

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

**MUNICIPIO DE JAYUYA**  
**AUDITORIA 2006-2007**  
**30 DE JUNIO DE 2007**

OFICINA DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

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*2008-1035*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA**

**SINGLE AUDIT REPORT**

**FISCAL YEAR ENDED JUNE 30, 2007**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
SINGLE AUDIT REPORT  
FISCAL YEAR ENDED JUNE 30, 2007**

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# *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, 2007, 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 opinions on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note 5 to the financial statements, the Municipality has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

As discussed in Note 7 to the financial statements, the Municipality did not comply with the requirements established by Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, issued by the Governmental Accounting Standards Board and the regulations set forth by the U.S. Environment Protection Agency. At June 30, 2007, the accompanying statement of net assets does not include the required liability for closure and postclosure care costs of the Municipality's solid waste landfill. In addition the expenses and result of operations reported in the statement of activities are understated and overstated, respectively, for amounts that could not be determined for the fiscal year ended June 30, 2007.

In my opinion, because of the effects of the matter discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Municipality as of June 30, 2007, or the changes in financial position, thereof for the year then ended.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2007, 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.

# INDEPENDENT AUDITORS' REPORT

Page 2

In accordance with *Government Auditing Standards*, I have also issued my report dated December 20, 2007, on my consideration of the Municipality's internal control over financial reporting and on my tests 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.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 7 and 31 through 32, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Municipality. The Schedule of Expenditures of Federal Awards have 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  
License Number 5200,  
Expires on December 1, 2008

Guayama, Puerto Rico  
December 20, 2007



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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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, 2007. 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, 2007 by \$17.6 million and at June 30, 2006 by \$19.0 million.
- ❖ The Municipality's total net assets decreased by \$1.4 million during 2007.
- ❖ As of June 30, 2007, the Municipality's governmental funds reported combined ending fund balances of \$6.3 million, a decrease of \$800 thousand from the prior year.
- ❖ At June 30, 2007, the Unrestricted (Deficit) was \$1.9 million. During Fiscal Year 2006-2007 the Municipality issue \$675,000 in bonds debt.
- ❖ The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2007 were \$22.3 million.
- ❖ The investment in capital assets for this year was \$1.3 million.
- ❖ Loans principal payments were \$599 thousand and \$540 thousand in 2007 and 2006, 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, 2007

**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

Municipality, net assets exceeded liabilities by \$17.6 million as of June 30, 2007 versus \$19.0 million as of June 30, 2006. Our analysis below focuses on the net assets (Table 1) and changes in net assets of the Municipality's governmental activities.

|                                      | <b>2007</b>                 | <b>2006</b>                 |
|--------------------------------------|-----------------------------|-----------------------------|
| Current and non-current assets ..... | \$ 9,722,414                | \$ 12,262,644               |
| Capital assets .....                 | <u>17,700,398</u>           | <u>16,985,409</u>           |
| <b>Total Assets .....</b>            | <b><u>27,422,812</u></b>    | <b><u>29,248,053</u></b>    |
| Current liabilities .....            | 798,015                     | 967,264                     |
| Deferred revenues .....              | 1,296,345                   | 1,569,888                   |
| Long-term liabilities .....          | <u>7,713,042</u>            | <u>7,663,628</u>            |
| <b>Total Liabilities.....</b>        | <b><u>9,807,402</u></b>     | <b><u>10,200,780</u></b>    |
| <b>Net Assets:</b>                   |                             |                             |
| Investment in capital assets .....   | 12,697,398                  | 12,164,409                  |
| Restricted .....                     | 6,824,343                   | 9,173,423                   |
| Deficit .....                        | <u>(1,906,330)</u>          | <u>(2,290,559)</u>          |
| <b>Total Net Assets.....</b>         | <b><u>\$ 17,615,411</u></b> | <b><u>\$ 19,047,273</u></b> |

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, 2007

Total Net Assets of the Municipality's governmental activities were \$17.6 million. The Unrestricted (Deficit) was approximately of \$1.9 million at June 30, 2007.

**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 \$10.2 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 does not exceed net expenses by \$1.4 million. The Municipality expended several of the resources restricted projects in the community.

The cost of all governmental activities this year was \$18.1 million. Table 2 presents the cost of each of the Municipality's largest programs.

**Table 2**

**Changes in Net Assets  
For Fiscal Years Ending June 30,**

|                                      | 2007                        | 2006                        |
|--------------------------------------|-----------------------------|-----------------------------|
| <b>Revenues:</b>                     |                             |                             |
| <b>Program Revenues:</b>             |                             |                             |
| Grants and Contributions.....        | \$ 7,913,000                | \$ 9,044,667                |
| <b>General Revenues:</b>             |                             |                             |
| Property Taxes.....                  | 1,591,970                   | 1,422,423                   |
| Volume of Business Taxes.....        | 1,052,211                   | 1,112,132                   |
| Construction Taxes.....              | 136,977                     | 253,334                     |
| Sales Taxes.....                     | 243,191                     | -                           |
| Intergovernmental.....               | 4,611,176                   | 4,547,723                   |
| Charges for Services.....            | 241,813                     | -                           |
| Other General Revenues.....          | <u>842,944</u>              | <u>290,056</u>              |
| <b>Total revenues.....</b>           | <u><b>16,633,282</b></u>    | <u><b>16,670,335</b></u>    |
| <b>Expenses:</b>                     |                             |                             |
| General Administration.....          | 4,253,411                   | 3,833,747                   |
| Public Safety.....                   | 451,647                     | 482,702                     |
| Public Works.....                    | 1,219,543                   | 1,432,581                   |
| Health and Sanitation.....           | 629,483                     | 543,103                     |
| Culture and Recreation.....          | 883,760                     | 850,052                     |
| Solid Waste Disposal.....            | -                           | 13,723                      |
| Human Services and Welfare.....      | 6,879,993                   | 4,754,787                   |
| Urban Development.....               | 3,371,518                   | 1,390,006                   |
| Education.....                       | 214,322                     | 233,006                     |
| Interest Costs.....                  | <u>164,914</u>              | <u>139,044</u>              |
| <b>Total expenses.....</b>           | <u><b>18,068,591</b></u>    | <u><b>13,672,751</b></u>    |
| <b>Changes in net assets.....</b>    | <b>(1,435,309)</b>          | <b>2,997,584</b>            |
| Net assets – beginning, as Restated* | <u>19,050,720</u>           | <u>16,049,689</u>           |
| <b>Net assets – ending.....</b>      | <u><b>\$ 17,615,411</b></u> | <u><b>\$ 19,047,273</b></u> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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, 2007, the Municipality's governmental funds reported combined ending fund balances of \$6.3 million, a decrease of \$826 thousand from the prior year.

The Municipality has an Unreserved Fund Balance of \$529 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 \$275 thousand, (2) to pay debt service \$216 thousand or (3) for other restricted purposes \$5.3 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 2007 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 solid waste disposal, construction taxes, intergovernmental revenues and others.
- ❖ 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, 2007 amounted to \$17.7 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 \$1.3 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 .....                     | \$2.4             |
| Construction in Progress ..... | 3.2               |
| Buildings.....                 | 10.7              |
| Infrastructure .....           | 1.3               |
| Motor Vehicles .....           | 2.4               |
| Machinery and Equipment.....   | <u>2.3</u>        |
| <br>Total Capital Assets.....  | <br><u>\$22.3</u> |

**Long-term Debt**

At June 30, 2007 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, 2007**

**Table 4  
Municipality of Jayuya's  
Long-Term Debts  
(In Million)**

|                                |                   |
|--------------------------------|-------------------|
| General Obligations .....      | \$ 5.2            |
| Special Notes.....             | 0.7               |
| Others .....                   | <u>1.8</u>        |
| <br>Total Capital Assets ..... | <br><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 2007 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, 2007

|   | <u>Governmental</u>         |
|---|-----------------------------|
| <b>ASSETS:</b>  |                             |
| Cash and Investments.....                             | \$ 6,011,494                |
| Cash with Fiscal Agent.....                           | 1,036,108                   |
| Receivables (net):                                    |                             |
| Property Taxes.....                                   | 7,105                       |
| Federal Grants.....                                   | 2,095,354                   |
| State Government.....                                 | 529,658                     |
| Others.....   | 42,695                      |
|   | <u>9,722,414</u>            |
| Capital Assets (Note 5):                              |                             |
| Land, Improvements, and Construction in Progress..... | 5,651,940                   |
| Other Capital Assets, [Net of Depreciation].....      | 12,048,458                  |
| Total Capital Assets.....                             | <u>17,700,398</u>           |
| <b>TOTAL ASSETS</b> .....                             | <b><u>27,422,812</u></b>    |
| <b>LIABILITIES:</b>                                   |                             |
| Accounts Payable and Accrued Expense.....             | 748,663                     |
| Accrued Interest.....                                 | 49,352                      |
| Deferred Revenue.....                                 | 1,296,345                   |
| Long-Term Liabilities (Note 6):                       |                             |
| Due within One Year.....                              | 1,480,657                   |
| Due in More than One Year.....                        | 6,232,384                   |
| <b>Total Liabilities</b> .....                        | <b><u>9,807,401</u></b>     |
| <b>NET ASSETS</b>                                     |                             |
| Invested in Capital Assets, Net of Related Debt.....  | 12,697,398                  |
| Restricted for:                                       |                             |
| Debt Service.....                                     | 215,770                     |
| Other Purposes.....                                   | 6,608,573                   |
| Unrestricted (Deficit).....                           | <u>(1,906,330)</u>          |
| <b>Total Net Assets</b> .....                         | <b><u>\$ 17,615,411</u></b> |

