



Estado Libre Asociado de Puerto Rico
Municipio Autónomo de Jayuya
Oficina de Auditoría Interna

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HOJA DE TRÁMITE

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Comisionado

De: Jesús A. Reyes Arroyo
Auditor Interno

Agencia: Oficina del Comisionado de Asuntos
Municipales (OCAM)

Fecha: 23 de marzo de 2010

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MENSAJE

Se le envía Single Audit 2008-2009

Recibido por: _____

Fecha: _____

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GOVERNMENT OF PUERTO RICO

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2009

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2009**

TABLE OF CONTENTS

	Pages
PART I – Financial:	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-9
Governmental-Wide Statements:	
Statement of Net Assets	10
Statement of Activities.....	11
Governmental Funds Statements:	
Balance Sheet.....	12
Statement of Revenues, Expenditures and Changes in Fund Balances.....	13
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Assets	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	15
Notes to the Basic Financial Statements.....	16-46
Required Supplementary Information:	
Budgetary Comparison Schedule and Notes– General Fund	47-48
PART II – Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and OMB Circular A-133:	
Schedule of Expenditures of Federal Awards	49-50
Notes to Schedule of Expenditures of Federal Awards.....	51
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards	52-53
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance Required by OMB Circular A-133	54-55
PART III – Findings and Questioned Costs:	
Schedule of Findings and Questioned Costs	56-69
Schedule of Prior Audits' Findings and Questioned Costs.....	70-72

Pedro C. Ortíz 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 on June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. 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 the 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 maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In my opinion, because of the effects of the matter discussed in the preceding paragraph, 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, 2009, or the changes in financial position, thereof for the year then ended.

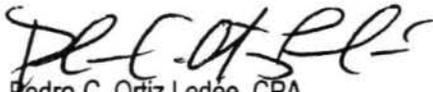
In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2009, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 1, 2010, 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 9 and 47 through 48, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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



Pedro C. Ortiz Ledee, CPA
License Number 5200,
Expires on December 1, 2011

Guayama, Puerto Rico
January 1, 2010



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009. 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. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2003-2004. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

- a broader basis in focusing important issues;
- acknowledgement of an overview of the Municipality's financial activities;
- provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
- identification of uses of funds in the financing of the Municipality's variety of activities and;
- assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- ❖ The Municipality's assets exceeded its liabilities at June 30, 2009 by \$20,484,442, and at June 30, 2008 by \$18,779,279, as restated;
- ❖ The Municipality's total net assets increase by \$1,705,163 during fiscal year 2008-2009;
- ❖ As of June 30, 2009, the Municipality's governmental funds reported combined ending fund balance of \$12,844,598, an increase of \$3,918,683 from the prior year;
- ❖ At June 30, 2009, the Statement of Net Asset presented an unrestricted deficit of \$(8,220,192);
- ❖ During fiscal year 2008-2009, the Municipality issue \$3,497,000 in bonds debt;
- ❖ The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2009 were \$18,280,794 (net of accumulated depreciation);
- ❖ The investment in capital assets for this year was \$13,810,625 (net of related debt);
- ❖ Loans principal payments were \$573,500 and \$346,300 in 2009 and 2008, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

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; mayor and municipal legislature, general government, public safety, public works, culture and recreation, health and sanitation, human services and welfare, urban development, education and interests. Property taxes, volume of business taxes, sales taxes, and 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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, assets exceeded liabilities by \$20,484,442 as of June 30, 2009, versus \$18,779,279 as of June 30, 2008, as restated. Our analysis below focuses on the net assets (Table 1) and changes in net assets of the Municipality's governmental activities.

Table 1		
Statement of Net Assets	2009	2008
		(as restated)
Current and non-current assets	\$ 20,164,887	\$ 15,586,244
Capital assets	18,280,794	17,740,018
Total Assets	38,445,681	33,326,262
Current liabilities	2,423,072	2,683,626
Long-term liabilities	15,538,167	11,863,357
Total Liabilities	17,961,239	14,546,983
Net assets:		
Investment in capital assets, net of related debt	13,810,625	11,500,018
Restricted	14,894,009	10,186,326
Deficit	(8,220,192)	(2,907,065)
Total Net Assets	\$ 20,484,442	\$ 18,779,279

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.

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 \$7,791,205. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues exceed net expenses by \$1,705,163.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

The Municipality experienced an increase in property taxes and construction taxes, due to growth in new constructions and the assessed valuation of property within the Municipality. Also, a 1.5% sales tax was imposed by the Municipality, commencing on November 15, 2006. The cost of all governmental activities this year was \$19,641,292. **Table 2** presents the cost of each of the Municipality's largest programs.

Table 2			
Statement of Activities	2009	2008	
Revenues			
Grants and contributions	\$ 10,273,311	\$ 8,814,263	
General revenues:			
Property taxes	1,322,269	1,271,612	
Volume of business taxes	1,161,131	1,033,815	
Construction taxes	123,211	102,245	
Sales taxes	720,296	591,122	
Intergovernmental	5,264,083	4,953,511	
Charges for services	1,576,776	1,867,062	
Other General revenues	905,378	600,811	
Total revenues	21,346,455	19,234,441	
Expenses			
General administration	4,879,033	3,815,007	
Public safety	557,515	715,372	
Public works	1,739,106	1,737,525	
Health and Sanitation	677,916	653,642	
Culture and recreation	1,228,134	1,011,968	
Human services and welfare	6,820,178	6,318,928	
Urban development	3,107,796	2,728,776	
Education	225,344	285,494	
Interest on long-term debts	406,270	216,088	
Total expenses	19,641,292	17,482,800	
Changes in net assets	1,705,163	1,751,641	
Net assets – beginning, as restated	18,779,279	17,027,638	
Net assets – ending	\$ 20,484,442	\$ 18,779,279	

GOVERNMENT FUND FINANCIAL ANALYSIS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT FUND FINANCIAL ANALYSIS (CONTINUED)

Table 3		2008
Balance Sheet	2009	(as restated)
Assets:		
Total assets – Major Funds	\$ 10,328,695	\$ 8,466,791
Total assets – Other Funds	<u>8,684,010</u>	<u>7,149,924</u>
Combined total assets	<u>19,012,705</u>	<u>15,616,715</u>
Liabilities:		
Total liabilities – Major Funds	4,229,258	4,342,807
Total liabilities – Other Funds	<u>1,938,849</u>	<u>2,347,993</u>
Combined total liabilities	<u>6,168,107</u>	<u>6,690,800</u>
Fund Balances:		
Reserved – Major Funds	6,080,942	3,670,273
Reserved – Other Funds	6,745,161	4,801,931
Unreserved – Major Funds	<u>18,495</u>	<u>453,711</u>
Combined total fund balances	<u>12,844,598</u>	<u>8,925,915</u>
Total liabilities and fund balances	<u>\$ 19,012,705</u>	<u>\$ 15,616,715</u>

Table 4		
Changes in Fund Balances	2009	2008
Revenues:		
Total revenues – Major Funds	\$ 13,133,076	\$ 14,237,786
Total revenues – Other Funds	<u>8,194,479</u>	<u>6,338,062</u>
Combined total revenues	<u>21,327,555</u>	<u>20,575,848</u>
Expenditures:		
Total expenditures – Major Funds	13,940,805	15,352,027
Total expenditures – Other Funds	<u>7,806,920</u>	<u>5,395,554</u>
Combined total expenditures	<u>21,747,725</u>	<u>20,747,581</u>
Other financing sources (uses):		
Other financing sources – Major Funds	4,154,577	1,957,037
Other financing sources – Other Funds	<u>184,276</u>	<u>519,923</u>
Combined other financing sources (uses), net	<u>4,338,853</u>	<u>2,476,960</u>
Net changes in fund balance	3,918,683	2,305,227
Fund Balance – beginning, as restated	<u>8,925,915</u>	<u>6,620,688</u>
Fund Balance – ending	<u>\$ 12,844,598</u>	<u>\$ 8,925,915</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009, the Municipality's governmental funds reported combined ending fund balances of \$12,844,598, an increase of \$3,918,683 from the prior year.

The Municipality has an unreserved fund balance of \$18,495 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; (a) to liquidate prior year obligations (\$592,592), (b) to pay debt service (\$560,430) and (c) for other restricted purposes (\$11,673,081).

