,577
Health and Sanitation.....	682,275	570,616	556,826	13,790
Urban Development.....	53,029	49,810	39,992	9,818
Human Services and Welfare.....	697,005	552,745	517,389	35,356
Transfer to Other Funds.....	191,694	336,348	336,201	147
<b>Total Charges to Appropriations.....</b>	<b>7,447,540</b>	<b>7,633,427</b>	<b>7,293,057</b>	<b>340,370</b>
<b>BUDGETARY FUND BALANCE, JUNE 30, 2006.....</b>	<b>\$ 271,191</b>	<b>\$ 246,637</b>	<b>\$ 487,468</b>	<b>\$ 240,831</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

	<u>GENERAL FUND</u>
<b>Sources/Inflows of Resources:</b>	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 29) .....	\$ 7,780,525
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes.....	<u>(271,191)</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 12).....	<u>\$ 7,509,334</u>
<b>Uses/Outflows of Resources:</b>	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 29) .....	\$ 7,293,057
Difference – Budget to GAAP:	
Prior Year expenditures are not outflows of budgetary resources but are expenditures For financial reporting purposes .....	264,182
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.....	(309,805)
Transfer to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.....	(336,201)
Adjustment to Expenditures.....	<u>(18,978)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 12).....	<u>\$ 6,892,255</u>

**NOTE B Explanation of Differences between Budgetary Fund Balance and GAAP Fund Balance**

Budgetary Fund Balance, June 30, 2006 (See Page 29) .....	\$ 487,468
Timing Differences:	
Net Change in Encumbrances .....	(265,779)
Non-budgetary Items .....	<u>(247,758)</u>
Unreserved Fund Balance, June 30, 2006 (See Page 10) .....	<u>\$ (26,069)</u>

**END OF THIS SECTION**

**PART II**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND REPORTS REQUIRED BY GOVERNMENT AUDITING  
STANDARDS AND OMB CIRCULAR A-133**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U. S. Department of Agriculture:			
Pass Through State – Office of the Governor, Regional Elderly Office:			
Child and Adult Care Food Program .....	10.558	N/AV	<u>\$ 36,344</u>
U.S. Department of Commerce:			
Economic Development Administration.....	11.300		<u>261,307</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choices Vouchers .....	14.871		14,752
Indirect Programs:			
Pass Through State – Office of the Commissioner of Municipal Affairs			
State Block Grant Program (SBGP) .....	14.228	05-FC-AB 04-FC-AB 03-FC-AB 02-FC-AB 01-FD	479,287
Community Development Block Grants Section 108 Loan Guarantees .....	14.248		<u>521,746</u>
Total U.S. Department of Housing and Urban Development			<u>1,015,785</u>
U.S. Federal Emergency Management Administration:			
Pass-Through Office of the Governor:			
Public Assistant Grant.....	83.544	FEMA1136DR-PR FEMA1247DR-PR	<u>149,512</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward).....			<u>1,462,948</u>

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<u>FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>TOTAL EXPENDITURES</u>
Subtotal Expenditures of Federal Awards (Balance Brought Forward).....			<u>\$1,462,948</u>
U.S. Department of Health and Human Services			
Pass-Through Office of the Governor, Regional Elderly Office:			
Special Program for Aging, Title III, Part B.....	93.045	N/AV	139,506
Pass-Through Instituto de Servicios Comunes, Inc.			
Community Services Block Grant .....	93.569	N/AV	43,024
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant .....	93.575	N/AV	<u>186,329</u>
Total U.S. Department of Health and Human Services			<u>368,859</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS ...</b>			<b><u>\$1,831,807</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

---

**NOTE 1 GENERAL**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Jayuya, Puerto Rico (Municipality)** and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from **Municipality's** accounting records and is not intended to present financial position or the results of operations.
- B. The Municipality in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

**NOTE 3 FEDERAL CFDA NUMBER**

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

**NOTE 4 PASS-THROUGH GRANTOR'S NUMBER**

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

**NOTE 5 LOAN OUTSTANDING**

The **Municipality** had an outstanding loan balance under program Section 108 Loan Guarantee Assistance (CFDA No. 14.248), for which the grantor does not impose continuing compliance requirements. The outstanding balance of the Loan Guarantee Assistance at June 30, 2006 was \$3,670,000.