See accompanying notes to financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| Functions/Programs                      | Expenses             | Program Revenues        |  |  | Net (Expense)<br>Revenue |
|---|----------------------|-------------------------|--|--|--------------------------|
|   |                      | Charges<br>for Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |                          |
| <b>Governmental Activities:</b>         |                      |                         |  |  |                          |
| Mayor and Municipal Legislature....     | \$ 876,886           | \$ -                    | \$ -                                     | \$ -                                   | \$ (876,886)             |
| General Government.....                 | 3,376,525            | -                       | -  | -                                      | (3,376,525)              |
| Public Safety.....                      | 451,647              | -                       | -  | -                                      | (451,647)                |
| Public Works.....                       | 1,219,543            | -                       | -  | -                                      | (1,219,543)              |
| Culture and Recreation.....             | 883,760              | 422,161                 | 81,138                                   | -                                      | (380,461)                |
| Health and Sanitation.....              | 629,483              | -                       | -  | -                                      | (629,483)                |
| Human Services and Welfare.....         | 6,879,993            | 979,463                 | 3,517,348                                | -                                      | (2,383,182)              |
| Urban Development.....                  | 3,371,518            | -                       | 1,303,192                                | 1,395,376                              | (672,950)                |
| Education.....                          | 214,322              | -                       | 214,322                                  | -                                      | -                        |
| Interest on Long-Term Debt.....         | 164,914              | -                       | -  | -                                      | (164,914)                |
| <b>Total Governmental Activities...</b> | <b>\$ 18,068,591</b> | <b>\$ 1,401,624</b>     | <b>\$ 5,116,000</b>                      | <b>\$ 1,395,376</b>                    | <b>(10,155,591)</b>      |

General Revenues:

Taxes:

|  |                      |
|--|----------------------|
| Property Taxes, levied for General Purposes.....     | 1,192,331            |
| Property Taxes, levied for Debt Services.....        | 399,639              |
| Volume of Business Taxes.....                        | 1,052,211            |
| Charges for Services.....                            | 241,813              |
| Construction Taxes.....                              | 136,977              |
| Intergovernmental.....                               | 4,611,176            |
| Rent.....  | 99,193               |
| Miscellaneous.....                                   | 986,942              |
| <b>Total General Revenues and Special Items.....</b> | <b>8,720,282</b>     |
| <b>CHANGE IN NET ASSETS.....</b>                     | <b>(1,435,309)</b>   |
| Net Assets - Beginning of Year.....                  | 19,050,720           |
| <b>NET ASSETS - END OF YEAR.....</b>                 | <b>\$ 17,615,411</b> |

See accompanying notes to financial statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

|   | General<br>Fund     | Special<br>Communities<br>Fund | Municipal<br>Hospital<br>Fund | HUD<br>Funds        | State<br>Assignment<br>Fund | Other<br>Governmental<br>Funds | Total<br>Funds       |
|---|---------------------|--------------------------------|-------------------------------|---------------------|-----------------------------|--------------------------------|----------------------|
| <b>ASSETS:</b>                                |                     |                                |                               |                     |                             |                                |                      |
| Cash and Investments (Note 2).....            | \$ 1,218,656        | \$ 56,724                      | \$ 343,437                    | \$ 1,627,189        | \$ 1,180,648                | \$ 1,584,840                   | \$ 6,011,494         |
| Cash with Fiscal Agent.....                   | -                   | -                              | -                             | -                   | -                           | 1,036,108                      | 1,036,108            |
| Receivables:                                  |                     |                                |                               |                     |                             |                                |                      |
| Property Taxes.....                           | -                   | -                              | -                             | -                   | -                           | 7,105                          | 7,105                |
| Federal Grants.....                           | -                   | -                              | -                             | 1,586,624           | -                           | 508,730                        | 2,095,354            |
| Due from Other Funds.....                     | 1,340,666           | -                              | -                             | -                   | -                           | 583,523                        | 1,924,189            |
| State Government.....                         | -                   | 282,316                        | 77,451                        | -                   | -                           | 169,891                        | 529,658              |
| Others.....                                   | 42,695              | -                              | -                             | -                   | -                           | -                              | 42,695               |
| <b>Total Assets.....</b>                      | <b>\$ 2,602,017</b> | <b>\$ 339,040</b>              | <b>\$ 420,888</b>             | <b>\$ 3,213,813</b> | <b>\$ 1,180,648</b>         | <b>\$ 3,890,197</b>            | <b>\$ 11,646,603</b> |
| <b>LIABILITIES AND FUND BALANCES:</b>         |                     |                                |                               |                     |                             |                                |                      |
| <b>Liabilities:</b>                           |                     |                                |                               |                     |                             |                                |                      |
| Accounts Payable and Accrued Liabilities..... | 174,457             | 124,024                        | 6,793                         | 53,257              | -                           | 91,687                         | 450,218              |
| Bonds and Notes Payable.....                  | -                   | -                              | -                             | -                   | -                           | 200,000                        | 200,000              |
| Accrued Interest.....                         | -                   | -                              | -                             | -                   | -                           | 49,352                         | 49,352               |
| Due to Governmental Units.....                | 98,445              | -                              | -                             | -                   | -                           | -                              | 98,445               |
| Due to Other Funds.....                       | 583,523             | 215,016                        | 89,179                        | 191,648             | -                           | 844,823                        | 1,924,189            |
| Deferred Revenue:                             |                     |                                |                               |                     |                             |                                |                      |
| Volume of Business Tax.....                   | 941,881             | -                              | -                             | -                   | -                           | -                              | 941,881              |
| Federal Grants.....                           | -                   | -                              | -                             | 1,597,221           | -                           | 98,650                         | 1,695,871            |
| <b>Total Liabilities.....</b>                 | <b>1,798,306</b>    | <b>339,040</b>                 | <b>95,972</b>                 | <b>1,842,126</b>    | <b>-</b>                    | <b>1,284,512</b>               | <b>5,359,956</b>     |
| <b>Fund Balances:</b>                         |                     |                                |                               |                     |                             |                                |                      |
| Reserve For:                                  |                     |                                |                               |                     |                             |                                |                      |
| Encumbrances.....                             | 274,546             | -                              | -                             | -                   | -                           | -                              | 274,546              |
| Debt Service.....                             | -                   | -                              | -                             | -                   | -                           | 215,770                        | 215,770              |
| Other Purposes.....                           | -                   | -                              | 324,916                       | 1,371,687           | 1,180,648                   | 2,389,915                      | 5,267,166            |
| Unreserved (Deficit).....                     | 529,165             | -                              | -                             | -                   | -                           | -                              | 529,165              |
| <b>Total Fund Balances.....</b>               | <b>803,711</b>      | <b>-</b>                       | <b>324,916</b>                | <b>1,371,687</b>    | <b>1,180,648</b>            | <b>2,605,685</b>               | <b>6,286,647</b>     |
| <b>TOTAL LIABILITIES AND FUND BALANCES...</b> | <b>\$ 2,602,017</b> | <b>\$ 339,040</b>              | <b>\$ 420,888</b>             | <b>\$ 3,213,813</b> | <b>\$ 1,180,648</b>         | <b>\$ 3,890,197</b>            | <b>\$ 11,646,603</b> |

See accompanying notes to 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, 2007

|  | General Fund      | Special Communities Fund | Municipal Hospital Fund | HUD Funds           | State Assignment Fund | Other Governmental Funds | Total Funds         |
|--|-------------------|--------------------------|-------------------------|---------------------|-----------------------|--------------------------|---------------------|
| <b>REVENUES</b>                                    |                   |                          |                         |                     |                       |                          |                     |
| Property Taxes.....                                | \$1,321,743       | \$ -                     | \$ -                    | \$ -                | \$ -                  | \$ 399,639               | \$ 1,721,382        |
| Volume of Business Taxes.....                      | 1,052,211         | -                        | -                       | -                   | -                     | -                        | 1,052,211           |
| Sales Tax.....                                     | -                 | -                        | -                       | -                   | -                     | 243,191                  | 243,191             |
| Charges for Services.....                          | 241,813           | -                        | 979,463                 | -                   | -                     | 422,161                  | 1,643,437           |
| Federal Assistanes.....                            | -                 | -                        | -                       | 1,372,972           | 373,719               | 1,967,658                | 3,714,349           |
| Intergovernmental.....                             | 4,611,176         | 1,364,957                | 1,045,409               | -                   | -                     | 1,417,918                | 8,439,460           |
| Licenses and Permits.....                          | 146,657           | -                        | -                       | -                   | -                     | -                        | 146,657             |
| Rent.....  | 99,193            | -                        | -                       | -                   | -                     | -                        | 99,193              |
| Miscellaneous.....                                 | 847,850           | -                        | -                       | -                   | -                     | -                        | 847,850             |
| <b>Total Revenues.....</b>                         | <b>8,320,643</b>  | <b>1,364,957</b>         | <b>2,024,872</b>        | <b>1,372,972</b>    | <b>373,719</b>        | <b>4,450,567</b>         | <b>17,907,730</b>   |
| <b>EXPENDITURES</b>                                |                   |                          |                         |                     |                       |                          |                     |
| Current:   |                   |                          |                         |                     |                       |                          |                     |
| Mayor and Municipal Legislature.....               | 842,667           | -                        | -                       | -                   | -                     | -                        | 842,667             |
| General Government.....                            | 3,283,106         | -                        | -                       | -                   | -                     | 10,525                   | 3,293,631           |
| Public Safety.....                                 | 441,438           | -                        | -                       | -                   | -                     | -                        | 441,438             |
| Public Works.....                                  | 1,140,251         | -                        | -                       | -                   | -                     | -                        | 1,140,251           |
| Culture and Recreation.....                        | 434,130           | -                        | -                       | -                   | 17,520                | 334,536                  | 786,186             |
| Health and Sanitation.....                         | 549,683           | -                        | -                       | -                   | -                     | -                        | 549,683             |
| Human Services and Welfare.....                    | 663,940           | 2,497,293                | 1,908,085               | 18,482              | 139,132               | 1,634,192                | 6,861,124           |
| Urban Development.....                             | 44,172            | -                        | -                       | 1,895,579           | 288,451               | 2,011,388                | 4,239,590           |
| Education.....                                     | -                 | -                        | -                       | -                   | -                     | 214,322                  | 214,322             |
| Capital Outlay.....                                | -                 | -                        | -                       | -                   | -                     | 495,944                  | 495,944             |
| Debt Service:                                      |                   |                          |                         |                     |                       |                          |                     |
| Principal.....                                     | -                 | -                        | -                       | -                   | -                     | 379,417                  | 379,417             |
| Interest and Other Charges.....                    | -                 | -                        | -                       | -                   | -                     | 164,914                  | 164,914             |
| <b>Total Expenditures.....</b>                     | <b>7,399,387</b>  | <b>2,497,293</b>         | <b>1,908,085</b>        | <b>1,914,061</b>    | <b>445,103</b>        | <b>5,245,238</b>         | <b>19,409,167</b>   |
| <b>OTHER FINANCING SOURCES (USES)</b>              |                   |                          |                         |                     |                       |                          |                     |
| Proceed From Issuance of Bonds.....                | -                 | -                        | -                       | -                   | -                     | 675,000                  | 675,000             |
| Transfers - In.....                                | -                 | -                        | -                       | -                   | -                     | 669,614                  | 669,614             |
| Transfers - Out.....                               | (669,614)         | -                        | -                       | -                   | -                     | -                        | (669,614)           |
| <b>Total Other Financing Sources and Uses.....</b> | <b>(669,614)</b>  | <b>-</b>                 | <b>-</b>                | <b>-</b>            | <b>-</b>              | <b>1,344,614</b>         | <b>675,000</b>      |
| <b>Net Change in Fund Balances.....</b>            | <b>251,642</b>    | <b>(1,132,336)</b>       | <b>116,787</b>          | <b>(541,089)</b>    | <b>(71,384)</b>       | <b>549,943</b>           | <b>(826,437)</b>    |
| Fund Balance - Beginning as Restated (Note 15).... | 552,069           | 1,132,336                | 208,129                 | 1,912,776           | 1,252,032             | 2,055,742                | 7,113,084           |
| <b>Fund Balances - Ending.....</b>                 | <b>\$ 803,711</b> | <b>\$ -</b>              | <b>\$ 324,916</b>       | <b>\$ 1,371,687</b> | <b>\$ 1,180,648</b>   | <b>\$ 2,605,685</b>      | <b>\$ 6,286,647</b> |