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 2009 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ The original budget was amended to increase expenditures between expenditures accounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2009 amounted to \$18,280,794 (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 \$1,343,451. Additions during the fiscal year were principally for building construction, and purchase of machinery and equipment, necessary to provides services to our citizens. Table 5 present the major classes of capital assets.

Capital Assets	Amount
Construction in progress	\$ 4,173,704
Land	2,378,701
Buildings	8,904,086
Infrastructure	1,114,469
Machinery and equipment	1,256,552
Motor Vehicles	<u>453,282</u>
Total Assets	<u>\$ 18,280,794</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

LONG-TERM DEBT

At June 30, 2009, the Municipality had total of \$15,538,167 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$10,032,382 comprises debt backed by the full faith and credit of the government and \$5,505,785 is other obligations.

Table 6	
Long Term Debts	Amount
General obligations bonds and notes	\$ 10,032,382
Others	<u>5,505,785</u>
Total Long Term Debts	<u>\$ 15,538,167</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 leave 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, sales 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 2009 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
Statement of Net Assets
June 30, 2009**

	Governmental Activities
ASSETS:	
Cash and investments	\$ 8,668,098
Cash with fiscal agent	5,669,180
Receivable (net):	
Property taxes	58,299
Sales taxes	21,581
State government	614,666
Federal grants	233,536
Others	12,512
Real Estate Held for Sale	<u>4,887,015</u>
	<u>20,164,887</u>
Capital assets:	
Land, improvements, and construction in progress	6,552,405
Other capital assets, net of depreciation	<u>11,728,389</u>
Total capital assets	<u>18,280,794</u>
TOTAL ASSETS	<u>38,445,681</u>
LIABILITIES:	
Accounts payable and accrued expenses	1,103,179
Accrued interests	82,513
Deferred revenue	1,237,380
Long-term liabilities:	
Due within one year	1,473,402
Due in more than one year	<u>14,064,765</u>
TOTAL LIABILITIES	<u>17,961,239</u>
NET ASSETS	
Invested in capital assets, net of related debt	13,810,625
Restricted for:	
Debt service	560,430
Other purposes	14,333,579
Unrestricted (deficit)	<u>(8,220,192)</u>
TOTAL NET ASSETS	<u>\$ 20,484,442</u>

**Commonwealth of Puerto Rico
Municipality of Jayuya
Statement of Activities
For the Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and municipal legislature	\$ 984,192	\$ -	\$ -	\$ -	\$ (984,192)
General government	3,894,841				(3,894,841)
Public safety	557,515		106,214		(451,301)
Public works	1,739,106				(1,739,106)
Culture and recreation	1,228,134	411,667			(816,467)
Health and sanitation	677,916				(677,916)
Human services and welfare	6,820,178	1,165,109	4,953,731		(701,338)
Urban development	3,107,796			5,035,377	1,927,581
Education	225,344		177,989		(47,355)
Interest on long-term debt	406,270				(406,270)
Total governmental activities	\$ 19,641,292	\$ 1,576,776	\$ 5,237,934	\$ 5,035,377	\$ (7,791,205)

General revenues:

Taxes:

Property taxes, levied for general purpose	1,084,054
Property taxes, levied for debt services	238,215
Sales taxes	720,296
Volume of business taxes	1,161,131
Construction taxes	123,211
Intergovernmental	5,264,083
Licenses and permits	9,020
Rent	97,073
Interests	226,736
Miscellaneous	572,549

Total general revenues	9,496,368
Change in net assets	1,705,163
Net assets - beginning-as restated	18,779,279
Net assets - ending	\$ 20,484,442

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

	General Fund	Special Communities Fund	Municipal Hospital Fund	Loans Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and investments	\$ 1,547,342	\$ 821,559	\$ 593,722	\$ -	\$ 5,705,475	\$ 8,668,098
Cash with fiscal agent				4,765,631	903,549	5,669,180
Receivables:						
Sales taxes	21,581					21,581
Property taxes	18,900				39,399	58,299
State government		298,782	79,922		235,962	614,666
Federal grants					233,536	233,536
Others	12,512					12,512
Due from other funds	2,168,744				1,566,089	3,734,833
Total assets	\$ 3,769,079	\$ 1,120,341	\$ 673,644	\$ 4,765,631	8,684,010	\$ 19,012,705
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 172,903	\$ 15,624	\$ -	\$ -	592,008	\$ 780,535
Bonds and notes payable					235,000	235,000
Accrued interests					73,815	73,815
Due to governmental units	87,644					87,644
Due to other funds	1,566,089	520,141	557,919	237,582	853,102	3,734,833
Deferred revenues:						
Volume of business tax	1,052,456					1,052,456
Property taxes	18,900					18,900
Federal grants revenues					184,924	184,924
Total liabilities	2,897,992	535,765	557,919	237,582	1,938,849	6,168,107
Fund balances:						
Reserved for:						
Encumbrances	592,592					592,592
Debt service fund					560,430	560,430
Other purposes	260,000	584,576	115,725	4,528,049	6,184,731	11,673,081
Unreserved:						
Undesignated	18,495					18,495
Total fund balances (deficit)	871,087	584,576	115,725	4,528,049	6,745,161	12,844,598
Total liabilities and fund balances	\$ 3,769,079	\$ 1,120,341	\$ 673,644	\$ 4,765,631	8,684,010	\$ 19,012,705

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

	General Fund	Special Communities Fund	Municipal Hospital Fund	Loans Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 1,065,154	\$ -	\$ -	\$ -	\$ 238,215	\$ 1,303,369
Volume of business taxes	1,161,131					1,161,131
Sales taxes	289,376				430,920	720,296
Charges for services			1,165,109		491,502	1,656,611
Federal assistances					2,387,826	2,387,826
Intergovernmental	5,264,083	2,004,963	1,236,258		4,564,429	13,069,733
Licenses and permits	132,231					132,231
Rent	97,073					97,073
Interests	209,618				17,118	226,736
Miscellaneous	508,080				64,469	572,549
Total revenues	8,726,746	2,004,963	2,401,367	-	8,194,479	21,327,555
Expenditures						
Current:						
Mayor and municipal legislature	944,644					944,644
General government	3,566,835					3,566,835
Public safety	430,338				106,214	536,552
Public works	1,640,583					1,640,583
Culture and recreation	543,173				646,535	1,189,708
Health and sanitation	654,809					654,809
Human services and welfare	784,182	1,451,296	2,371,187		2,163,430	6,770,095
Urban development	113,104				3,625,866	3,738,970
Education					225,344	225,344
Capital outlay		841,853		598,801		1,440,654
Debt service:						
Principal					573,500	573,500
Interest and other charges					466,031	466,031
Total expenditures	8,677,668	2,293,149	2,371,187	598,801	7,806,920	21,747,725
Excess (deficiency) of revenues over (under) expenditures	49,078	(288,186)	30,180	(598,801)	387,559	(420,170)
Other financing sources (uses)						
Bonds and notes				3,497,000		3,497,000
Line of Credit		841,853				841,853
Transfers in					184,276	184,276
Transfers out	(184,276)					(184,276)
Total other financing sources (uses)	(184,276)	841,853	-	3,497,000	184,276	4,338,853
Net change in fund balances	(135,198)	553,667	30,180	2,898,199	571,835	3,918,683
Fund balance (deficit), beginning-as restated	1,006,285	30,909	85,545	1,629,850	6,173,326	8,925,915
Fund balance (deficit), ending	\$ 871,087	\$ 584,576	\$ 115,725	\$ 4,528,049	6,745,161	\$ 12,844,598

D. J. Lopez
2/2/2010

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Total Fund Balances – Governmental Funds (Page 11) \$ 12,844,598

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

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

Non Depreciable Capital Assets	\$6,552,405	
Infrastructure Assets.....	1,296,131	
Other Depreciable Capital Assets.....	16,597,784	
Accumulated Depreciation.....	<u>(6,165,526)</u>	
Total Capital Assets.....		18,280,794

Real Estate Held for Sale is not a current financial resources and therefore, is not reported in the funds. 4,887,015

Some of the Municipality's revenue will be collected after year end, but are not available soon enough to pay for the current period's expenditure and therefore, are deferred in the funds.. 18,900

Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds... (8,698)