**NOTE 6 MAJOR PROGRAMS**

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

**END OF NOTES**

*Pedro C. Ortiz Ledée*

Certified Public Accountant

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of **Jayuya**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2006, which collectively comprise the Municipality of Jayuya's basic financial statements and has issued my report thereon dated December 20, 2006. I conducted my 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 my audit, I considered the Municipality's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

**Compliance**

As part of obtaining reasonable assurance about whether the Municipality's basic financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to management of the Municipality's in a separate letter dated December 20, 2006.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Page 2

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*P.C. Ortiz Ledée*  
CPA Pedro C. Ortiz Ledée  
Certified Public Accountant  
License Number 5200  
Expires on December 1, 2008

Guayama, Puerto Rico  
December 20, 2006



*Pedro C. Ortiz Ledée*

Certified Public Accountant

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

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

**Compliance**

I have audited the compliance of the Municipality of **Jayuya**, Puerto Rico (Municipality) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. The Municipality's major federal programs are identified in the summary of auditors' result section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. My responsibility is to express an opinion on the Municipality's compliance based on my audit.

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

In my opinion, the Municipality's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. However, the results of my auditing procedures disclosed instance 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 06-III-01 through 06-III-02.

**Internal Control Over Compliance**

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**  
Page 2

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Municipality ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as 06-III-01 through 06-III-02.

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

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



CPA Pedro C. Ortiz Ledée  
Certified Public Accountant  
License Number 5200  
Expires on December 1, 2008

Guayama, Puerto Rico  
December 20, 2006



**PART III**  
**FINDINGS AND QUESTIONED COSTS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Section I – Summary of Auditors' Results

**Financial Statements**

- Type of auditors' report issued:  Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion
- Internal control over financial reporting:
- Reportable condition(s) identified?  Yes  None Reported
  - Material weakness (es) identified?  Yes  No
- Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

- Internal control over major programs:
- Reportable condition(s) identified?  Yes  None Reported
  - Material weakness (es) identified?  Yes  No
- Type of auditors' report issued on compliance for Major Programs:  Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion
- Any audit finding disclosed that are required to be reported in accordance with OMB Circular A-133?  Yes  No

Identification of Major Program:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
14.228	Community Development Block Grants
14.248	Section 108 Loan Guarantees

- Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000
- Auditee qualified as low-risk auditee?  Yes  No

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

---

Section II- Financial Statements Finding

---

**NO MATTERS REPORTED.**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

---

Section III – Federal Award Findings and Questioned Costs

---

<b>FINDING</b>	<b>NUMBER 06-III-01</b>
<b>FEDERAL PROGRAMS</b>	<b>COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>CASH MANAGEMENT</b>
<b>CONDITION</b>	During my test I noted that the Municipality in the fiscal year 2005-2006 maintained an average cash balance in books of \$19,393. In addition, the Municipality sometimes requested CDBG funds to the pass-through entity and did not use it to cover immediate expenditures.
<b>CRITERIA</b>	Code of Federal Regulations, Subpart I, 24 CFR Section 570.489 (c) (1) stated that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement for CDBG activities, according with Treasury Circular 1075.
<b>CAUSE</b>	Federal Program and Finance Department did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
<b>EFFECT</b>	Federal Program and Finance Department are requesting funds in excess of the immediate expenditures incurred.
<b>RECOMMENDATION</b>	I recommend management to implement procedures in order to minimized the time between the transfer of funds by the state and disbursements as required by the federal regulation.
<b>QUESTIONED COSTS</b>	None.
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2006

---

Section III – Federal Award Findings and Questioned Costs

---

<b>FINDING</b>	<b>NUMBER 06-III-02</b>
<b>FEDERAL PROGRAMS</b>	<b>STATE BLOCK GRANT PROGRAM (SBGP) (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TESTS AND PROVISIONS</b>
<b>CONDITION</b>	During my Participant Files Test of Housing Rehabilitation I selected a sample of eight (8) participants file and noted that three (3) of them does not have the initial (preliminary), intermediate and the final unit inspection.
<b>CRITERIA</b>	The Operational Guide of Housing Rehabilitation (the guide) provided by the Office of Commissioner of Municipal Affairs, the pass through entity, stated that the Municipality has to conduct an initial unit inspection to determine if the unit is eligible to be rehabilitating under the criteria of the program. In addition, the guide stated that the Municipality has to conduct an intermediate and a final inspection to determine if the unit is being rehabilitated and that the rehabilitation has been completed, respectively.
<b>CAUSE</b>	The Municipality does not have adequate internal controls to ensure that all the require units' inspections are perform in order to comply with this requirement.
<b>EFFECT</b>	The Municipality is not in compliance with the Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs.
<b>RECOMMENDATION</b>	Municipality should implement adequate procedures in order to comply with this pass through entity requirement.
<b>QUESTIONED COSTS</b>	None.
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