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See accompanying notes to financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JAYUYA, PUERTO RICO  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2007

|  |                    |                            |
|--|--------------------|----------------------------|
| <b>Total Fund Balances – Governmental Funds (Page 10).....</b>   |                    | <b>\$ 6,286,647</b>        |
| 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.....  | \$ 5,651,939       |                            |
| Depreciable Capital Assets.....  | 15,396,366         |                            |
| Infrastructure Assets.....   | 1,296,131          |                            |
| Accumulated Depreciation.....  | <u>(4,644,038)</u> |                            |
| Total Capital Assets.....  |                    | 17,700,398                 |
| 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..... |                    | 1,341,407                  |
| 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.....   | 5,941,182          |                            |
| Compensated Absences.....  | 1,217,775          |                            |
| Social Security Debt.....  | 3,367              |                            |
| Treasury Department Debt.....  | 93,386             |                            |
| Municipal Revenue Collection Center.....   | <u>457,331</u>     |                            |
| Total Long-Term Liabilities.....   |                    | ( 7,713,041)               |
| <b>Total Net Assets of Governmental Activities (Page 8).....</b>   |                    | <b><u>\$17,615,411</u></b> |

See accompanying Notes to Basic Financial Statements.

**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, 2007**

|  |                  |                              |
|--|------------------|------------------------------|
| <b>Net Change in Fund Balances – Total Governmental Funds (Page 11).....</b>   |                  | <b>\$ (826,437)</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 .....   | \$ 1,332,845     |                              |
| Depreciation Expense.....  | <u>(617,856)</u> |                              |
| Excess of Capital Outlay over Depreciation Expense.....  |                  | 714,989                      |
| Revenues in the Statement of Revenues that correspond to Prior Year resources are recorded as Revenue in the Statement of Activities .....   |                  | (1,274,447)                  |
| Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds received was.....   |                  | (675,000)                    |
| 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.....  |                  | 599,417                      |
| 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 MRCC.....  | \$ 46,174        |                              |
| Decrease in Treasury Department Debt.....  | 35,040           |                              |
| Decrease in Social Security Debt.....  | 960              |                              |
| Increase in Compensated Absences .....   | <u>(56,005)</u>  |                              |
| Total Additional Expenditures .....  |                  | <u>26,169</u>                |
| <b>Change in Net Assets of Governmental Activities (Page 9) .....</b>  |                  | <b><u>\$ (1,435,309)</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, 2007

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**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, 2007, 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, 2007, 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, 2007**

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**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, 2007, 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, 2007**

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**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 primarily 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, 2007**

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**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.

State Assignment Fund - This is the fund used to account for the capital project transactions of the State Assignment by Legislature Resolutions. The primary objectives of this assignments is the acquisition or construction of major capital facilities, other assets and permanent improvements.

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.

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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.

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.

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

**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.

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, 2007.

| <b>BALANCE<br/>JULY 1,<br/>2006</b> | <b>NEW<br/>ISSUES</b> | <b>RETIREMENTS<br/>AND CURRENT<br/>MATURATES</b> | <b>BALANCE<br/>JUNE 30,<br/>2007</b> | <b>CURRENT<br/>PORTION</b> | <b>LONG-TERM<br/>PORTION</b> |
|-------------------------------------|-----------------------|--|--------------------------------------|----------------------------|------------------------------|
| <u>\$ 1,161,770</u>                 | <u>\$ 56,005</u>      | <u>\$ _____</u>                                  | <u>\$ 1,217,775</u>                  | <u>\$ 931,357</u>          | <u>\$ 286,418</u>            |

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NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

**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.

**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 2006-2007 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 maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

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

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 2 CASH AND CASH EQUIVALENTS (continuation)**

- Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2007.
- Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2007, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2007, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2007, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.
- Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2007. Therefore, the Municipality's management has concluded that at June 30, 2007 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.
- Foreign exchange risk** – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2007.

At June 30, 2007 the total deposits are as follows:

|  | MAJOR GOVERNMENTAL FUNDS |                          |                         |                  |                       |                         | TOTAL GOVERNMENTAL FUND |
|--|--------------------------|--------------------------|-------------------------|------------------|-----------------------|-------------------------|-------------------------|
|  | GENERAL FUND             | SPECIAL COMMUNITIES FUND | MUNICIPAL HOSPITAL FUND | HUD FUND         | STATE ASSIGNMENT FUND | OTHER GOVERNMENTAL FUND |                         |
| <b>Unrestricted:</b>   |                          |                          |                         |                  |                       |                         |                         |
| Cash in commercial banks including cash equivalents of \$5,086,781 |                          |                          |                         |                  |                       |                         |                         |
| Total unrestricted deposits  | \$1,218,656              | 56,724                   | 343,437                 | 1,627,189        | 1,180,648             | 1,584,840               | 6,011,494               |
| <b>Restricted (Note 1):</b>  |                          |                          |                         |                  |                       |                         |                         |
| Cash in GDBG, as fiscal  |                          |                          |                         |                  |                       | 1,036,108               | 1,036,108               |
| Total carrying amount of deposits                                  | <u>\$1,218,656</u>       | <u>56,724</u>            | <u>343,437</u>          | <u>1,627,189</u> | <u>1,180,648</u>      | <u>2,620,948</u>        | <u>7,047,602</u>        |

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**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 | \$ 469,034               | Special Revenue |
| General Fund | Other Governmental Fund | <u>200,580</u>           | Debt Service    |
|              | <b>TOTAL</b>            | <b><u>\$ 669,614</u></b> |                 |

**B. INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Interfund receivables and payables at June 30, 2007 are summarized as follows:

| INTERFUND RECEIVABLE | INTERFUND PAYABLE   | AMOUNT                    |
|----------------------|---------------------|---------------------------|
| General Fund         | Special Communities | \$ 215,016                |
| General Fund         | HUD Funds           | 191,648                   |
| General Fund         | Other Fund          | 844,823                   |
| General Fund         | Municipal Hospital  | 89,179                    |
| Other Funds          | General Fund        | <u>583,523</u>            |
| <b>TOTAL</b>         |                     | <b><u>\$1,924,189</u></b> |

**NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2007, balance due to other governmental units, consists of the following:

|  | <u>AMOUNT</u>           |
|--|-------------------------|
| Water & Sewer Authority .....                | \$ 21,745               |
| General Service Administration .....         | 3,780                   |
| State Retirement System Administration ..... | 55,139                  |
| State Department of Labor .....              | <u>17,781</u>           |
| <b>TOTAL .....</b>                           | <b><u>\$ 98,445</u></b> |

**COMMONWEALTH OF PUERTO RICO  
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**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 5 CAPITAL ASSETS**

Capital Assets activities for the fiscal year ended June 30, 2007 was as follows:

| DESCRIPTION                                   | BALANCE<br>JULY 1,<br>2006 | ADJUSTMENTS        | ADDITIONS                | RETIREMENTS             | BALANCE<br>JUNE 30,<br>2007 |
|---|----------------------------|--------------------|--------------------------|-------------------------|-----------------------------|
| <b>Non-Depreciable Capital Assets:</b>        |                            |                    |                          |                         |                             |
| Land .....                                    | \$ 2,340,591               | \$ -               | \$ 101,610               | \$ -                    | \$ 2,442,201                |
| Construction in Progress .....                | <u>2,483,907</u>           | <u>-</u>           | <u>725,831</u>           | <u>-</u>                | <u>3,209,738</u>            |
| <b>Total Non-Depreciable Capital Assets</b>   | <b><u>4,824,498</u></b>    | <b><u>-</u></b>    | <b><u>827,441</u></b>    | <b><u>-</u></b>         | <b><u>5,651,939</u></b>     |
| <b>Depreciable Capital Assets:</b>            |                            |                    |                          |                         |                             |
| Buildings .....                               | 10,705,071                 | -                  | 17,922                   | -                       | 10,722,993                  |
| Infrastructure .....                          | 1,296,131                  | -                  | -                        | -                       | 1,296,131                   |
| Machinery and Equipment .....                 | 2,310,435                  | -                  | 91,306                   | (157,921)               | 2,243,820                   |
| Motor Vehicles .....                          | <u>2,448,482</u>           | <u>-</u>           | <u>396,176</u>           | <u>(415,105)</u>        | <u>2,429,553</u>            |
| <b>Total Depreciable Capital Assets</b> ..... | <b><u>16,760,119</u></b>   | <b><u>-</u></b>    | <b><u>505,404</u></b>    | <b><u>(573,026)</u></b> | <b><u>16,692,497</u></b>    |
| <b>Less Accumulated Depreciation:</b>         |                            |                    |                          |                         |                             |
| Buildings .....                               | (1,280,734)                | -                  | (197,813)                | -                       | (1,478,547)                 |
| Infrastructure .....                          | (123,320)                  | -                  | (19,447)                 | -                       | (142,767)                   |
| Machinery and Equipment .....                 | (1,415,499)                | -                  | (166,024)                | 157,921                 | (1,423,602)                 |
| Motor Vehicles .....                          | <u>(1,779,655)</u>         | <u>-</u>           | <u>(234,572)</u>         | <u>415,105</u>          | <u>(1,599,122)</u>          |
| <b>Total Accumulated Depreciation</b> .....   | <b><u>(4,599,208)</u></b>  | <b><u>-</u></b>    | <b><u>(617,856)</u></b>  | <b><u>573,026</u></b>   | <b><u>(4,644,038)</u></b>   |
| <b>Total Depreciable Capital Assets (Net)</b> | <b><u>12,160,911</u></b>   | <b><u>-</u></b>    | <b><u>(112,452)</u></b>  | <b><u>-</u></b>         | <b><u>12,048,459</u></b>    |
| <b>CAPITAL ASSETS, NET</b> .....              | <b><u>\$16,985,409</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 714,989</u></b> | <b><u>\$ -</u></b>      | <b><u>\$17,700,398</u></b>  |

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

|  | AMOUNT                   |
|--|--------------------------|
| General Government .....                 | \$ 218,292               |
| Mayor and Municipal .....                | 34,219                   |
| Public Safety .....                      | 10,209                   |
| Public Works .....                       | 159,092                  |
| Urban Development .....                  | 79,601                   |
| Human Services and Welfare .....         | 18,869                   |
| Culture and Recreation .....             | <u>97,574</u>            |
| <b>Total Depreciation Expenses</b> ..... | <b><u>\$ 617,856</u></b> |

The infrastructure assets recorded in the accompanying statement of net assets do not include a substantial portion of the Municipality's infrastructure assets constructed or acquired by the Municipality from 1980 through June 30, 2007. GASB Statement No. 34 requires to retroactively apply the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with this requirement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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, 2007, 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 .....                               | \$ 58,182               |
| \$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 .....                               | 166,000                 |
| \$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 .....                            | 245,000                 |
| \$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 .....       | 400,000                 |
| \$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 .....                               | 89,000                  |
| \$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 CDBG Fund) ..... | 780,000                 |
| \$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 CDBG Fund) ..... | 2,670,000               |
| \$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 .....                               | 50,000                  |
| \$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 .....                                | 380,000                 |
| \$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>370,000</u>          |
| <b>Total General Obligations – Bonds .....</b>  | <b><u>5,208,182</u></b> |
| <b>Notes Payable:</b>   |                         |
| \$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 .....                           | 65,000                  |
| \$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 .....                           | 78,000                  |
| \$500,000, Series 2006, for purchase of equipment, payable in semiannual installments ranging from \$60,000 to \$90,000, excluding interests at 7.00%, through July 1, 2013 .....                           | 440,000                 |

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

**Notes Payable:**

| DESCRIPTION  | AMOUNT                    |
|--|---------------------------|
| \$150,000, Series 2007, for purchase of equipment, payable in semiannual installments ranging from \$25,000 to \$35,000, excluding interests at 7.50%, through July 1, 2012..... | <u>150,000</u>            |
| <b>Total Notes Payable</b> .....   | <u>733,000</u>            |
| <b>Total General Obligations Bonds and Notes</b> .....   | <u><b>\$5,941,182</b></u> |

The annual requirements to amortize the general obligations outstanding as of June 30, 2007 are as follows:

| YEAR ENDING<br>JUNE 30, | PRINCIPAL<br>PAYMENT      | INTEREST<br>PAYMENT       | TOTAL<br>PAYMENT           |
|-------------------------|---------------------------|---------------------------|----------------------------|
| 2008                    | \$ 513,300                | \$ 340,047                | \$ 853,347                 |
| 2009                    | 462,500                   | 304,950                   | 767,450                    |
| 2010                    | 457,882                   | 280,894                   | 738,776                    |
| 2011                    | 414,900                   | 256,112                   | 671,012                    |
| 2012                    | 426,100                   | 233,031                   | 659,131                    |
| 2013-2017               | 1,695,200                 | 837,967                   | 2,533,167                  |
| 2018-2022               | 1,476,300                 | 387,720                   | 1,864,020                  |
| 2023-2027               | 465,000                   | 68,517                    | 533,517                    |
| 2028-2032               | <u>30,000</u>             | <u>1,650</u>              | <u>31,650</u>              |
| <b>TOTAL</b>            | <u><b>\$5,941,182</b></u> | <u><b>\$2,710,888</b></u> | <u><b>\$ 8,652,070</b></u> |

**B. OTHER LONG-TERM DEBTS**

Following are the Other Long-Term Debts:

| DESCRIPTION                | BALANCE<br>JULY 1,<br>2006 | NEW<br>ISSUES           | RETIREMENTS<br>AND<br>ADJUSTMENT | BALANCE<br>JUNE 30,<br>2007 |
|----------------------------|----------------------------|-------------------------|----------------------------------|-----------------------------|
| Property Taxes – MRCC      | \$ 503,505                 | \$ -                    | \$ 46,174                        | \$ 457,331                  |
| State Treasury Department  | 128,426                    | -                       | 35,040                           | 93,386                      |
| Social Security Debt ..... | 4,327                      | -                       | 960                              | 3,367                       |
| Compensated Absences       | <u>1,161,770</u>           | <u>56,005</u>           | <u>-</u>                         | <u>1,217,775</u>            |
| <b>TOTAL</b> .....         | <u><b>\$1,798,028</b></u>  | <u><b>\$ 56,005</b></u> | <u><b>\$ 82,174</b></u>          | <u><b>\$1,771,859</b></u>   |

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

The following is a summary of changes in long-term debts for the year ended June 30, 2007:

| DESCRIPTION        | BALANCE<br>JULY 1,<br>2006 | NEW<br>ISSUES            | RETIREMENTS<br>AND<br>ADJUSTMENT | BALANCE<br>JUNE 30,<br>2007 | AMOUNTS<br>DUE WITHIN<br>ONE YEAR | AMOUNTS<br>DUE AFTER<br>NEXT YEAR |
|--------------------|----------------------------|--------------------------|----------------------------------|-----------------------------|-----------------------------------|-----------------------------------|
| General .....      | \$5,589,600                | \$ -                     | \$ 381,418                       | \$5,208,182                 | \$ 339,300                        | \$4,868,882                       |
| Special .....      | 276,000                    | 675,000                  | 218,000                          | 733,000                     | 174,000                           | 559,000                           |
| Others Debts ....  | <u>1,798,028</u>           | <u>56,005</u>            | <u>82,174</u>                    | <u>1,771,859</u>            | <u>967,357</u>                    | <u>804,502</u>                    |
| <b>TOTAL</b> ..... | <u><b>\$7,663,628</b></u>  | <u><b>\$ 731,005</b></u> | <u><b>\$ 681,592</b></u>         | <u><b>\$7,713,041</b></u>   | <u><b>\$1,480,657</b></u>         | <u><b>\$6,232,384</b></u>         |

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**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

**Notes Payable to Puerto Rico Treasury Department**

Financing of the excess of property tax advances over collections - The Municipality entered into a financing agreement with the Puerto Rico Treasury Department to pay a debt related to the excess of property tax advances over collections made by the Puerto Rico Treasury Department prior to the creation of CRIM in 1993. The outstanding principal balances of the note payable to the Puerto Rico Treasury Department amounted to \$93,386 at June 30, 2007.

**Notes Payable to CRIM**

Law No. 42 – Act No. 42 of January 26, 2000 was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement allows for the financing of a debt that the municipalities of Puerto Rico have with CRIM, arising from the final settlements of property tax advances versus actual collections through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238 of August 15, 1999.

In addition, on February 12, 2003, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the excess of property tax advances through fiscal year 2000 and 2001. CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balances of the note payable to the CRIM amounted to \$457,331 at June 30, 2007.

**NOTE 7 LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATION**

The Municipality owns a municipal solid waste landfill. However, the Municipality has not adopted the required provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. According to these standard and regulations, the Municipality is required to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each statement of net assets date. The accompanying statement of net assets does not include the required liability for closure and postclosure care costs of the solid waste landfill using current cost allocated based on the actual landfill capacity used at June 30, 2007.

**NOTE 8 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 8).

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 9 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.

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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**NOTE 9 PROPERTY TAXES (continuation)**

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 10 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.

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 11 SALES AND USE TAXES**

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

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

The Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20<sup>th</sup> day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in a special revenue fund.