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	(10,032,382)	
Compensated Absences.....	(1,090,717)	
Property Tax Debt – Law 42.....	(562,508)	
Property Tax Debt – Law 146.....	(88,727)	
LIMS Repayment Plan.....	(31,940)	
Claims and Judgments	(150,000)	
Landfill Closure and Post-Closures Costs	(1,339,321)	
Social Security Debt	(1,447)	
Line of Credit.....	(2,217,819)	
Property Tax Advances	<u>(23,306)</u>	
Total Long-Term Liabilities		<u>(15,538,167)</u>

Total Net Assets of Governmental Activities (Page 9)..... \$ 20,484,442

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

**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, 2009

Net Change in Fund Balances – Total Governmental Funds (Page 12)..... \$ 3,918,683

Amounts reported for Governmental Activities in the Statement of Activities 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.....	1,343,451	
Depreciation Expense.....	<u>(802,675)</u>	
Excess of Capital Outlay over Depreciation Expense.....		540,776

Governmental funds report capital outlay of real property held for sale as expenditure. However, in the Statement of Activities, the cost of those assets is capitalized.		841,853
--	--	---------

Revenues in the statement of activities that not provide current financial resources are not reported as revenue in the funds.		18,900
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Debt 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, these amounts are:

Notes Payable.....	(3,497,000)	
Line of Credit.....	(841,853)	
Claims and Judgments.....	(150,000)	
Property tax debts – Law 146.....	<u>(92,585)</u>	
General obligation bond.....		(4,581,438)

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:

Bonds and Notes.....	573,500	
Compensated Absences.....	137,544	
Property Tax Debt – Law 42.....	21,082	
Property Tax Debt – Law 146.....	3,858	
LIMS Repayment Plan.....	11,521	
Social Security Debt.....	960	
Landfill Closure and Post-Closures Costs.....	123,123	
Property Tax Advances.....	<u>35,040</u>	
Total Additional Expenditures.....		906,628

Interest cost reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. The following amount represented the change from prior year.....		<u>59,761</u>
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Change in Net Assets of Governmental Activities (Page 10)..... \$ 1,705,163

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Jayuya, Puerto Rico (Municipality) is a local governmental with full legislative, fiscal and administrative power to operate as a governmental under Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipality Act of the Commonwealth of Puerto Rico (Law No. 81)*.

The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth") provides for the separation of powers of the executive, legislative and judicial branches. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power is exercised by the Municipal Legislature, which is also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban development, and many other general and administrative duties.

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, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement established new financial reporting requirements for state and local governments. On July 1, 2003, the Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2009, 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.

According to the new financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

The required supplementary information, which consists of a management discussion and analysis (MD&A), is information presented along with, but separate from, the Municipality's basic financial statements. The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2009, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As previously mentioned, on July 1, 2003, other statements and interpretations were also adopted in conjunction and simultaneously with GASB No. 34. Those statements and interpretations are: (1) GASB Statement No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*, (2) GASB Statement No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, (3) GASB Statement No. 38 – *Certain Financial Statement Note Disclosures* and (4) GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB No. 34 also required that the accounting for all governmental activities reported in the GWFS be based on applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB), issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. Accordingly, in conjunction and simultaneously with the adoption of GASB No. 34, the Municipality also adopted the following pronouncements: (1) APB Opinion No. 20 – *Accounting Changes*, (2) APB Opinion No. 21 – *Interest on Receivables and Payables*, (3) FASB Statement No. 5 - *Accounting for Contingencies* and (4) FASB Statement No. 16 – *Prior Period Adjustments*. The Municipality has elected to not apply all statements and interpretations issued by FASB after November 30, 1989.

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.

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, 2009, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus and Basis of Accounting

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, 2009, 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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:

- ❖ **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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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 funds:

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

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

Municipal Hospital Fund – This is the fund used to account for all the transactions of the Municipality's Hospital. The primary objective of theses fund is to provide to the community medical services such as emergency doctors, pediatricians, gynecologist and other.

Loans Fund – This is the fund used to account for all financial resources and transactions related to the loans for operational purposes, construction purposes and capital outlays of the Municipality, which is financed by loans from the Government Development Bank of Puerto Rico.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Reporting Presentation

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

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

Special Revenue Fund– This is the fund used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or state statutes.

Debt Service Fund – This is the fund used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund – This is the fund used to account for financial resources used for the acquisition or construction of major capital facilities. The uses and limitations of each capital projects fund are specified by Municipality ordinances or state statutes.

E. 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 supplemental appropriations. 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 31 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;

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data (Continued)

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;
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

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.
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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data (Continued)

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 Major and Non Major 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.

F. Cash, Cash Equivalent and Investment

The Finance Director 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.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

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.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. The 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.

G. Receivables

Receivable are stated net 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.

H. 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
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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:

Capital Assets	Years
Buildings and site improvements	40
Infrastructure	40
Works of Art	10
Vehicles	5
Furniture and fixtures	5
Machinery and equipment	3 to 5

J. Long-Term Obligations

The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

K. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Compensated Absences (Continued)

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, 2009.

<u>BALANCE</u> <u>JULY 1, 2008</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS AND CURRENT MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2009</u>	<u>CURRENT PORTION</u>	<u>LONG-TERM PORTION</u>
\$ 1,228,261	\$ -	\$ (137,544)	\$ 1,090,717	\$ 828,945	\$ 261,772

L. 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.

M. 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 reciprocal and nonreciprocal interfund activities:

- ❖ **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- ❖ **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ❖ **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Reservations of Fund Balance – Governmental Funds

Reservations of fund balance in the fund financial statements represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- ❖ **Encumbrances** – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- ❖ **Debt Service Fund** – Represents net assets available to finance future debt service payments. 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.
- ❖ **Other Purposes** – Represents net assets available for specific use and/or legally segregated for other specific future use.

O. 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.

P. 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.

Q. Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Accounting for Pension Costs (Continued)

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

R. Risk Financing

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2009 amounted to \$140,774. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$260,835 for workers compensation insurance covering all municipal employees.

S. Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2009:

- ❖ GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009;
- ❖ GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement establishes accounting and reporting requirements for derivative instruments, including hedge accounting. This statement is effective for periods beginning after June 15, 2009;
- ❖ GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement changes the classification and terminology of fund balances and amends the definitions of the different types of governmental funds. This statement is effective for periods beginning after June 15, 2010;
- ❖ GASB Concepts Statements No. 5, *Service Efforts and Accomplishments – an Amendment of GASB Concepts Statements No. 2*. This statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB: CS-2.

The Municipality's management has concluded that the future adoption of these GASB Statements do not have any impact on the Municipality's basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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.

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, 2009.

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, 2009, (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, 2009, 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, 2009, 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 \$250,000 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, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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, 2009.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

The Municipality's bank balances in commercial banks of \$1,547,342 in the general fund, \$821,559 in the special communities fund and \$593,722 in municipal hospital fund, were fully collateralized at June 30, 2009. In the other governmental funds, there were deposits with commercial banks of \$5,705,475 that were fully collateralized.

The deposits at GDB of \$4,765,631 in the loans fund and the \$903,549 in other governmental funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3 – RECEIVABLES

A. Sales Taxes Receivables

As described below in Note 15, 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 20th day of each month based on tax collected in the preceding month. Therefore, sales tax receivable of \$21,581 in the general fund represents the amount due by the taxpayers at June 30, 2009.

B. Property Taxes Receivables

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the final liquidation noting that the collections exceeded advances. In the governmental funds, the entire receivable has been offset by deferred revenue since the excess was not available to pay liabilities of the current period. In the government-wide financial statements, the entire receivable is recognized as revenue. Following is a detail of the property taxes receivable in the general fund:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 18,900
Total	\$ 18,900

Property taxes receivable in the other governmental funds represents debt service fund's advances from fiscal year 2008-2009, not collected by the Municipality at June 30, 2009. Following is a detail of the property taxes receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 39,399
Total	\$ 39,399

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 3 – RECEIVABLES (CONTINUED)

C. State Government Receivables

At June 30, 2009, the Municipality maintained an account receivable from the state government of \$298,782, related to the assignment by Legislature Law for special communities. As previously described in Note 1, the primary objectives of this assignment is the development of projects for low income families in special communities. Also, at June 30, 2009, the Municipal Hospital maintained an account receivable from the state government of \$79,922.