**END OF SCHEDULE**

**PART II FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report

Mark either: 1  Unqualified opinion **OR**  
any combination of: 2  Qualified opinion 3  Adverse opinion 4  Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1  Yes 2  No

3. Is a reportable condition disclosed? 1  Yes 2  No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1  Yes 2  No

5. Is a material noncompliance disclosed? 1  Yes 2  No

**PART III FEDERAL PROGRAMS (To be completed by auditor)**

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1  Yes 2  No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ .530) 1  Yes 2  No

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1  Yes 2  No -SKIP to Item 6

5. Is any reportable condition reported as a material weakness? (§ .510(a)(1)) 1  Yes 2  No

6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1  Yes 2  No

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1  Yes 2  No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)

- |  |  |   |  |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development      | 83 <input type="checkbox"/> Federal Emergency Management Agency      | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration   |
| 10 <input type="checkbox"/> Agriculture                                    | 39 <input type="checkbox"/> General Services Administration          | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> U.S. Department of State         |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input type="checkbox"/> Health and Human Services                | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation                   |
| 11 <input checked="" type="checkbox"/> Commerce                            | 97 <input type="checkbox"/> Homeland Security                        | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input type="checkbox"/> Housing and Urban Development            | 47 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense  | 03 <input type="checkbox"/> Institute of Museum and Library Services | 07 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 15 <input type="checkbox"/> Interior                                 | 59 <input type="checkbox"/> Small Business Administration                 | 00 <input type="checkbox"/> None                             |
| 81 <input type="checkbox"/> Energy   | 16 <input type="checkbox"/> Justice                                  |   | <input type="checkbox"/> Other - Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 17 <input type="checkbox"/> Labor                                    |   | <input type="text"/>   |
|  | 09 <input type="checkbox"/> Legal Services Corporation               |   | <input type="text"/>   |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives .....
- and, if not marked above, the Federal cognizant agency .....

Count total number of boxes marked above and submit this number of reporting packages . . . . 2

FORM SF-SAC (5-2004)

**PART III FEDERAL PROGRAMS - Continued**

**9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR**

**10. AUDIT FINDINGS**

CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		If yes, type of audit report (h)	Type(s) of compliance requirement(s) (a)	Audit finding reference number(s) (b)
Federal Agency Prefix <sup>1</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)				
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD & ADULT CARE FOOD PROGRAM	\$ 36,344 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A	
1	1 .300	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ECONOMIC DEVELOPMENT ADMINISTRATION	\$ 261,307 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A	
1	4 .871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICES VOUCHER	\$ 14,752 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A	
1	4 .228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT	\$ 479,287 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	CN	06-III-01, 02	
1	4 .248	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 108 LOAN GUARANTEES	\$ 521,746 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A	
8	3 .544	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANT GRANT	\$ 149,512 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A	
9	3 .045	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR AGING, TITLE III, PART B	\$ 139,506 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A	
9	3 .569	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY SERVICES BLOCK GRANT	\$ 43,024 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A	
9	3 .575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 186,329 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A	
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No				
<b>TOTAL FEDERAL AWARDS EXPENDED</b> →				\$ 1,831,807 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS					

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.  
<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)  
<sup>3</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.  
<sup>4</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

A. Activities allowed or unallowed	E. Eligibility	I. Procurement and suspension and debarment	L. Reporting
B. Allowable costs/cost principles	F. Equipment and real property management	J. Program income	M. Subrecipient monitoring
C. Cash management	G. Matching, level of effort, earmarking	K. Real property acquisition and relocation assistance	N. Special tests and provisions
D. Davis - Bacon Act	H. Period of availability of Federal funds		O. None

<sup>5</sup> N/A for NONE

**PART I** Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N	L	A			21	-			41	-		
2						22	-			42	-		
3						23	-			43	-		
4						24	-			44	-		
5						25	-			45	-		
6						26	-			46	-		
7						27	-			47	-		
8						28	-			48	-		
9						29	-			49	-		
10						30	-			50	-		
11						31	-			51	-		
12						32	-			52	-		
13						33	-			53	-		
14						34	-			54	-		
15						35	-			55	-		
16						36	-			56	-		
17						37	-			57	-		
18						38	-			58	-		
19						39	-			59	-		
20						40	-			60	-		

f. List the multiple DUNS covered in the report.