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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**NOTE 12 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 13 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, 2007

**NOTE 13 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, 2007 was approximately \$171,326. 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, 2007. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public

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 14 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, 2007

**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 15 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS**

The following schedule reconciles the June 30, 2006 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2006.

| NET ASSETS RESTATED                               |                     |
|---|---------------------|
| Net Assets as reported, June 30, 2006             | \$19,047,273        |
| Adjustment to deferred revenue                    | <u>3,447</u>        |
| Beginning Net Assets<br>as Restated, July 1, 2006 | <u>\$19,050,720</u> |

The following schedule reconciles the June 30, 2006 Fund Balances, as previously reported to Beginning Fund Balances, as restated, July 1, 2006.

| FUND BALANCE RESTATED   | HUD                 | STATE              | OTHER               |
|---|---------------------|--------------------|---------------------|
|   | <u>FUND</u>         | <u>ASSIGNMENT</u>  | <u>GOVERNMENTAL</u> |
|   |                     | <u>FUND</u>        | <u>FUND</u>         |
| Fund Balance (Deficit),<br>as Reported, June 30, 2006         | \$ 1,909,329        | \$ -               | \$3,307,774         |
| Adjustment to deferred revenue                                | 3,447               | -                  | -                   |
| Major Fund Reclassification                                   | -                   | 1,252,032          | (1,252,032)         |
| Beginning Fund Balance (Deficit)<br>as Restated, July 1, 2006 | <u>\$ 1,912,776</u> | <u>\$1,252,032</u> | <u>\$2,055,742</u>  |

**NOTE 16 SUBSEQUENT EVENTS**

On July 29, 2007 was enacted the Act 80, to amend the Act. No. 120 of October 31, 1994, as amended, known as the "Puerto the Internal Revenue Code of 1994", particularly certain provisions included in Act No. 117 of July 4, 2006, known as the "Taxpayer's Justice Act of 2006", in order to make mandatory in all the Municipalities of Puerto Rico, the imposition of a uniform municipal tax of one point five (1.5) percent, from which the municipalities shall collect one (1) percent of the sales and use tax pursuant to what is established in Sections 2410 and 6189 of said Act, which may be levied discretionally, through municipal legislation, on food and food ingredients, as defined in Section 2301 (a) of the Act and to provide for the collection by the Secretary of the Treasury of the remaining point five (.5) percent without including food and food ingredients as defined in Section 2301 (a) of the Act, to be used in accordance with the purposes established in the Act 80; to provide for the establishment of the Municipal Development Fund, the Municipal Redemption Fund and the Municipal Improvement Fund, as well as for matters relative to the purposes, implementation and administration of said funds; to provide for the establishment of the necessary mechanisms for the collection of the municipal tax; and for other purposes.

In addition, on September 27, 2007 the Municipality's executive branch approved Ordinances Number 19 and 20, authorizing the issuance of bonds in the amount of \$498,000 and \$731,000 respectively, for construction purposes and acquisition of properties. These bonds are payable with resources of the Municipality's General Fund.

**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, 2007

|   | Budget Amounts   |                  | Actual Amouns<br>(Budgetary Basis)<br>(See Note A) | Variance with<br>Final Budget<br>Positive (Negative) |
|---|------------------|------------------|--|--|
|   | Original         | Final            |  |  |
| <b>Resources (Inflows)</b>                                    |                  |                  |  |  |
| Property Taxes.....   | \$ 1,050,713     | \$ 1,192,331     | \$ 1,192,331                                       | \$ -   |
| Volume of Business Taxes.....                                 | 1,200,000        | 1,052,072        | 1,052,211  | 139  |
| Intergovernmental Revenues.....                               | 4,390,691        | 4,579,253        | 4,611,176  | 31,923   |
| License and Permits.....                                      | 130,471          | 141,899          | 146,657  | 4,758  |
| Rent.....   | 35,000           | 95,000           | 99,193   | 4,193  |
| Miscellaneous.....  | 399,128          | 673,648          | 780,128  | 106,480  |
| <b>Total Resources (Inflows).....</b>                         | <b>7,206,003</b> | <b>7,734,203</b> | <b>7,881,696</b>                                   | <b>147,493</b>                                       |
| <b>Charges to Appropriations (Outflows)</b>                   |                  |                  |  |  |
| Mayor and Municipal Legislature.....                          | 688,946          | 877,131          | 873,285  | 3,846  |
| General Government.....                                       | 2,873,356        | 2,726,107        | 2,993,991  | (267,884)  |
| Public Safety.....  | 604,614          | 441,788          | 441,787  | 1  |
| Public Work.....  | 1,177,044        | 1,407,267        | 1,189,401  | 217,866  |
| Culture and Recreation.....                                   | 537,045          | 518,933          | 512,113  | 6,820  |
| Health and Sanitation.....                                    | 715,357          | 557,940          | 549,683  | 8,257  |
| Urban Development.....  | 54,734           | 46,310           | 44,172   | 2,138  |
| Human Services and Welfare.....                               | 554,907          | 489,113          | 672,188  | (183,075)  |
| Transfer to Other Funds.....                                  | -                | 669,614          | 669,614  | -  |
| <b>Total Charges to Appropriations.....</b>                   | <b>7,206,003</b> | <b>7,734,203</b> | <b>7,946,234</b>                                   | <b>(212,031)</b>                                     |
| <b>Excess (Deficiency) of Revenues over Expenditures.....</b> | <b>\$ -</b>      | <b>\$ -</b>      | <b>\$ (64,538)</b>                                 | <b>\$ (64,538)</b>                                   |

See accompanying notes to required supplementary information.

**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, 2007**

**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 31) .....                           | \$ 7,881,696        |
| Difference – Budget to GAAP:  |                     |
| Current adjustments to revenues. ....   | <u>438,947</u>      |
| Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 11).....             | <u>\$ 8,320,643</u> |
| <b>Uses/Outflows of Resources:</b>  |                     |
| Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 31) .....                        | \$ 7,946,234        |
| Difference – Budget to GAAP:  |                     |
| Prior Year expenditures are not outflows of budgetary resources but are expenditures For financial reporting purposes .....                         | 323,285             |
| Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes..... | (274,546)           |
| Transfer to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.....                          | (669,614)           |
| Adjustment to Expenditures.....   | <u>74,028</u>       |
| Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 11).....         | <u>\$ 7,399,387</u> |

**END OF THIS SECTION**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| FEDERAL GRANTOR / PASS THROUGH<br>GRANTOR / PROGRAM OR CLUSTER TITLE      | FEDERAL<br>CFDA<br>NUMBER | PASS-THROUGH<br>ENTITY IDENTIFYING<br>NUMBER                      | TOTAL<br>EXPENDITURES |
|---|---------------------------|---|-----------------------|
| U. S. Department of Agriculture:  |                           |   |                       |
| Pass- Through State – Office of<br>Department of Education:               |                           |   |                       |
| Child and Adult Care Food Program .....                                   | 10.558                    | N/AV  | <u>\$ 133,339</u>     |
| U.S. Department of Housing and Urban Development:                         |                           |   |                       |
| Direct Programs:  |                           |   |                       |
| Section 8 Housing Choice Vouchers .....                                   | 14.871                    |   | 18,482                |
| Indirect Programs:  |                           |   |                       |
| Pass- Through State – Office of the<br>Commissioner of Municipal Affairs: |                           |   |                       |
| Community Development Block Grant Program.....                            | 14.228                    | 06-FC-AB<br>05-FC-AB<br>04-FC-AB<br>03-FC-AB<br>02-FC-AB<br>01-FD | 1,356,489             |
| Community Development Block Grants<br>Section 108 Loan Guarantees         | 14 248                    |   | 539,090               |
| Pass Through State – Office of<br>Department of Family:                   |                           |   |                       |
| Emergency Shelter Grants .....  | 14.231                    | S-05-DC-72-0001   | 39,626                |
| Pass Through State – Office of<br>Department of Housing:                  |                           |   |                       |
| Home Investment Partnerships Program .....                                | 14.239                    | N/AV  | <u>821,071</u>        |
| Total U.S. Department of Housing and Urban Development                    |                           |   | <u>2,774,758</u>      |
| U.S. Department of Homeland Security:                                     |                           |   |                       |
| Pass- Through Office of the Governor:                                     |                           |   |                       |
| Public Assistant Grant .....  | 83.544                    | FEMA1247DR-PR   | 379,026               |
| Public Assistant Grant .....  | 97.036                    | N/AV  | <u>216,904</u>        |
| Total U.S. Department of Homeland Security .....                          |                           |   | <u>595,930</u>        |
| Subtotal (Balance Carry Forward) .....                                    |                           |   | <u>3,504,027</u>      |

continue

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| FEDERAL GRANTOR / PASS THROUGH<br>GRANTOR / PROGRAM OR CLUSTER TITLE | FEDERAL<br>CFDA<br>NUMBER | PASS-THROUGH<br>ENTITY IDENTIFYING<br>NUMBER | TOTAL<br>EXPENDITURES     |
|--|---------------------------|--|---------------------------|
| Subtotal (Balance Brought Forward) .....                             |                           |  | <u>\$3,504,027</u>        |
| U.S. Department of Health and Human Services                         |                           |  |                           |
| Pass-Through Office of the Governor,<br>Regional Elderly Office:     |                           |  |                           |
| Special Program for Aging, Title III, Part B.....                    | 93.045                    | N/AV   | 105,732                   |
| Pass-Through Instituto de Servicios Comunales, Inc.                  |                           |  |                           |
| Community Services Block Grant .....                                 | 93.569                    | N/AV   | 60,528                    |
| Pass-Through Administration of Children and Families:                |                           |  |                           |
| Community Services Block Grant .....                                 | 93.569                    | N/AV   | 31,976                    |
| Child Care and Development Block Grant .....                         | 93.575                    | N/AV   | <u>214,322</u>            |
| Total U.S. Department of Health and Human Services                   |                           |  | <u>412,558</u>            |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS ...</b>                      |                           |  | <b><u>\$3,916,585</u></b> |

See accompanying Notes to Schedule of Expenditures of Federal Awards.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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**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, 2007 was \$3,450,000.

**NOTE 6 MAJOR PROGRAMS**

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

# Pedro C. Ortiz Ledée

Certified Public Accountant

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

To the Honorable Mayor and  
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, 2007, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated December 20, 2007. The report on the governmental fund financial statements was unqualified but the report on the governmental wide financial statement has an adverse opinion because I was unable to obtain competent evidential matter related to infrastructure capital assets and the liability related to the solid waste landfill. 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 as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting. 07-II-01 and 07-II-02.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider items 07-II-01 and 07-II-02 to be material weaknesses.

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

Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's 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*.

I noted certain matters that I reported to management of the Municipality in a separate letter dated December 20, 2007.

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

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.

*PR C. Ortiz Ledée*

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

Guayama, Puerto Rico  
December 20, 2007



# 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 OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. 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.

As described in items 07-III-03, 07-III-04, 07-III-08 and 07-III-09 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Activities, Cash Management, Program Income and Reporting that are applicable to its Community Development Block Grant. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 07-III-04, 07-III-05 and 07-III-06 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Cash Management, Davis Bacon and Procurement and Suspension and Debarment that are applicable to its Home Investment Partnerships Program. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

As described in item 07-III-09 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Reporting that is applicable to its Section 108 Loan Guarantees. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 07-III-06 and 07-III-07 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Procurement and Suspension and Debarment that is applicable to its Public Assistance Grants. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraphs, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007.