State government receivable in the other governmental funds represents expenditures incurred, not yet reimbursed by the state agencies. Following is a detail of the state government receivable:

<u>Description</u>	<u>Amount</u>
Puerto Rico Rural Development Corporation	\$ 105,000
Commonwealth of Puerto Rico – Legislature	98,575
Transit Safety Commission	<u>32,387</u>
Total	<u>\$ 235,962</u>

D. Federal Grants Receivable

Federal grants receivable in the other governmental funds represent expenditures incurred, not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the federal grants receivable:

<u>Description</u>	<u>Amount</u>
Community Development Block Grant Program	\$ 49,030
Home Investment Partnership Program	156,027
Others	<u>28,479</u>
Total	<u>\$ 233,536</u>

E. Others Accounts Receivable

Other receivables in the general fund, for the amount of \$12,512, represent accounts receivable at June 30, 2009, related to a building rent and landfill users.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 – DUE FROM / TO OTHER FUNDS

Interfund receivables and payables at June 30, 2009 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Communities Fund	Payroll and related accruals paid and not reimbursed, and other reimbursable expenditures	\$ 520,141
General Fund	Municipal Hospital Fund	Payroll and related accruals paid and not reimbursed	557,919
General Fund	Loans Fund	Reimbursable expenditures	237,582
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed, and other reimbursable expenditures	853,102
Other Governmental Funds	General Fund	Cash pool in the same bank account	<u>1,566,089</u>
Total			<u>\$ 3,734,833</u>

NOTE 5 – CAPITAL ASSETS

Capital assets, those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$500 or more, are primarily funded through the issuance of long-term bonds and loans.

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities. In addition, 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, 2009. 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.

A summary of capital assets and changes occurring in 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Governmental Activities	Balance July 1, 2008 (As Restated)	Additions	Retirements / Reclassifications	Balance June 30, 2009
Capital asset, not being depreciated:				
Land	\$ 2,378,701	\$ -	\$ -	\$ 2,378,701
Construction in progress	<u>3,577,791</u>	<u>595,913</u>	<u>-</u>	<u>4,173,704</u>
Total capital assets not being depreciated	<u>5,956,492</u>	<u>595,913</u>	<u>-</u>	<u>6,552,405</u>
Capital assets, being depreciated:				
Buildings	10,232,119	512,380	-	10,744,499
Infrastructure	1,296,131	-	-	1,296,131
Machinery and equipment	3,123,610	235,158	-	3,358,768
Motor vehicles	<u>2,494,517</u>	<u>-</u>	<u>-</u>	<u>2,494,517</u>
Total capital assets being depreciated	<u>17,146,377</u>	<u>747,538</u>	<u>-</u>	<u>17,893,915</u>
Less accumulated depreciation for:				
Buildings	(1,645,542)	(194,871)	-	(1,840,413)
Infrastructure	(162,215)	(19,447)	-	(181,662)
Machinery and equipment	(1,727,445)	(374,771)	-	(2,102,216)
Motor vehicles	<u>(1,827,649)</u>	<u>(213,586)</u>	<u>-</u>	<u>(2,041,235)</u>
Total accumulated depreciation	<u>(5,362,851)</u>	<u>(802,675)</u>	<u>-</u>	<u>(6,165,526)</u>
Total capital assets being depreciated, net	<u>11,783,526</u>	<u>(55,137)</u>	<u>-</u>	<u>11,728,389</u>
Governmental activities capital assets, net	<u>\$ 17,740,018</u>	<u>\$ 540,776</u>	<u>\$ -</u>	<u>\$ 18,280,794</u>

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

Governmental activities	Amount
Mayor and Municipal	\$ 39,548
General government	418,549
Public Safety	20,963
Public Works	98,523
Culture and Recreation	38,426
Sanitation	23,107
Welfare	50,083
Urban development	<u>113,476</u>
Total depreciation expenses	<u>\$ 802,675</u>

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2008-2009, and not paid by the Municipality at June 30, 2009. Following is a detail of these accounts payable and accrued liabilities by major fund:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (CONTINUED)

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 77,648	\$ 95,255	\$ 172,903
Special Communities Fund	15,624	-	15,624
Other Governmental Funds	<u>592,008</u>	<u>-</u>	<u>592,008</u>
Total	<u>\$ 685,280</u>	<u>\$ 95,255</u>	<u>\$ 780,535</u>

NOTE 7 – BONDS AND NOTES PAYABLE

As described below in Note 10, the Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. At June 30, 2009, the government-wide and fund financial statements presented the following accounts payable, regarding to the outstanding balance of these bonds and notes:

Description	Amount
Principal	\$ 235,000
Accrued interests	<u>73,815</u>
Total	<u>\$ 308,815</u>

NOTE 8 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2009, balance due to other governmental units consists of the following:

Governmental Agency	Amount
Puerto Rico Aqueduct and Sewer Authority	\$ 4,985
General Service Administration	5,265
Department of Labor	<u>77,394</u>
Total	<u>\$ 87,644</u>

NOTE 9 – DEFERRED REVENUES

- A. **Volume of business tax** – The deferred revenues of \$1,052,456 in the general fund relates to volume of business tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.
- B. **Property taxes** – The deferred revenues of \$18,900 in the general fund related to the property taxes receivables, as described in Note 3.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 – DEFERRED REVENUES (CONTINUED)

C. **Federal Grants** – The deferred revenues presented in the other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

Program Description	Amount
Public and Indian Housing	\$ 127,280
Public Assistance Grants	27,933
Others	29,711
Total	\$ 184,924

NOTE 10 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2009, was as follows:

Description	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$ 7,108,882	\$ 3,497,000	\$ (573,500)	\$ 10,032,382	\$ 592,572
Compensated absences	1,228,261	-	(137,544)	1,090,717	828,945
Property Tax Debt – Law 42	583,590	-	(21,082)	562,508	11,544
Property Tax Debt – Law 146	-	92,585	(3,858)	88,727	3,858
Property Tax Advances – Treasury Department	58,346	-	(35,040)	23,306	23,306
LIMS Repayment Plan	43,461	-	(11,521)	31,940	12,217
Social Security Debt	2,407	-	(960)	1,447	960
Line of Credit	1,375,966	841,853	-	2,217,819	-
Claims and Judgments	-	150,000	-	150,000	-
Estimated landfill closure and post-closure care cost	1,462,444	-	(123,123)	1,339,321	-
Total	\$ 11,863,357	\$ 4,581,438	\$ (906,628)	\$ 15,538,167	\$ 1,473,402

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE

The Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. Bonds and notes payables as of June 30, 2009, are comprised of the following individual issues:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

2. NOTES PAYABLE

DESCRIPTION	AMOUNT
\$1,000,000, Section 108 Loan, Series 2001, for construction purposes, payable in annual installments ranging from \$50,000 to \$100,000, excluding interest at 4.08%, through August 1, 2003	\$ 670,000
\$3,000,000, Section 108 Loan, Series 2002, for construction purposes, payable in annual installments ranging from \$165,000 to \$195,000, excluding interest at 5.00%, through August 1, 2022	2,340,000
\$180,000, Series 2007, for purchase of equipment, payable in semiannual installments ranging from \$20,000 to \$35,000, excluding variable interest from 2.43% to 7.25%, through July 1, 2014	140,000
\$115,000, Series 2008, for purchase of equipment, payable in semiannual installments ranging from \$15,000 to \$20,000, excluding variable interest from 2.43% to 7.25%, through July 1, 2014	85,000
\$161,000, Series 2004, for construction purposes, payable in semiannual installments ranging from \$19,000 to \$28,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2010	28,000
\$500,000, Series 2007, for purchase of equipment, payable in semiannual installments ranging from \$60,000 to \$90,000, excluding variable interest from 2.43% to 7.00%, through July 1, 2013	315,000
\$175,000, Series 2007, for purchase of equipment, payable in semiannual installments ranging from \$25,000 to \$35,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2012	95,000
\$3,497,000, Series 2009, for real property acquisition and construction purposes, payable in semiannual installments ranging from \$50,000 to \$290,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2033	<u>3,447,000</u>
Total General Obligations – Notes	<u>\$ 7,120,000</u>

These bonds and notes are payable with the following Municipality's resources:

- ❖ Special ad valorem property tax, which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes;
- ❖ Community Development Block Grants' funds;
- ❖ Municipal sales taxes resources restricted for debt service, and;
- ❖ Operational resources.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