1	N	L	A			21	-		
2						22	-		
3						23	-		
4						24	-		
5						25	-		
6						26	-		
7						27	-		
8						28	-		
9						29	-		
10						30	-		
11						31	-		
12						32	-		
13						33	-		
14						34	-		
15						35	-		
16						36	-		
17						37	-		
18						38	-		
19						39	-		
20						40	-		

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.

**CORRECTIVE ACTION PLAN**  
 Single Audit, June 30, 2006  
Municipality of Jayuya, Puerto Rico

FINDINGS	CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE
<p><b>Federal Award Findings and Questioned Cost</b></p> <p><b>Number 06-III-01 (Community Development Block Grant (CFDA No. 14.228))</b></p> <p>1) The auditor noted that the Municipality in the fiscal year 2005-2006 maintained an average cash balance in books of \$19,393. In addition, the Municipality requested CDBG funds to the pass-through entity and did not use it to cover immediate expenditures.</p> <p><b>Number 06-III-02 (State Block Grant Program (SBGP) (CFDA No. 14.228))</b></p> <p>During the auditor test for Housing Rehabilitation he selected a sample of eight (8) participants files and noted that three (3) of them does not have the initial (preliminary), intermediate and the final unit inspection.</p>	<p>The cash management procedures will be reviewed and revised as necessary. The internal controls will be strengthened to minimize the time elapsing between the transfer of funds and the disbursement for the CDBG activities. All employees involved in the cash management process will be informed of the strengthened procedures and the requirements of the federal regulations.</p> <p>The Federal Programs Director has meet with the official in charge of the participant's records in order adopt new procedures and internal controls and comply with this requirement.</p>	<p><b>Anticipated Completion Date:</b> Corrective Action (discussions with staff) was completed during the months of January 2007</p> <p><b>Anticipated Completion Date:</b> Corrective Action (discussions with staff) was completed during the months of December 2006 and January 2007</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

---

**(1) Audit Findings that have been Fully Corrected:**

FISCAL YEAR 2005

Finding Number	05-III-02	Activities Allowed or Unallowed
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments	The Mayor gave instructions to remove the employee from the payroll of CDBG and a non federal fund is paying her salary.	

**(2) Audit Findings not Corrected or Partially Corrected:**

FISCAL YEAR 2005

Finding Number	05-III-01	Activities Allowed or Unallowed
CFDA Number	14.248	
Questioned Cost	\$176,017	
Auditee Comments	The Federal Programs Director will make arrangements in order to reimburse the amounts used from Section 108 Budget from non federal funds.	

Finding Number	05-III-03	Procurement, Suspension & Debarment- Contract Clauses
CFDA Number	11.300	
Questioned Cost	None	
Auditee Comments	The Mayor gave instructions to update the contract models according to the federal requirements.	

FISCAL YEAR 2004

Finding Number	04-III-01	Activities Allowed or Unallowed
CFDA Number	14.248	
Questioned Cost	\$152,776	
Auditee Comments	The Federal Programs Director will implement internal control procedures to assure compliance with this finding.	

FISCAL YEAR 2004

Finding Number	04-III-02	Procurement Standards- Contract Clauses
CFDA Number	14.248	
Questioned Cost	None	
Auditee Comments	The Federal Programs Director will implement internal control procedures to assure compliance with this finding.	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

---

**(2) Audit Findings not Corrected or Partially Corrected:**

FISCAL YEAR 2003

Finding Number	03-III-04	Procurement Standards- Contract Clauses
CFDA Number	14.248	
Questioned Cost	None	
Auditee Comments		The Federal Programs Director will implement internal control procedures to assure compliance with this finding.

FISCAL YEAR 2002

Finding Number	02-III-04	Procurement Standards- Contract Clauses
CFDA Number	14.248	
Questioned Cost	None	
Auditee Comments		The Federal Programs Director will implement internal control procedures to assure compliance with this finding.

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

None

**(4) Audit findings is no longer valid:**

None