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 07-III-03 through 07-III-09 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, I considered items 07-III-04, 07-III-08 and 07-III-09 to be material weaknesses.

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

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.

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

Guayama, Puerto Rico  
December 20, 2007



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Section I – Summary of Auditors' Results

**Financial Statements**

Type of auditors' report issued:  Unqualified Opinion- Governmental Funds  
 Qualified Opinion  
 Adverse Opinion- Governmental Activities  
 Disclaimer Opinion

Internal control over financial reporting:

- Material Weaknesses identified?  Yes  None Reported
- Significant Deficiencies identified that are not considered to be Material Weaknesses?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

- Material Weaknesses identified?  Yes  None Reported
- Significant Deficiencies identified that are not considered to be Material Weaknesses?  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 Grant    |
| 14.239         | Home Investment Partnerships Program |
| 14.248         | Section 108 Loan Guarantees          |
| 83.544/ 97.036 | Public Assistance Grants             |

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, 2007

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Section II- Financial Statements Finding

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|                            |  |
|----------------------------|--|
| <b>FINDING</b>             | <b>NUMBER 07-II-01</b>   |
| <b>REQUIREMENT</b>         | <b>ACCOUNTING RECORDS- INFRASTRUCTURE CAPITAL ASSETS</b>   |
| <b>CONDITION</b>           | During my examination of the property records, I noted that the Municipality does not have an effective system to account for infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions related to infrastructure are recorded in the capital assets subsidiary ledger. In addition the Municipality has not recorded depreciation expense for the infrastructure not reported in the subsidiary ledger. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). |
| <b>CRITERIA</b>            | Article 10.002 of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociados de Puerto Rico de 1991</i> of August 30, 1991 (as amendment as of January 2004), stated that Municipality should maintain updated property accounting records.  |
| <b>CAUSE</b>               | The Municipality did not maintain an adequate control of the accountability of the infrastructure assets.  |
| <b>EFFECT</b>              | The Municipality is not in compliance with Article 10.002 of the State Law Number 81 of August 30, 1991.   |
| <b>RECOMMENDATION</b>      | I recommend management and the Property Division of the Municipality to make an inventory of the infrastructure assets and reconcile with the capital assets subsidiary ledger. In addition the Municipality should implement adequate internal control procedures to improve the accountability of infrastructure assets.   |
| <b>MANAGEMENT RESPONSE</b> | The Municipality of Jayuya has a municipal inventory of infrastructure of the ways and highways and the Mayor gave instructions to the Public Work Director to actualize the inventory.  |

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Section II- Financial Statements Finding

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|                            |   |
|----------------------------|---|
| <b>FINDING</b>             | <b>NUMBER 07-II-02</b>  |
| <b>REQUIREMENT</b>         | <b>MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS</b>  |
| <b>CONDITION</b>           | At June 30, 2007 the Municipality does not recognized on the statement of net assets the required liability for closure and post closure care costs of the Municipality's solid waste landfill. This costs of closure and post closure care costs should be reported as part of the liabilities of the Municipality according to Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs, issued by the Governmental Accounting Standards Board (GASB 18).  |
| <b>CRITERIA</b>            | <p>Regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria"; the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure.</p> <p>GASB 18 requires the Municipality to perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality must recognize a liability in its statement of net assets at June 30, 2007.</p> |
| <b>CAUSE</b>               | The Municipality did not maintain an adequate control of the accountability of the closure and post closure care costs of Municipal solid waste landfill. In addition the Municipality did not perform the study required by EPA and GASB 18.   |
| <b>EFFECT</b>              | The Municipality is not in compliance with GASB 18 and the "Solid Waste Disposal Facility Criteria" issued by the U.S. Environmental Protection Agency.   |
| <b>RECOMMENDATION</b>      | I recommend management to perform the study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space required by the state and federal agencies.   |
| <b>MANAGEMENT RESPONSE</b> | The Municipality of Jayuya has a contract with the company Earth Group which verifies that it is fulfilled the state and federal laws and as well maximize the life utility of the garbage dump.  |

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Section III – Federal Award Findings and Questioned Costs

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|----------------------------|---|
| <b>FINDING</b>             | <b>NUMBER 07-III-03</b>   |
| <b>FEDERAL PROGRAM</b>     | <b>COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM</b>  |
| <b>REQUIREMENT</b>         | <b>COMPLIANCE AND INTERNAL CONTROL</b>  |
| <b>NONCOMPLIANCE</b>       | <b>ALLOWABLE ACTIVITIES</b>   |
| <b>CONDITION</b>           | As part of my Grant Disbursement test, I examined twelve (12) Housing Rehabilitation Participant's files and noted that in one (1) participant file the income of the applicant exceeds the income guidelines.  |
| <b>CRITERIA</b>            | Code of Federal Regulation, 24 CFR, Section 570.506 (b) (9) established the documentation that the Municipality shall maintain for residential rehabilitation. In addition, the Operational Guide of Housing Rehabilitation (the Guide) provided by the Office of Commissioner of Municipal Affairs, the pass through entity, stated that the applicants should be residents of moderate and/ or low income and owner of a house in the Municipality. |
| <b>CAUSE</b>               | The Municipality's selection procedures failed to assure that the housing rehabilitations were for moderate and/ or low income applicants.  |
| <b>EFFECT</b>              | The Municipality is not in compliance with Code of Federal Regulation 24, Section 570.506 (b)(9) and with the Operational Guide of Housing Rehabilitation provided by the pass-through entity.  |
| <b>RECOMMENDATION</b>      | I recommend management to strengthen the existing procedures in the selection process of applicants in order to comply with this pass through entity requirement.   |
| <b>QUESTIONED COSTS</b>    | None  |
| <b>MANAGEMENT RESPONSE</b> | The Mayor of the Municipality of Jayuya gave instructions to the Director of Federal Programs to settle down procedures to verify that the participants fulfill the regulations settled down in law.  |

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Section III – Federal Award Findings and Questioned Costs

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|----------------------------|--|
| <b>FINDING</b>             | <b>07-III-04</b>   |
| <b>FEDERAL PROGRAM</b>     | <b>COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM</b><br><br><b>HOME INVESTMENT PARTNERSHIPS PROGRAM - HOME (CFDA NO.14.239) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – DEPARTMENT OF HOUSING</b> |
| <b>REQUIREMENT</b>         | <b>COMPLIANCE AND INTERNAL CONTROL</b>   |
| <b>NONCOMPLIANCE</b>       | <b>CASH MANAGEMENT</b>   |
| <b>CONDITION</b>           | During my Cash Management test, I noted that during the Fiscal Year 2006-2007, the Municipality maintained average balances of approximately \$53,859 and \$36,149 in CDBG and HOME books, respectively. In addition, I noted that sometimes the Municipality requested funds to the pass-through entities that were not disbursed on a reasonable lapse of time.            |
| <b>CRITERIA</b>            | Code of Federal Regulations 24, Subpart I, 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 made by the grantee.  |
| <b>CAUSE</b>               | Federal Programs and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.  |
| <b>EFFECT</b>              | Municipality is not in compliance with, Code of Federal Regulations 24, Subpart I, CFR 570.489 (c) (1).  |
| <b>RECOMMENDATION</b>      | I recommend management to strengthen its disbursements procedures to minimize the time between the transfer of funds by the state and disbursement made by the Municipality.   |
| <b>QUESTIONED COSTS</b>    | None   |
| <b>MANAGEMENT RESPONSE</b> | The Mayor of the Municipality of Jayuya gave instructions to the Director of Finances of which implants controls so that the disbursement are made according to the federal regulations.   |

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Section III – Federal Award Findings and Questioned Costs

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|----------------------------|---|
| <b>FINDING</b>             | <b>NUMBER 07-III-05</b>   |
| <b>FEDERAL PROGRAM</b>     | <b>HOME INVESTMENT PARTNERSHIPS PROGRAM - HOME (CFDA NO.14.239)<br/>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS<br/>THROUGH STATE – DEPARTMENT OF HOUSING</b>   |
| <b>REQUIREMENT</b>         | <b>COMPLIANCE AND INTERNAL CONTROL</b>  |
| <b>NONCOMPLIANCE</b>       | <b>DAVIS-BACON ACT</b>  |
| <b>CONDITION</b>           | During my Davis- Bacon Act test, for the construction of the residential project "Altos del Rio", I noted that the contractor's weekly payrolls were not reviewed by the municipal employee responsible of applying monitoring procedures. Thus, the Municipality does not assure of the prevailing wages paid to the contractor's employees.   |
| <b>CRITERIA</b>            | Davis-Bacon Act, as amended (40 USC 276a – 276a-7). The requirements for Davis-Bacon are also contained in the A-102 Common Rule (§____.36(i)(5) and OMB Circular A-110 (Appendix A Contract Provisions).   |
| <b>CAUSE</b>               | Municipality did not apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.   |
| <b>EFFECT</b>              | Municipality is not in compliance with Davis-Bacon Act (40 USC 276a – 276a-7), A-102 and OMB Circular A-110 (Appendix A Contract Provisions).   |
| <b>RECOMMENDATION</b>      | I recommend management to develop a monitoring system that includes obtaining prevailing wage rates from the Department of Labor, the assignment of specific responsibility to one municipal employee to monitor contractors and subcontractors for compliance, obtaining contractor's payrolls and assure that prevailing wages are been paid to the contractors and subcontractors employees. |
| <b>QUESTIONED COSTS</b>    | None  |
| <b>MANAGEMENT RESPONSE</b> | The Mayor of the Municipality of Jayuya gave instructions to the Director of Federal Programs to implant a process to verify the payroll of the "Altos del Rio" project weekly.   |

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Section III – Federal Award Findings and Questioned Costs