1. BONDS PAYABLE

DESCRIPTION	AMOUNT
\$300,000, Series 1986, for operational purposes, payable in annual installments ranging from \$6,000 to \$21,000, excluding interest at 5.00%, through January 1, 2010	\$ 21,182
\$325,000, Series 1991, for operational purposes, payable in annual installments ranging from \$6,000 to \$25,000, excluding interest at 6.00%, through January 1, 2015	131,000
\$400,000, Series 1997, for operational purposes, payable in semiannual installments ranging from \$10,000 to \$40,000, excluding variable interest from 2.43% to 8.00%, through July 1, 2016	205,000
\$505,000, Series 1998, for construction purposes, payable in semiannual installments ranging from \$5,000 to \$45,000, excluding variable interest from 4.87% to 6.71%, through July 1, 2022	370,000
\$117,200, Series 1998, for operational purposes, payable in annual installments ranging from \$3,000 to \$7,900, excluding interest at 4.50%, through January 1, 2022	80,200
\$420,000, Series 2003, for operational purposes, payable in semiannual installments ranging from \$5,000 to \$40,000, excluding variable interest from 2.18% to 7.00%, through July 1, 2027	360,000
\$410,000, Series 2004, for construction purposes, payable in semiannual installments ranging from \$10,000 to \$30,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2028	350,000
\$210,000, Series 2008, for real property acquisition, payable in semiannual installments ranging from \$5,000 to \$15,000, excluding variable interest from 2.43% to 7.25%, through July 1, 2032	200,000
\$498,000, Series 2008, for real property acquisition, payable in semiannual installments ranging from \$5,000 to \$36,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2032	484,000
\$731,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$8,000 to \$60,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2032	<u>711,000</u>
Total General Obligations – Bonds	<u>\$ 2,912,382</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE (CONTINUED)

The annual requirements to amortize the general obligations bonds outstanding as of June 30, 2009 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2010	\$ 149,572	\$ 176,488	\$ 326,060
2011	118,900	186,864	305,764
2012	123,100	179,344	302,444
2013	140,300	171,758	312,058
2014	151,600	163,140	314,740
2015-2019	644,800	682,947	1,327,747
2020-2024	665,800	466,202	1,132,002
2025-2029	614,000	243,073	857,073
2030-2034	<u>304,310</u>	<u>45,299</u>	<u>349,609</u>
Total	<u>\$ 2,912,382</u>	<u>\$ 2,315,115</u>	<u>\$ 5,227,497</u>

The annual requirements to amortize the general obligations notes outstanding as of June 30, 2009 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2010	\$ 443,000	\$ 416,084	\$ 859,084
2011	425,000	439,458	864,458
2012	440,000	413,899	853,899
2013	430,000	387,075	817,075
2014	350,000	360,780	710,780
2015-2019	1,560,000	1,510,328	3,070,328
2020-2024	1,470,000	1,001,530	2,471,530
2025-2029	955,000	619,875	1,574,875
2030-2034	<u>1,047,000</u>	<u>204,225</u>	<u>1,251,225</u>
Total	<u>\$ 7,120,000</u>	<u>\$ 5,353,254</u>	<u>\$ 12,473,254</u>

B. COMPENSATED ABSENCES

The government-wide statement of net assets includes \$1,090,717 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

C. PROPERTY TAX DEBT – LAW 42

On January 26, 2000, Act No. 42 was enacted to authorize the 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 the 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 the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$562,508.

D. PROPERTY TAX DEBT – LAW 146

On September 24, 2002, the CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$88,727.

E. PROPERTY TAX ADVANCES – TREASURY DEPARTMENT

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 \$23,306 at June 30, 2009.

F. LIMS REPAYMENT PLAN

The Municipality entered into a financing agreement with the CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by the CRIM on behalf of all municipalities, for the management of a digital database of taxpayer's properties located in Puerto Rico. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$31,940.

G. SOCIAL SECURITY DEBT

During past years, the Municipality entered into a financing agreement with the Treasury Department, for the payment of the Municipality's debt for social security benefits. The balance at June 30, 2009 of this agreement was \$1,447.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

H. LINE OF CREDIT

On April 20, 2006, the Municipality entered into a \$2,400,000 line of credit agreement with the Government Development Bank (GDB) for the construction of sixty(60) units in a project named "Altos del Rio" for low and very low income families. Borrowings under this lines of credit agreement bear interest quarterly, at one percent (1%) over the London Interbank Offered Rate(LIBOR) or five point five percent (5.5%), the one that result higher. This interest are payable upon the maturity of the line of credit. As of June 30, 2009, this line of credit has an outstanding balance of \$2,217,819, and accrued interest of \$8,698. The line of credit will be repaid with the proceeds of the sale of the sixty(60) units.

I. CLAIMS AND JUDGMENTS

Liabilities of \$150,000 reported in the statement of net assets represent the balance owed for claims and judgments at June 30, 2009, as described in Note 19.

NOTE 11 – LANDFILL CLOSURE AND POSTCLOSURE CARE COST OBLIGATION

The Municipality owns a municipal solid waste landfill and adopted the required provisions of Statement No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Post Closure 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. State and federal laws and regulations require the Municipality 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 post closure 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 post closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net assets date. The \$1,339,321 reported as landfill closure and post closure care liability at June 30, 2009, represents an estimate of the cumulative amount reported to date based on the percentage used of the estimated capacity of the landfill.

The Municipality will recognize the remaining estimated cost of closure and post closure care as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2009. The estimated life of the landfill according to the engineers of the Municipality is approximately twenty five (25) years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12 – DEBT RETIREMENT

Revenues of the debt service fund consist 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.

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 13 – PROPERTY TAXES

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

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

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

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

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

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

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

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

NOTE 14 – 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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 14 – VOLUME OF BUSINESS TAX (CONTINUED)

- ❖ 1.50% for financial institutions and savings and loan associations.
- ❖ 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 15 – 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 overall 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 20th day of each month based on tax collected in the preceding month. Resources are recorded in the General Fund.

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

NOTE 16 – 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 17 – INTERFUND TRANSFERS

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

Transfer Out	Transfer In	Purpose	Amount
General Fund	Other Governmental Fund	Debt retirement	\$ 184,276
Total			\$ 184,276

NOTE 18 – 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

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

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:

<u>YEARS OF SERVICE</u>	<u>PARTICIPANT'S AGE</u>	<u>PENSION BENEFITS</u>
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, 2009 was approximately \$182,848. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 18 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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, 2009. 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, P.R. 00940.

NOTE 19 – 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. With respect to pending litigation, the Municipality has reported liabilities of \$150,000 in the government wide statement of net assets.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

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 counsels with the information currently available can not determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 20 – ACCOUNTING CHANGES AND RESTATEMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	HUD Funds	Loans Fund	Other Governmental Fund
Fund balance, beginning	\$ 1,139,700	\$ 1,527,504	\$ 4,801,931
Major fund reclassification	(1,139,700)		1,139,700
Federal grant deferred revenue reclassification			231,695
Adjusted cash balance correction	-	102,346	-
Fund balance, beginning as restated	\$ -	\$ 1,629,850	\$ 6,173,326

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

Description	Total
Net assets, beginning	\$ 18,980,960
Federal grant deferred revenue reclassification	231,695
Adjusted cash balance correction	102,346
Adjustment to capital assets	(535,722)
Net assets, beginning as restated	\$ 18,779,279

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 21 – SUBSEQUENT EVENTS

A. THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The American Recovery and Reinvestment Act of 2009 (ARRA), is an economic stimulus package endorsed by the President of the United States of America, and approved by Congress. This Act is designed primarily to combat the rising unemployment trends, put more money in the hands of consumers, and reduce the likelihood that state and local governments will need to raise taxes significantly. According to the White House press release, the legislation will do the following:

- ❖ Create or save 3.5 million jobs in the next 2 years;
- ❖ Provide direct tax relief to working and middle class families;
- ❖ Double the U.S. renewable energy generating capacity over 3 years;
- ❖ Stimulate private investment in renewable energy through tax credits and loan guarantees;
- ❖ Invest \$150 billion in U.S. infrastructure projects, and;
- ❖ Provide funds to U.S. state and local governments to support health and education programs.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5.6 million in grants and is eligible to obtain additional funding through other competitive federal programs. Therefore, the Municipality will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

B. INVESTMENT ON OUR INFRASTRUCTURE PLAN (PINI)

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 9, which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The following are the objectives of this Plan:

- ❖ Provide an immediate stimulus to the economy through funding of infrastructure Projects Island wide, and;
- ❖ Speed-up priority infrastructure projects in all municipalities of Puerto Rico.

In the first phase, the municipalities can use the funds for the following:

- ❖ Funding of essential infrastructure, and;
- ❖ Those municipalities with deficit can use those them to partially or fully liquidate existing debts with governmental agencies.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget</u>
			<u>(See Note A)</u>	<u>Positive</u>
				<u>(Negative)</u>
REVENUES:				
Property taxes	\$ 1,251,270	\$ 1,065,154	\$ 1,065,154	\$ -
Volume of Business Taxes	1,200,000	1,200,000	1,161,131	(38,869)
Sales Taxes	150,000	266,000	267,795	1,795
Intergovernmental	4,727,289	4,986,553	5,264,083	277,530
Licenses, permits and other local taxes	102,000	134,520	132,231	(2,289)
Rent of Property	60,000	96,101	97,073	972
Interests	60,000	208,453	209,618	1,165
Miscellaneous	<u>367,000</u>	<u>856,696</u>	<u>848,937</u>	<u>(7,759)</u>
Total revenues	<u>7,917,559</u>	<u>8,813,477</u>	<u>9,046,022</u>	<u>232,545</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
Mayor and Municipal Legislature	886,439	968,433	966,387	2,046
General government	2,275,769	3,337,761	3,217,297	120,464
Public safety	656,567	435,951	436,804	(853)
Public works	1,248,393	1,652,622	1,526,264	126,358
Culture and Recreation	731,469	571,877	559,117	12,760
Health and Sanitation	824,115	717,206	665,604	51,602
Urban Development	140,684	138,168	112,205	25,963
Human Service and Welfare	952,045	789,381	755,764	33,617
Transfer to other funds	<u>202,078</u>	<u>202,078</u>	<u>184,276</u>	<u>17,802</u>
Total expenditures, encumbrances and other financing uses	<u>7,917,559</u>	<u>8,813,477</u>	<u>8,423,718</u>	<u>389,759</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 622,304</u>	<u>\$ 622,304</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

**NOTE TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE A – EXPLANATION OF DIFFERENCE BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENSES

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	\$ 9,046,022
Differences-budget to GAAP:	
GAAP adjustments to revenues	<u>(319,276)</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 8,726,746</u>

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	\$ 8,423,718
Differences-budget to GAAP:	
Prior year expenditure are not outflows of budgetary resources, but are expenditure for financial purposes	384,182
Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes	(310,470)
Transfer to other funds are outflows of budgetary resources but are not expenditure for financial reporting purposes	(184,276)
Non-budgetary expenditures	<u>364,514</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 8,677,668</u>

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2009 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 72,180
Water and Waste Disposal System for Rural Communities	10.760		<u>64,040</u>
Total U.S. Department of Agriculture			<u>136,220</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers Program	14.871		16,710
Indirect Programs:			
Pass-Through State - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State’s Program	14.228	08-FC-AB 07-FC-AB 06-FC-AB 05-FC-AB 04-FC-AB 03-FC-AB 02-FC-AB 01-FD	621,569
Community Development Block Grants – Section 108 Loan Guarantees	14.248		247,609
Pass-Through State – Office of Department of Family:			
Emergency Shelter Grants	14.231	S-05-DC-72-0001	16,772
Pass-Through State – Department of Housing:			
Home Investment Partnerships Program	14.239	Not Available	130,941
Pass-Through State – Department of Health of Puerto Rico:			
Housing Opportunities for Persons with AIDS	14.241	2008-DS-0620	15,675

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-Through State – Puerto Rico Housing Administration: Public and Indian Housing	14.850	RQ-3040 RQ-5233 RQ-5247 RQ-5270	<u>444,597</u>
Total U.S. Department of Housing and Urban Development			<u>1,493,873</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-Through Office of the Governor:			
Public Assistant Grant	83.544	FEMA1247DR-PR	373,927
Public Assistant Grant	97.036	Not Available	<u>118,277</u>
Total U.S. Department of Homeland Security:			<u>492,204</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE			
Pass-Through Office of Governor, Regional Elderly Office:			
Special Program for Aging, Title III, Part B	93.045	Not Available	177,487
Pass-Through – "Instituto de Servicios Comunes, Inc.":			
Community Services Block Grant	93.569	Not Available	6,743
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant	93.575	Not Available	<u>177,989</u>
Total U.S. Department of Health and Human Service:			<u>362,219</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,484,516</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

1. 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.
2. 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.
3. 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 subrecipient. 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, 2009 was \$3,010,000.

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. Ortíz 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, 2009, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated January 1, 2010. 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 the capital assets including the infrastructure. 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. 09-II-01 and 09-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 item 09-II-02 to be material weaknesses.

**P. O. Box 352, Palmer Street, No. 66 North, Guayama, P.R. 00785
Tel. (787) 864-5490 • Fax (787) 864-5590 • cpapedroc@hotmail.com**

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 (CONTINUED)

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 January 1, 2010.

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.


Pedro C. Ortiz Ledée, CPA
License Number 5200
Expires on December 1, 2011

Guayama, Puerto Rico
January 1, 2010



Pedro C. Ortíz Ledée

Certified Public Accountant

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

**To the Honorable Mayor and
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 U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. 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 09-III-03, 09-III-04, 09-III-07, 09-III-08 and 09-III-09 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Activities, Cash Management, Procurement, Suspension and Debarment and Program Income 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 09-III-05 and 09-III-06 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Cash Management and Period of Availability that are applicable to its Public and Indian Housing. 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, 2009.

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

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.

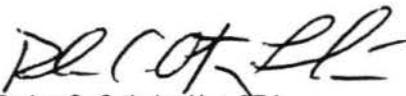
My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed 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 09-III-03 through 09-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 09-III-03, 09-III-04, 09-III-05, 09-III-06, 09-III-08 and 09-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.


Pedro C. Ortiz Ledée, CPA
License Number 5200
Expires on December 1, 2011

Guayama, Puerto Rico
January 29, 2009



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified for fund financial statement and adverse for governmental-wide financial statements	
Internal control over financial reporting:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Significant deficiencies identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statements noted?	Yes	No <input checked="" type="checkbox"/>

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Significant deficiencies identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
Type of auditor's report issued on compliance for major programs:	Qualified, except for unqualified for Public Assistant Grant	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <input checked="" type="checkbox"/>	No

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
83.544	
97.036	Public Assistant Grant
14.228	Community Development Block Grants – State's Program
14.850	Public and Indian Housing

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes No <input checked="" type="checkbox"/>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	09-II-01
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CONDITION	The Municipality did not maintain an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles (GAAP).
CONTEXT	<p>During my examination of the accounting cycle, I noted that the Municipality has not established nor acquired an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with (GAAP). The accounting records are maintained in the cash and budgetary basis and at the end of year, personnel of the finance department and external consultants summarized in electronic worksheets the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long term-debts. These worksheets are used for the preparation of the financial statements.</p> <p>Also, I noted the following conditions during my evaluation of the accounting cycle:</p> <ul style="list-style-type: none">a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems does not provide for a self balancing set of accounts for each fund operated by the Municipality;b. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds.
CRITERIA	Article 8.010 (b) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) states that uniform accounting system used by the Municipality must produce reliable reports and financial statements, provide complete information about the results of operations of the Municipality and include the necessary internal controls to account for all funds, capital assets and other assets.
CAUSE	The Municipality has not established effective internal control procedures over the preparation of the financial statements and the transactions recorded on its accounting records.
EFFECT	The Municipality is not in compliance with Article 8.010 (b) (c) of the State Law Number 81 of August 30, 1991.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	09-II-01 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
RECOMMENDATION	I recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system that provides for the preparation of financial statements in accordance with (GAAP).
MANAGEMENT RESPONSE	Municipality's Mayor instructed the Finance Director to establish the necessary internal control and procedures in order to maintain a complete accounting system that provides for the preparation of financial statements in accordance with (GAAP). Implementation date: June 30, 2010 Responsible person: Mrs. María Medina- Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	09-II-02
REQUIREMENT	ACCOUNTING RECORDS- CAPITAL ASSETS
CONDITION	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
CONTEXT	During my examination of the property records, I noted that the Municipality does not have adequate systems to account for capital assets, including the infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded certain infrastructure assets, accordingly, has not recorded depreciation expenses for those assets. 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).
CRITERIA	Article 8.010 (c) (3) 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.
CAUSE	The Municipality did not maintain an adequate control of the accountability of the capital assets, including the infrastructure.
EFFECT	The Municipality is not in compliance with Article 8.010 (c) (3) of the State Law Number 81 of August 30, 1991.
RECOMMENDATION	I recommend management and the Property Division of the Municipality to make an inventory of the capital assets in order to reconcile with the capital assets subsidiary ledger. In addition, the Municipality should implement adequate internal control procedures to improve the accountability of infrastructure assets.
MANAGEMENT RESPONSE	Municipality's Mayor gave instructions to the Finance Director to make an inventory of the capital assets in order to reconcile with the capital assets subsidiary ledger and we will implement adequate internal control procedures to improve the accountability of infrastructure assets.