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|                        |   |
|------------------------|---|
| <b>FINDING</b>         | <b>NUMBER 07-III-06</b>   |
| <b>FEDERAL PROGRAM</b> | <b>HOME INVESTMENT PARTNERSHIPS PROGRAM - HOME (CFDA NO.14.239)<br/>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS<br/>THROUGH STATE – DEPARTMENT OF HOUSING</b><br><br><b>PUBLIC ASSISTANCE GRANTS – FEMA (CFDA 83.544/ 97.036) U.S.<br/>DEPARTMENT OF HOMELAND SECURITY PASS THROUGH – OFFICE OF<br/>THE GOVERNOR (GAR)</b>  |
| <b>REQUIREMENT</b>     | <b>COMPLIANCE</b>   |
| <b>NONCOMPLIANCE</b>   | <b>PROCUREMENT STANDARDS</b>  |
| <b>CONDITION</b>       | During my contract provision test, I examined one (1) contract of HOME program and two (2) contracts of FEMA program to verify the completeness of its clauses and noted that for the three (3) contracts the following clauses were missing: <ul style="list-style-type: none"><li>• Retention of all required records for three years after the performing of the final payment</li><li>• Compliance with the Energy Policy and Conservation Act (Pub L. 94-163, 89 Stat 871)</li></ul>   |
| <b>CRITERIA</b>        | Contract provisions in accordance with Code of Federal Regulations 24, Subpart C, Section 85.36 (i) (1-13) and, Code of Federal Regulations 44, Subpart C, Section 13.36 (l) (1-13) are the following: <ul style="list-style-type: none"><li>• Administrative, contractual or legal remedies for instance where the contractors violates or breach the contract terms (contracts in excess of \$100,000);</li><li>• Termination for cause or for convenience by the grantee (contracts in excess of 10,000);</li><li>• Compliance with the Executive Order 11246 of Equal Employment Opportunities (contracts in excess of \$10,000) – (41 CFR Chapter 60);</li><li>• Compliance with the Copeland "Anti-Kickback" Act (18 U.S.C. 874) (29 CFR Part 3);</li><li>• Compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) (29 CFR Part 5) - (Contracts in excess of \$2,000);</li><li>• Compliance with Section 103 and 107 of the Contract Work Hours and Safety Standards Act (40U.S.C. 327 –330) (29 CFR Part 5) (constructions contracts in excess of \$2,000 and other contracts which involve the employment of mechanics and laborers in excess of \$2,500);</li><li>• Notice of awarding agency requirements and regulations pertaining to reporting</li><li>• Notice of awarding agency requirements and regulations pertaining to patent rights with respect to any discover or invention which arises or is developed in the course of or under such contract</li><li>• Notice of awarding agency requirements and regulations pertaining to copyrights and rights in data</li></ul> |

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Section III – Federal Award Findings and Questioned Costs

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|                            |  |
|----------------------------|--|
| <b>FINDING</b>             | <b>NUMBER 07-III-06 (continuation)</b>   |
|                            | <ul style="list-style-type: none"><li>• Access by grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the US, or any of their duly authorized representatives to books, documents, papers, and records of the contractor and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.</li><li>• Retention of all required records for three years after the performing of the final payment;</li><li>• Compliance with the Clear Air Act (42 U.S.C. 1857(h)), the Clear Water Act (33 U.S.C. 1368), Executive Order 11738, and the Environmental Protection Agency regulations (40 CFR Part 15) – (contracts in excess of \$100,000)</li><li>• Compliance with the Energy Policy and Conservation Act (Pub L. 94-163, 89 Stat 871)</li></ul> |
| <b>CAUSE</b>               | The Municipality did not maintain appropriate procurement standard procedures to assure that contracts include all the required clauses.   |
| <b>EFFECT</b>              | Municipality is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.36 (i) (1-13) and Code of Federal Regulation 44, Subpart C, Section 13.36 (i) (1-13) of OMB Common Rules.  |
| <b>RECOMMENDATION</b>      | I recommend management to update contract model according with the federal requirements.   |
| <b>QUESTIONED COSTS</b>    | None   |
| <b>MANAGEMENT RESPONSE</b> | At this moment the Municipality of Jayuya is preparing a contract model that is in agreement and fulfills with the federal requirement.  |

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Section III – Federal Award Findings and Questioned Costs

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|                            |   |
|----------------------------|---|
| <b>FINDING</b>             | <b>NUMBER 07-III-07</b>   |
| <b>FEDERAL PROGRAMS</b>    | <b>PUBLIC ASSISTANCE GRANTS – FEMA (CFDA 83.544/ 97.036) U.S. DEPARTMENT OF HOMELAND SECURITY PASS THROUGH – OFFICE OF THE GOVERNOR (GAR)</b>   |
| <b>REQUIREMENT</b>         | <b>COMPLIANCE</b>   |
| <b>NONCOMPLIANCE</b>       | <b>PROCUREMENT AND SUSPENSION AND DEBARMENT</b>   |
| <b>CONDITION</b>           | During my Grant Disbursements test, I noted that there was no evidence that at least three (3) qualified quotations or formal bid were obtained for one (1) contract of Engineering Services.   |
| <b>CRITERIA</b>            | Code of Federal Regulations 44, Subpart C, Section 13.36 (c) (1), stated that all procurement transactions will be conducted in a manner providing full and open competition. In addition, Code of Federal Regulation 44, Subpart C, Section 13.36 (d) established the methods of procurement to be followed. |
| <b>CAUSE</b>               | The Municipality does not performed an appropriate procurement process in order to comply with this requirement.  |
| <b>EFFECT</b>              | The Municipality is not in compliance with Code of Federal Regulations 44, Subpart C, Section 13.36 (c) (1) and 13.36 (d).  |
| <b>RECOMMENDATION</b>      | I recommend management to implement procedures in order to obtain and maintain all the required documentation regards the procurement process to comply with this requirement.  |
| <b>QUESTIONED COSTS</b>    | None  |
| <b>MANAGEMENT RESPONSE</b> | The Mayor of the Municipality of the Jayuya gave instructions to the Director of Federal Programs of which they implant processed in the fulfillment of this requirement.   |

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Section III – Federal Award Findings and Questioned Costs

|                            |   |
|----------------------------|---|
| <b>FINDING</b>             | <b>NUMBER 07-III-08</b>   |
| <b>FEDERAL PROGRAMS</b>    | <b>COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM</b>   |
| <b>REQUIREMENT</b>         | <b>COMPLIANCE AND INTERNAL CONTROL</b>  |
| <b>NONCOMPLIANCE</b>       | <b>PROGRAM INCOME</b>   |
| <b>CONDITION</b>           | During my Program Income test, I noted that the transactions of the Community Development Block Grant's program income were not traceable to the accounting records.  |
| <b>CRITERIA</b>            | Code of Federal Regulations 24, Subpart J, Section 570.504 (a), stated that the receipt and expenditures of program income shall be recorded as part of the financial transactions of the grant. In addition, Code of Federal Regulations 24, Subpart C, Section 85.20 (b) (2) (OMB Common Rule) requires that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. |
| <b>CAUSE</b>               | The Municipality does not maintained appropriate accounting records over the transactions of the program income.  |
| <b>EFFECT</b>              | The Municipality is not in compliance with Code of Federal Regulations 24, Subpart J, Section 570.504 (a) and Code of Federal Regulations 24, Subpart C, Section 85.20 (b) (2).   |
| <b>RECOMMENDATION</b>      | I recommend management to implement adequate procedures to ensure that the financial transactions related to the program income is recorded in the accounting records of the Community Development Block Grant Program.   |
| <b>QUESTIONED COSTS</b>    | None  |
| <b>MANAGEMENT RESPONSE</b> | The Mayor of the Municipality of Jayuya gave instructions to the Director of Federal Programs to implement adequate procedures to assure the fulfillment Community Development Block Grant Program.   |

*Drugi: Proposid & Zonafle*

*- nisim ch o (cont si grante parat)*

*- didos los proyectos*

*5 años lo use en Ft. Anderson  
25 años (reth): activas OCAM veyu = Mejora si, pero no, v. avación, v. coordinación*

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Section III – Federal Award Findings and Questioned Costs

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|                            |  |
|----------------------------|--|
| <b>FINDING</b>             | <b>07-III-09</b>   |
| <b>FEDERAL PROGRAMS</b>    | <b>COMMUNITY DEVELOPMENT BLOCK GRANTS/ STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS- OCAM</b><br><br><b>COMMUNITY DEVELOPMENT BLOCK GRANTS- SECTION 108 LOAN GUARANTEES (CFDA NO. 14.248) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS- OCAM</b>   |
| <b>REQUIREMENT</b>         | <b>INTERNAL CONTROL</b>  |
| <b>NONCOMPLIANCE</b>       | <b>REPORTING</b>   |
| <b>CONDITION</b>           | During my reporting test, I noted that the quarterly reports submitted to the pass-through entity, the Office of Commissioner of Municipal Affairs, of the federal programs Community Development Block Grant Program- State's Program and Section 108 Loan Guarantees have differences with the accounting records of \$24,091 and \$40,714 respectively.   |
| <b>CRITERIA</b>            | Code of Federal Regulations 24, Subpart C, Section 85.20(a) (1) (OMB Common Rule) requires that fiscal control and accounting procedures must be sufficient to permit preparation of reports. Code of Federal Regulations 24, Subpart C, Section 85.20(b) (2) (OMB Common Rule) requires that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. |
| <b>CAUSE</b>               | The Municipality did not reconcile the general ledger account balances with the pass-through entity quarterly reports in order to adjust the differences.  |
| <b>EFFECT</b>              | The Municipality did not submit accurate quarterly reports to the pass-through entity in order to comply with the federal regulation.  |
| <b>RECOMMENDATION</b>      | The Municipality should implement adequate procedures to ensure that financial information submitted to the pass-through entity in its quarterly report agrees with the accounting records maintain by the Municipality.   |
| <b>QUESTIONED COSTS</b>    | None   |
| <b>MANAGEMENT RESPONSE</b> | The Mayor of the Municipality of Jayuya gave instructions to the Director of Federal Programs to implant internal controls that assure that the quarterly information fulfill the federal regulations.   |

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

FISCAL YEAR 2006

Finding Number 06-III-02 Special Tests and Provisions- Housing Rehabilitation  
 CFDA Number 14.228  
 Questioned Cost None  
 Auditee Comments System and procedures corrected.