Implementation date: June 30, 2010

Responsible person: Mrs. María Medina- Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-03
FEDERAL PROGRAM	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
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE ACTIVITIES- HOUSING REHABILITATION AND HOUSEKEEPING SERVICES
CONDITION	The Program failed to maintained appropriate supporting documentation regarding the Housing Rehabilitation and Housekeeping Services participant's files.
CONTEXT	As part of my Grant Disbursement test, I examined ten (10) Housing Rehabilitation participant's files and thirteen (13) Housekeeping Services participant's files and noted that these files are not in accordance with the Federal regulations and the operational guides, provided by the pass-through agency.
CRITERIA	Code of Federal Regulation 24 Section 570.506 (b) (9) established the documentation that the Program shall maintain for residential rehabilitation. The Operational Guide of Housing Rehabilitation (the guide) provided by the Office of Commissioner of Municipal Affairs, the pass through entity, stated that the Program has to conduct an initial unit inspection to determine if the unit is eligible to be rehabilitating under the criteria of the program. In addition, the guide stated that the Program has to conduct an intermediate and a final inspection to determine if the unit is being rehabilitated and that the rehabilitation has been completed, respectively. In addition, Code of Federal Regulations 24, Section 570.484 states that the Program must assure that the program funds benefit very low, low and moderate income persons and retain documentation justifying its certification. Also, the Program has an operational guide " <i>Manual Operacional Programa Auxiliares del Hogar</i> ", that includes all procedures and program's requirements for housekeeping services.
CAUSE	The Program's internal controls procedures failed to assure that all required information regarding participants were obtained and the required interviews, visits and inspections to monitor the services were realized in accordance with the pass-through operational guides.
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Sections 570.506 (b) (9) and 570.484 and with the operational guides of Housing Rehabilitation and Housekeepers Services provided by the pass-through entity.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-03 (CONTINUED)
FEDERAL PROGRAM	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
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE ACTIVITIES- HOUSING REHABILITATION AND HOUSEKEEPING SERVICES
RECOMMENDATION	I recommend management to implement adequate internal controls and procedures in order to assure that the program staff completes all the required forms and also, inspect and monitor the services in accordance with the regulations and the operational guides.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Federal Program Director named a Home and Rehabilitation Coordinator to complete all the required forms and to inspect and monitor the services in accordance with the regulations and the operational guides. Implementation date: March 31, 2010 Responsible person: Mrs. María M. Ortiz- Federal Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-04
FEDERAL PROGRAMS	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
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.
CONTEXT	During my Cash Management test, I noted that during the fiscal year 2008-2009, the Municipality maintained an average monthly balance of approximately \$31,623 in Program's books. In addition, I noted that sometimes the Program requested funds to the pass-through entity that were not disbursed during the fiscal year or were not disbursed on a reasonable lapse of time.
CRITERIA	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.
CAUSE	The Program 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.
EFFECT	The Program is not in compliance with Code of Federal Regulations 24, Subpart I, CFR 570.489 (c) (1).
RECOMMENDATION	I recommend management to strengthen its disbursements procedures to minimize the time between the transfer of funds by the pass-through entity the disbursements made by the Municipality.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Municipality's Mayor gave instructions to the Finance Director to establish the necessary internal control to strengthen its disbursement procedures to minimize the time between the transfer of funds by the pass-through entity and disbursements made by the Municipality.

Implementation date: March 31, 2010

Responsible person: Mrs. Maria Medina- Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-05
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.
CONTEXT	During my Cash Management test, I noted that during the fiscal year 2008-2009, the Municipality maintained an average balance of approximately \$137,076 in the Program's books.
CRITERIA	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.
CAUSE	The Program did not maintain appropriate cash management procedures in order to disburse the funds immediately after the advances were received.
EFFECT	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, CFR 570.489 (c) (1).
RECOMMENDATION	I recommend management to strengthen its disbursements procedures to minimize the time between the transfer of funds by the pass-through entity and disbursements made by the Program.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Municipality's Mayor gave instructions to the Finance Director to establish the necessary internal control to strengthen its disbursement procedures to minimize the time between the transfer of funds by the pass-through entity and disbursements made by the Municipality. Implementation date: March 31, 2010 Responsible person: Mrs. María Medina- Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-06
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PERIOD OF AVAILABILITY
CONDITION	The Program maintains in its books, excess of funds, from current and prior years, that were not reimbursed to the pass-through entity.
CONTEXT	During my examination of the accounting records, I noted that during the fiscal year 2008-2009 the Program, received \$486,825 in advances and reported \$456,270 of cumulative expenses in the June 30, 2009 monthly report. According to this information, the Program generated in this fiscal year, economies in the amount of \$30,555. My examination reveals that the Program did not reimburse these economies to the pass through entity.
CRITERIA	Section 15.2 of the Contract between the Municipality and the Puerto Rico Public Housing Administration (PRPHA), states that any economies that the Program may generate must be returned to the PRPHA during the following 45 days after the PRPHA fiscal years ends.
CAUSE	The Program failed to account adequately the economies generated during the fiscal year, in order to reimburse any excess to the pass through agency.
EFFECT	The Program is not in compliance with Section 15.2 of the Contract between the Municipality and the PRPHA.
RECOMMENDATION	The Program should implement adequate internal controls to assure that the economies generated, during the fiscal years, if any, are reimburse to the pass through entity.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Municipality's Mayor gave instructions to the Federal Program Director to implement adequate internal controls to assure that the economies generated during the fiscal years are reimburse to the pass through agency.

Implementation date: March 31, 2010

Responsible person: Mrs. María Medina- Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-07
FEDERAL PROGRAM	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
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
CONDITION	The Program did not included in the contracts, all the clauses required by the Federal regulation.
CONTEXT	<p>During my contract's provisions test, I examined one (1) professional services contract and one (1) construction contract to verify the completeness of its clauses and noted that the following clauses were missing:</p> <ul style="list-style-type: none">❖ One (1) contract did not include a provision for granting access to GAO or other federal agency, books and other documents;❖ Two (2) contracts did not include a provision for retention of all required records for three (3) years;❖ The construction contract did not include a provision for compliance with the Energy Policy and Conservation Act (Pub L. 94-163, 89 Stat 871);❖ The construction contract did not include a provision indicating that the organization and its principals are not suspended or debarred.
CRITERIA	Code of Federal Regulations 24, Subpart C, Section 85.36 (i) (1-13) establishes all the required clauses that contracts should include.
CAUSE	The Program did not maintain appropriate procurement standard procedures to assure that contracts include all the required clauses.
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.36 (i) (1-13).
RECOMMENDATION	I recommend management to update contract model according with the Federal requirements.
QUESTIONED COSTS	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-07 (CONTINUED)
FEDERAL PROGRAM	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
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
MANAGEMENT RESPONSE	<p>The Municipality's Mayor gave instructions to the Federal Program Director to make a new contract with all the clauses in accordance with federal requirements.</p> <p>Implementation date: March 31, 2010 Responsible person: Mrs. Maria M. Ortiz- Federal Program Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-08
FEDERAL PROGRAM	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
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT
CONDITION	The Program formalized a contract and did not verify if the contractor was suspended or debarred by the Federal government.
CONTEXT	During my Procurement, Suspension and Debarment test, I examined one (1) construction contract in the amount of \$161,241, formalized during fiscal year 2008-2009 and found that there was no evidence that the Program verify the Excluded Parties List System (EPLS) maintained by the General Service Administration, nor obtained a certification from the contractor, to assure that the contractor was not suspended or debarred.
CRITERIA	Code of Federal Regulations 2, Part 180 state that contractors receiving individual awards for \$25,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. This certification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.
CAUSE	The Program is not verifying against the EPLS, that the contracts in excess of \$25,000, awarded to those contractors, are not suspended or debarred parties.
EFFECT	The Program is not in compliance with Code of Federal Regulations 2, Part 180.
RECOMMENDATION	I recommend management to obtain the EPLS in printed or electronic format, every time the Municipality formalized a contract with Program's funds.
MANAGEMENT RESPONSE	The Municipality's Mayor gave instructions to the Federal Program Director to obtain the EPLS in printed or electronic format to formalize a contract with Program's funds.