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

FISCAL YEAR 2006

Finding Number 06-III-01 Cash Management- Average Balance & Days Elapsed  
 CFDA Number 14.248  
 Questioned Cost None  
 Auditee Comments The cash management procedures will be reviewed and revised as necessary. The internal controls will be strengthened to minimize the time elapsing between 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.

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.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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.

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

FORM **SF-SAC**  
(5-2004)

U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**RETURN  
TO**

**Federal Audit Clearinghouse  
1201 E. 10th Street  
Jeffersonville, IN 47132**

**PART I**

**GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)**

|   |       |        |      |    |      |        |  |
|---|-------|--------|------|----|------|--------|--|
| <p><b>1. Fiscal period ending date for this submission</b></p> <table border="1"> <tr> <td>Month</td> <td>Day</td> <td>Year</td> </tr> <tr> <td align="center">06</td> <td align="center">/ 30</td> <td align="center">/ 2007</td> </tr> </table> <p>Fiscal Period End Dates Must Be In 2004, 2005, or 2006</p> | Month | Day    | Year | 06 | / 30 | / 2007 | <p><b>2. Type of Circular A-133 audit</b></p> <p>1 <input checked="" type="checkbox"/> Single audit    2 <input type="checkbox"/> Program-specific audit</p> |
| Month   | Day   | Year   |      |    |      |        |  |
| 06  | / 30  | / 2007 |      |    |      |        |  |

|  |  |
|--|--|
| <p><b>3. Audit period covered</b></p> <p>1 <input checked="" type="checkbox"/> Annual    2 <input type="checkbox"/> Biennial    3 <input type="checkbox"/> Other - <input type="text"/> Months</p> | <p><b>4. FEDERAL GOVERNMENT USE ONLY</b></p> <p>Date received by Federal clearinghouse</p> |
|--|--|

**5. Auditee Identification Numbers**

**a. Primary Employer Identification Number (EIN)**  

|   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|
| 6 | 6 | - | 0 | 4 | 3 | 3 | 5 | 1 | 5 |
|---|---|---|---|---|---|---|---|---|---|

**b. Are multiple EINs covered in this report?**    1  Yes    2  No

**c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.**

**d. Data Universal Numbering System (DUNS) Number**  

|  |  |   |  |  |  |  |  |  |  |
|--|--|---|--|--|--|--|--|--|--|
|  |  | - |  |  |  |  |  |  |  |
|--|--|---|--|--|--|--|--|--|--|

**e. Are multiple DUNS covered in this report?**    1  Yes    2  No

**f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.**

**6. AUDITEE INFORMATION**

**a. Auditee name**  
MUNICIPALITY OF JAYUYA

**b. Auditee address (Number and street)**  
P.O. BOX 488  
City  
JAYUYA  
State                      ZIP + 4 Code  
PR                              0 0 6 6 4 -

**c. Auditee contact Name**  
JORGE L. GONZALEZ OTERO  
Title  
MAYOR

**d. Auditee contact telephone**  
( 787 ) 828 - 0900

**e. Auditee contact FAX**  
(     ) -

**f. Auditee contact E-mail**

**7. AUDITOR INFORMATION (To be completed by auditor)**

**a. Auditor name**  
CPA PEDRO C. ORTIZ LEDEE

**b. Auditor address (Number and street)**  
PO BOX 352  
City  
GUAYAMA  
State                      ZIP + 4 Code  
PR                              0 0 7 8 5 -

**c. Auditor contact Name**  
PEDRO C. ORTIZ LEDEE  
Title  
SOLE PRACTITIONER

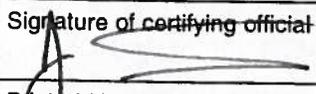
**d. Auditor contact telephone**  
( 787 ) 864 - 5490

**e. Auditor contact FAX**  
( 787 ) 864 - 5590

**f. Auditor contact E-mail**  
CPAPEDROC@HOTMAIL.COM

RECEBIDO  
 UNIDAD DE CORREO  
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 OFICINA DEL COMISIONADO  
 DE ENTES MUNICIPALES

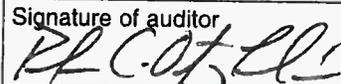
**9. AUDITEE CERTIFICATION STATEMENT -** This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official:                       Date: 03 / 26 / 2008

Printed Name of certifying official  
Hon. Jorge L. González Otero

Printed Title of certifying official  
Mayor

**9. AUDITOR STATEMENT -** The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor:                       Date:                      /                      /

**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            | 07 <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

**FEDERAL PROGRAMS - Continued**

| 9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR |             | 10. AUDIT FINDINGS     |                                      |                     |  |  |   |   |  |
|---|-------------|------------------------|--------------------------------------|---------------------|--|--|---|---|--|
| Federal Agency Prefix <sup>1</sup>            | CFDA Number | Extension <sup>2</sup> | Name of Federal program (d)          | Amount expended (e) | Direct award (f)   | Major program (g)  |   | Type(s) of compliance requirement(s) <sup>4</sup> (a) | Audit finding reference number(s) <sup>5</sup> (b) |
|   |             |                        |                                      |                     |  | Research and development (c)   | If yes, type of audit report <sup>3</sup> (h) |   |  |
| 1 0   | 558         |                        | CHILD & ADULT CARE FOOD PROGRAM      | \$ 133,339.00       | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No |   | O   | N/A  |
| 1 4   | 871         |                        | SECTION 8 HOUSING CHOICE VOUCHER     | \$ 18,482.00        | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No |   | O   | N/A  |
| 1 4   | 228         |                        | COMMUNITY DEVELOPMENT BLOCK GRANT    | \$ 1,356,489.00     | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | 1 <input checked="" type="checkbox"/> Yes<br>2 <input type="checkbox"/> No | Q   | ACJL  | 07-III-03, 07-II-I-04, 07-II-08, 07-II-09          |
| 1 4   | 248         |                        | SECTION 108 LOAN GUARANTEES          | \$ 539,090.00       | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | 1 <input checked="" type="checkbox"/> Yes<br>2 <input type="checkbox"/> No | Q   | L   | 07-III-09  |
| 1 4   | 231         |                        | EMERGENCY SHELTER GRANTS             | \$ 39,626.00        | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No |   | O   | N/A  |
| 1 4   | 239         |                        | HOME INVESTMENT PARTNERSHIPS PROGRAM | \$ 821,071.00       | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | 1 <input checked="" type="checkbox"/> Yes<br>2 <input type="checkbox"/> No | Q   | CD  | 07-III-04, 07-II-I-05                              |
| 8 3   | 544         |                        | PUBLIC ASSISTANT GRANT               | \$ 379,026.00       | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | 1 <input checked="" type="checkbox"/> Yes<br>2 <input type="checkbox"/> No | Q   | I   | 07-III-06, 07-II-I-07                              |
| 9 7   | 036         |                        | PUBLIC ASSISTANT GRANT               | \$ 216,904.00       | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | 1 <input checked="" type="checkbox"/> Yes<br>2 <input type="checkbox"/> No | Q   | I   | 07-III-06, 07-II-I-07                              |
| 9 3   | 045         |                        | SPECIAL PROGRAM FOR AGING TITLE III  | \$ 105,732.00       | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No |   | O   | N/A  |
| 9 3   | 569         |                        | COMMUNITY SERVICES BLOCK GRANT       | \$ 92,504.00        | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No |   | O   | N/A  |
| <b>TOTAL FEDERAL AWARDS EXPENDED</b>          |             |                        |                                      | \$ 3,916,585.00     |  |  |   |   |  |

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

**PART III - FEDERAL PROGRAMS - Continued**

| 9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR |                                    |  |                                    | 10. AUDIT FINDINGS  |  |  |   |   |  |
|---|------------------------------------|--|------------------------------------|---------------------|--|--|---|---|--|
| Federal Agency Prefix <sup>1</sup>            | CFDA Number Extension <sup>2</sup> | Research and development (c)   | Name of Federal program (d)        | Amount expended (e) | Direct award (f)   | Major program (g)  |   | Type(s) of compliance requirement(s) <sup>4</sup> (a) | Audit finding reference number(s) <sup>5</sup> (b) |
|   |                                    |  |                                    |                     |  | Major program  | If yes, type of audit report <sup>3</sup> (h) |   |  |
| 93  | 575                                | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | CHILD CARE DEVELOPMENT BLOCK GRANT | \$ 214,322.00       | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No | 1 <input type="checkbox"/> Yes<br>2 <input checked="" type="checkbox"/> No |   | O   | N/A  |
|   |                                    | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |                                    | \$ .00              | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |   |   |  |
|   |                                    | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |                                    | \$ .00              | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |   |   |  |
|   |                                    | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |                                    | \$ .00              | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |   |   |  |
|   |                                    | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |                                    | \$ .00              | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |   |   |  |
|   |                                    | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |                                    | \$ .00              | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |   |   |  |
|   |                                    | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |                                    | \$ .00              | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |   |   |  |
|   |                                    | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |                                    | \$ .00              | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |   |   |  |
|   |                                    | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |                                    | \$ .00              | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |   |   |  |
|   |                                    | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |                                    | \$ .00              | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |   |   |  |
|   |                                    | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |                                    | \$ .00              | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |   |   |  |
|   |                                    | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |                                    | \$ .00              | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            | 1 <input type="checkbox"/> Yes<br>2 <input type="checkbox"/> No            |   |   |  |
| <b>TOTAL FEDERAL AWARDS EXPENDED</b>          |                                    |  |                                    | \$ 3,916,585.00     |  |  |   |   |  |

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPIY 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  
 B. Allowable costs/cost principles F. Equipment and real property management  
 C. Cash management G. Matching, level of effort, earmarking  
 D. Davis - Bacon Act H. Period of availability of Federal funds  
 I. Procurement and suspension and debarment L. Reporting  
 J. Program income M. Subrecipient monitoring  
 K. Real property acquisition and relocation assistance N. Special tests and provisions  
 O. None  
 P. Other