Implementation date: March 31, 2010

Responsible person: Mrs. Maria Medina- Finance Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-09
FEDERAL PROGRAMS	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
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROGRAM INCOME
CONDITION	The Program did not comply with the Program Income requirement.
CONTEXT	During my Program Income test, I noted that the transactions of CDBG's program income were not recorded in the accounting records of the Program.
CRITERIA	Code of Federal Regulations 24, Subpart J, Section 570.504 (a), stated that the receipts 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.
CAUSE	The Program does not maintained appropriate accounting records over the program income transactions.
EFFECT	The Program 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).
RECOMMENDATION	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 Program.
QUESTIONED COSTS	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-09
FEDERAL PROGRAMS	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
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROGRAM INCOME
MANAGEMENT RESPONSE	<p>The Municipality's Mayor gave instructions to the Federal Program Director to implement adequate procedures to ensure that the financial transactions related to the program income is recorded in the accounting records of the Program.</p> <p>Implementation date: March 31, 2010 Responsible person: Mrs. María M. Ortiz- Federal Program Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
08-III-04	Activities Allowed or Unallowed	14.248	\$ 63,000	Full corrective action was taken.
08-III-05	Allowable Activities – Housing Rehabilitation	14.228	None	No corrective action has been taken. Finding Reference 09-III-03.
08-III-06	Allowable Activities – Housekeeping Service	14.228	None	No corrective action has been taken. Finding Reference 09-III-03.
08-III-07	Cash Management	14.228 14.239	None	No corrective action has been taken. Finding Reference 09-III-04 and 09-III-05.
08-III-08	Davis-Bacon Act	14.228 14.239	None	No corrective action has been taken. There were no transactions related to this finding during fiscal year 2008-2009.
08-III-09	Procurement Standards- Contract Clauses	14.228 14.248	None	No corrective action has been taken. Finding Reference 09-III-07.
08-III-10	Procurement and Suspension and Debarment	14.228 14.248	None	No corrective action was taken. No professional contracts were identified during fiscal year 2008-2009.
08-III-11	Reporting	14.228 14.248	None	Full corrective action was taken.
08-III-12	Cash Management	14.850	None	Partially corrective action has been taken. Finding Reference 09-III-05.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
08-III-13	Eligibility	14.850	None	Full corrective action was taken.
08-III-14	Period of Availability	14.850	None	No corrective action has been taken. Finding Reference 09-III-06.
08-III-15	Reporting	14.850	None	Full corrective action was taken.
08-III-16	Procurement Standards	83.544 97.036	None	No corrective action has been taken. There were no transactions related to this finding during fiscal year 2008-2009.
07-III-04	Cash Management	14.228 14.239	None	No corrective action has been taken. Finding Reference 09-III-04 and 09-III-05.
07-III-05	Davis-Bacon Act	14.239	None	No corrective action has been taken. There were no transactions related to this finding during fiscal year 2008-2009.
07-III-06	Procurement and Suspension and Debarment – Contract Clauses	14.239 83.544 97.036	None	No corrective action has been taken. There were no transactions related to this finding during fiscal year 2008-2009.
07-III-07	Procurement and Suspension and Debarment – Procurement Process	83.544 97.036	None	No corrective action has been taken. There were no transactions related to this finding during fiscal year 2008-2009. The Mayor gave instructions to the Director of Federal Programs to request proposal from an adequate number of providers to strengthen the selection of professional services.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
07-III-08	Program Income	14.228	None	No corrective action has been taken. Finding Reference 09-III-09.
07-III-09	Reporting	14.228	None	Full corrective action was taken.
06-III-01	Cash Management – Average Balance and Days Elapsed	14.228	None	The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
05-III-01	Activities Allowed or Unallowed	14.248	\$ 176,017	The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
04-III-01	Activities Allowed or Unallowed	14.248	\$ 152,776	The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
04-III-02	Procurement Standards – Contract Clauses	14.248	None	The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
03-III-04	Procurement Standards – Contract Clauses	14.248	None	The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
02-III-04	Procurement Standards – Contract Clauses	14.248	None	The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.


TRAMITE DE CORRESPONDENCIA

Dirigido a: _____

Fecha: 24 Marzo/10

Hora: _____

Oficina del Comisionado

- | | |
|--|---|
| <input type="checkbox"/> Oficina del Comisionado | <input type="checkbox"/> Asesoramiento Legal |
| <input type="checkbox"/> Auditora Interna | <input type="checkbox"/> Oficial de Comunicaciones |
| <input type="checkbox"/> Asesor Convenio Colectivo | <input type="checkbox"/> Programa de Justicia Juvenil |

Comisionados Auxiliares

- | | |
|--|--|
| <input type="checkbox"/> Programas Federales | <input checked="" type="checkbox"/> Area de Asesoramiento,
Reglamentación e Int. Fiscal |
| <input type="checkbox"/> Sistemas de Información | <input type="checkbox"/> Organizaciones Comunitarias |
| <input type="checkbox"/> Código Orden Público | <input type="checkbox"/> Hogar Propio |
| <input type="checkbox"/> FEM | |

 Administración

(Para uso de la Oficina de Administración)

- | | |
|--|--|
| <input type="checkbox"/> Recursos Humanos | <input type="checkbox"/> Finanzas |
| <input type="checkbox"/> Servicios Generales | <input type="checkbox"/> Presupuesto/Planificación |
| <input type="checkbox"/> Informática | |

TRÁMITE:

- | | | | |
|------------------------------------|-----------------------------------|--|---------------------------------|
| <input type="checkbox"/> Contestar | <input type="checkbox"/> Informar | <input type="checkbox"/> Discutir | <input type="checkbox"/> Firmar |
| <input type="checkbox"/> Revisar | <input type="checkbox"/> Aprobar | <input type="checkbox"/> Acción Pertinente | |

Asunto: _____

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

HOJA DE COTEJO INFORME DE AUDITORIA (SINGLE AUDIT)

MUNICIPIO JAYUYA

FECHA DEL INFORME 24 de marzo de 2010

PERIODO 01 de julio de 2008 al 30 de junio de 2009

FIRMA Pedro C. Ortiz Ledee

RESUMEN DE LOS RESULTADOS DEL REMOTO ("DESK REVIEW")

En mi opinión:

1. El informe reúne los "Standards" generalmente aceptados para auditorías gubernamentales, excepto por (marcar si es apropiado):

Falta reunir los requisitos informativos concernientes:

Informe Financiero	()
Informe de Cumplimiento	()
Informe de Control Interno	()
Posibles hallazgos no identificados en el Informe	()
Otros (Especifique)	()

2. El informe reúne los requisitos de la Circular OMB-A- 133, excepto por (marcar si es apropiado) :

Falta incluir todos los todos los fondos "CDBG" ()

3. Clasificación de la Opinión:

Unqualified	()
Qualified	()
Disclaimer	()

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

HOJA DE COTEJO INFORME DE AUDITORIA (SINGLE AUDIT)

MUNICIPIO JAYUYA

FECHA DEL INFORME 24 de marzo de 2010

PERIODO 01 de julio de 2008 al 30 de junio de 2009

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RESUMEN DE LOS RESULTADOS DEL REMOTO ("DESK REVIEW")

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Posibles hallazgos no identificados en el Informe	()
Otros (Especifique)	()

2. El informe reúne los requisitos de la Circular OMB-A- 133, excepto por (marcar si es apropiado) :

Falta incluir todos los todos los fondos "CDBG" ()

3. Clasificación de la Opinión:

Unqualified	()
Qualified	()
Disclaimer	()

Resumen de Señalamientos de Fondos Federales:

Resumen de Señalamientos años anteriores:
