

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

**MUNICIPIO DE JUANA DÍAZ
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009**

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**



SINGLE AUDIT REPORT
For the Fiscal Year Ended June 30, 2009

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**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Single Audit Report
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Pedro C. Ortiz Ledée

Certified Public Accountant

INDEPENDENT AUDITORS' REPORT

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

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Municipality of **Juana Díaz** (Municipality), as of and for the fiscal year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of Villas del Parque (FmHA Project No. 63-033-0690660049), a business-type activity (proprietary fund) of the Municipality which Single Audit report reflect total assets, liabilities, net assets, revenues and expenses of \$1,497,520, \$1,347,979, \$149,541, \$415,696 and \$479,617, respectively, as of and for the fiscal year ended June 30, 2009. Those financial statements were audited by other auditors whose report thereon has been furnished to me, and my opinion, insofar as it relates to the amounts included for Villas del Parque, is based on the report of the other auditors.

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

As more fully described in Note 8, the Municipality did not have complete, updated and accurate accounting records of capital assets of governmental activities at June 30, 2009 which are recorded in the accompanying statement of net assets for \$63,803,701, net of accumulated depreciation of \$22,666,969.

As more fully described in Note 12, the Municipality did not comply with the requirements established by Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*, issued by the Governmental Accounting Standards Board and the regulations set forth by the U.S. Environment Protection Agency in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991.

At June 30, 2009, the accompanying statement of net assets does not include the required liability for closure and post closure care costs of the Municipality's solid waste landfill using current costs allocated based on the actual landfill capacity used at June 30, 2009. Because of this departure from accounting principles generally accepted in the United States of America, the liabilities and net assets reported in the accompanying statement of net assets – Governmental activities are understated and overstated, respectively, for significant amounts that could not be determined at June 30, 2009. In addition, the expenses and the net result of operations reported in the accompanying statement of activities – governmental activities are also understated and overstated, respectively, for amounts that could not be determined for the fiscal year ended June 30, 2009.

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As discussed in Note 10(h), the Municipality did not comply with the requirements established by Statement No. 16, *Accounting for Compensated Absences*, issued by the Governmental Accounting Standards Board. In addition, the Municipality did not have complete, accurate and updated records of compensated absences at June 30, 2009. Furthermore, the liability for compensated absences, recorded in the accompanying statement of net assets for \$2,336,991, does not include the accumulated compensatory time of all employees of the Municipality. Because of this departure from accounting principles generally accepted in the United States of America, the liabilities and net assets in the accompanying statement of net assets – governmental activities are understated and overstated, respectively, for significant amounts that could not be determined at June 30, 2009. In addition, the expenses and the net result of operations in the accompanying statement of activities – governmental activities are also understated and overstated, respectively, for amounts that could not be determined for the fiscal year ended June 30, 2009.

In my opinion, because of the effects of the matter discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Municipality, as of June 30, 2009, or the changes in financial position, thereof for the year then ended.

In addition, in my opinion, based on my audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Municipality, as of June 30, 2009 and the changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In addition, in my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, proprietary fund and aggregate remaining fund information of the Municipality, as of June 30, 2009 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 2, 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 5 through 17 and 82 through 83, 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 and the other auditors 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.

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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 Ledée, CPA
License Number 5200,
Expires on December 1, 2011

Guayama, Puerto Rico
January 2, 2010



Management's Discussion and Analysis
Fiscal Year Ended June 30, 2009

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As management of the Municipality of Juana Díaz (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements as of and for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2008, seventh year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments.*" 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;
- provides for an evaluation of its financial condition as of the end of fiscal year 2008-2009 compared with prior year results;
- identification of uses of funds in the financing of the Municipality's variety of activities and;
- asses management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- Total Net Assets of the Municipality Governmental Activities as of the end of the indicated fiscal year amounted to \$44,919,275 or fifty seven percent (57%) of total assets.
- The Municipality's Governmental Activities total Net Assets increased by \$3,519,239 or a eight (8%) from the prior fiscal year-end balance.
- As reflected in the Statement of Activities, the Governmental Activities generated revenues contributed to the increase in the Net Assets Figure by \$3,519,239.
- At the end of fiscal year 2009, total liabilities of the Municipality Governmental Activities amounted to \$33,297,052. Out of said amount, \$27,573,833 corresponded to long-term liabilities of which \$17,365,000 represented the outstanding balance of bonds issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.

Governmental Funds' Highlights:

- As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$7,661,456 or \$2,628,984 under the similar figure corresponding to the previous fiscal year 2007-2008.

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- At the end of the current fiscal year, the deficit of the Municipality's General Fund amounted to \$1,362,426, or \$788,692 more than the previous fiscal year.
- The actual General Fund budgetary activities resulted in an unfavorable balance of \$935,087.

Proprietary Fund Highlights:

- The total restricted fund net assets of the proprietary fund amounted to \$149,541, of which \$46,256 are invested in capital assets, net of related debt, while \$103,285 are restricted for the operations of federally funded programs.
- The total restricted fund net assets of the proprietary fund decreased by \$63,921 during the fiscal year ended on June 30, 2009

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2009. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

The Municipality's basic financial statements include three components: (1) government-wide financial statements (GWFS), (2) fund financial statements (FFS), and (3) notes to the basic financial statements (NBFS). This report also contains additional required information in addition to the basic financial statements themselves. These components are described below.

The basic financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental and proprietary funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below.

a) Government-Wide Financial Statements

The GWFS are composed of: (1) the statements of net assets (SNA) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management

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to determine the economic condition at June 30, 2009. The GWFS are prepared using methods that are similar to those used by most private businesses.

Both of the government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental activities (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

1. Statement of Net Assets

The purpose of SNA is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

The difference between the Municipality's total assets and total liabilities reported in SNA is presented as *net assets*, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net assets, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

2. Statement of Activities

The SA presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2009, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although SA looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as *net change in net assets*, which is essentially the same concept.

The focus of SA is on the *net cost* of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from

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general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

GWFS and FFS present all of the Municipality's governmental and business-type activities, which are supported mostly by taxes, intergovernmental revenues (such as federal and state grants and contributions), and charge for services. All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; public housing and welfare; and economic and urban development.

b) Fund Financial Statements

The Municipality's FFS consist of: (1) the balance sheet – governmental funds, (2) the statement of revenues, expenditures and changes in fund balances – governmental funds, (3) the statement of net assets – proprietary fund, (4) the statement of revenues, expenses and changes in fund net assets - proprietary fund, and (5) the statement of cash flows – proprietary fund. These financial statements report the financial position, the results of operations and cash flows of the Municipality's governmental and proprietary funds, with an emphasis on the Municipality's major governmental and proprietary funds.

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 most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions. All of the funds of the Municipality can be divided into two categories: governmental funds and proprietary funds.

1. Governmental funds

Governmental funds are used to account for most of the services provided by the Municipality. These funds are used to account for essentially the same functions reported as governmental activities in the GWFS. Unlike GWFS, the focus of governmental funds in the FFS is directed to specific activities of the Municipality rather than the Municipality as a whole; therefore, governmental funds in FFS report the Municipality's operations in more detail than the GWFS.

Governmental funds in FFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) debt service fund, (3) special revenue funds, (4) capital projects funds and (5) permanent funds.

Governmental funds FFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, governmental funds FFS focus on near-term inflows and

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outflows of expendable financial resources, consequently, they measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include capital assets within a very short period of time, but do not include capital assets such as land and buildings. Governmental fund liabilities generally include amounts that normally are going to be paid within a short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is reported as the fund balance or deficit, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year.

Because the focus of governmental funds FFS is narrower than that of the GWFS, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and the governmental activities reported in the government-wide financial statements.

The Municipality has five major governmental funds. Each major fund is presented in a separate column in the balance sheet – governmental funds and the statement of revenues, expenditures and changes in fund balances – governmental funds. The six major governmental funds are: (1) general fund, (2) debt service fund, (3) head start fund, (4) community development block grant fund, (5) legislative joint resolutions fund, and (6) capital improvement bond fund.

2. Proprietary fund

The proprietary fund is a fund used to report the financial position, results of operation and cash flows of Villas del Parque (FmHA Project No. 63-033-0690660049), is a housing development consisting of eighty-four (84) dwelling units located in Juana Díaz. The project is owned by the Municipality, but its operations are carried out by a private management agent unrelated to the Municipality. The housing development project of Villas del Parque has been designed to assist various segments of the general public in obtaining adequate and reasonable priced rental housing. The project operates under financing through the Section 8 New Construction and Substantial Rehabilitation Program of the U.S. Department of Housing and Urban Development and the Section 515 Rural Rental Housing Loans Program of the U.S. Department of Agriculture. The purpose of Villas del Parque is to provide adequate housing to low-income residents of the Municipality.

The activities of Villas del Parque have been reported as a proprietary fund in the accompanying basic financial statements since GAAP permits the use of enterprise funds to report any activity for which a fee is charged to external users of goods or services, regardless of whether the government intends to fully recover the cost of the goods or services provided. Thus, it is common to use proprietary fund reporting to account for services where the government intends to recover only a portion of its costs through fees or user charges.

Proprietary funds provide the same type of information as the GWFS, but in more detail.

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c) Notes to Basic Financial Statements

The NBFS provide additional information that is essential for a full understanding of the data provided in the GWFS and FFS. The NBFS can be found immediately following the basic financial statements.

d) Other Supplementary Information

The basic financial statements are followed by a section of other supplementary information consisting of budgetary comparison schedule – general fund.

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FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Juana Díaz, governmental activities assets exceeded total liabilities by \$44,919,275 at the end of 2009, as compared with \$41,400,036 at the end of the previous year, as restated. In the case of the Municipality of Juana Díaz, business-type activities assets exceeded total liabilities by \$149,541 at the end of 2009, as compared with \$213,462 at the end of the previous year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$3,519,239 increment reflected in the governmental activities Net Assets figure, and the \$63,921 decrease reflected in the business-type activities Net Assets figure

| | <u>Governmental activities</u> | | <u>Business-type activities</u> | | <u>Total</u> | |
|--|--------------------------------|--------------------------|---------------------------------|--------------------------|--------------------------|--------------------------|
| | <u>June 30, 2009</u> | <u>June 30, 2008</u> | <u>June 30, 2009</u> | <u>June 30, 2008</u> | <u>June 30, 2009</u> | <u>June 30, 2008</u> |
| Assets: | | | | | | |
| Current assets | \$14,309,495 | \$17,902,442 | \$139,683 | \$131,817 | \$14,449,178 | \$18,034,259 |
| Non-current assets: | | | | | | |
| Capital assets, net | 63,803,701 | 57,472,225 | 1,357,837 | 1,452,191 | 65,161,538 | 58,924,416 |
| Other non-current assets | 103,131 | 113,055 | - | - | 103,131 | 113,055 |
| Total assets | <u>78,216,327</u> | <u>75,487,722</u> | <u>1,497,520</u> | <u>1,584,008</u> | <u>79,713,847</u> | <u>77,071,730</u> |
| Liabilities: | | | | | | |
| Current liabilities, excluding long-term obligations | 5,723,219 | 6,524,684 | 36,398 | 35,163 | 5,759,617 | 6,559,847 |
| Long-term obligations: | | | | | | |
| Due within one year | 3,094,155 | 1,771,787 | 28,492 | 21,946 | 3,122,647 | 1,793,733 |
| Due after one year | 24,479,678 | 25,834,377 | 1,283,089 | 1,313,437 | 25,762,767 | 27,147,814 |
| Total liabilities | <u>33,297,052</u> | <u>34,130,848</u> | <u>1,347,979</u> | <u>1,370,546</u> | <u>34,645,031</u> | <u>35,501,394</u> |
| Net assets (deficit): | | | | | | |
| Invested in capital assets, net of related debt | 45,406,058 | 40,511,378 | 46,256 | 116,808 | 45,452,314 | 40,628,186 |
| Restricted | 5,430,493 | 5,112,776 | 103,285 | 96,654 | 5,533,778 | 5,209,430 |
| Unrestricted | (5,917,276) | (4,224,118) | - | - | (5,917,276) | (4,224,118) |
| Total net assets | <u>\$44,919,275</u> | <u>\$41,400,036</u> | <u>\$149,541</u> | <u>\$213,462</u> | <u>\$45,068,816</u> | <u>\$41,613,498</u> |

The Statement of Activities reflects that for fiscal year 2009, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$3,519,239 in governmental activities, and (\$63,921) in business-type activities. Approximately thirty two percent (32%) of the Municipality's governmental activities total revenue came from taxes, while sixty three percent (63%) resulted from grants and contributions, including federal aid. In the case of the business-type, approximately ninety four percent (94%) of total revenues resulted from federal grant. The Municipality's governmental and business-type activities expenses included items such as general government, urban and economic development, health and sanitation, public safety, public housing and welfare, culture, recreation and education, and interest o long term obligations.

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Approximately twenty one percent (21%) of total expenses resulted from general government, eighteen percent (18%) of total expenses resulted from urban and economic development, five percent (5%) of total expenses resulted from health and sanitation, fourteen percent (14%) of total expenses resulted from public safety, seven percent (7%) of total expenses resulted from public housing and welfare, thirty percent (30%) of total expenses resulted from culture, recreation and education, while five percent (5%) of total expenses resulted from interest on long term obligations. The following is a condensed presentation of the Municipality's results of operations as reported in the statement of activities for the fiscal years ended June 30, 2009 and 2008:

| | Governmental activities | | Business-type activities | | Total | |
|---|-------------------------|---------------------|--------------------------|------------------|---------------------|---------------------|
| | June 30, 2009 | June 30, 2008 | June 30, 2009 | June 30, 2008 | June 30, 2009 | June 30, 2008 |
| Program revenues: | | | | | | |
| Program-specific operating grants and contributions | \$7,690,092 | \$7,883,567 | \$388,737 | \$361,830 | \$8,078,829 | \$8,245,397 |
| Program-specific capital grants and contributions | 7,450,100 | 4,873,647 | - | - | 7,450,100 | 4,873,647 |
| Charges for services | 456,516 | 401,679 | 25,407 | 31,591 | 481,923 | 433,270 |
| Total program revenues | <u>15,596,708</u> | <u>13,158,893</u> | <u>414,144</u> | <u>393,421</u> | <u>16,010,852</u> | <u>13,552,314</u> |
| General revenues: | | | | | | |
| Property taxes | 4,711,159 | 5,009,397 | - | - | 4,711,159 | 5,009,397 |
| Municipal license taxes | 1,811,910 | 1,783,235 | - | - | 1,811,910 | 1,783,235 |
| Sales and use taxes | 2,183,542 | 1,862,365 | - | - | 2,183,542 | 1,862,365 |
| Construction excise taxes | 1,260,949 | 2,628,480 | - | - | 1,260,949 | 2,628,480 |
| Unrestricted grants and contributions | 4,630,780 | 5,876,469 | - | - | 4,630,780 | 5,876,469 |
| Other general revenues (various sources) | 958,927 | 1,269,430 | 1,552 | 1,715 | 960,479 | 1,271,145 |
| Total general revenues | <u>15,557,267</u> | <u>18,429,376</u> | <u>1,552</u> | <u>1,715</u> | <u>15,558,819</u> | <u>18,431,091</u> |
| Total revenues | <u>31,153,975</u> | <u>31,588,269</u> | <u>415,696</u> | <u>395,136</u> | <u>31,569,671</u> | <u>31,983,405</u> |
| Program expenses: | | | | | | |
| General government | 5,678,569 | 6,232,020 | - | - | 5,678,569 | 6,232,020 |
| Urban and economic development | 4,953,750 | 5,863,441 | - | - | 4,953,750 | 5,863,441 |
| Health and sanitation | 1,298,062 | 1,102,492 | - | - | 1,298,062 | 1,102,492 |
| Public safety | 3,988,033 | 3,849,702 | - | - | 3,988,033 | 3,849,702 |
| Public housing and welfare | 2,021,615 | 1,559,453 | 479,617 | 454,975 | 2,501,232 | 2,014,428 |
| Culture, recreation and education | 8,428,574 | 8,220,336 | - | - | 8,428,574 | 8,220,336 |
| Interest on long-term obligations | 1,266,133 | 1,146,628 | - | - | 1,266,133 | 1,146,628 |
| Total expenses | <u>27,634,736</u> | <u>27,974,072</u> | <u>479,617</u> | <u>454,975</u> | <u>28,114,353</u> | <u>28,429,047</u> |
| Net increase (decrease) in net assets | 3,519,239 | 3,614,197 | (63,921) | (59,839) | 3,455,318 | 3,554,358 |
| Net assets, at beginning of fiscal year, as restated | 41,400,036 | 37,785,839 | 213,462 | 273,301 | 41,613,498 | 38,059,140 |
| Net assets, at end of fiscal year | <u>\$44,919,275</u> | <u>\$41,400,036</u> | <u>\$149,541</u> | <u>\$213,462</u> | <u>\$45,068,816</u> | <u>\$41,613,498</u> |

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FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES

Analysis of Financial Position of Governmental Funds

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's compliance with finance-related legal requirements. Specifically, unreserved fund balance may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances amounting to \$7,661,456, which represents a decrease of \$2,628,984 when compared with the prior year. Total Municipality's fund balances were reserved or committed for the following purposes: (1) to liquidate contracts and purchase orders corresponding to prior fiscal year (\$280,821); 2) for debt service payments (\$1,779,354); 3) to pay for capital projects (\$6,914,232); and 4) for other purposes (\$330,296). As of June 30, 2009, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund deficit of (\$1,643,247).

The following table presents the condensed financial position of governmental funds at June 30, 2009 and 2008:

| | 2009 | 2008 |
|--|----------------------|----------------------|
| Assets: | | |
| Total assets - major governmental funds | \$ 13,422,434 | \$ 16,358,363 |
| Total assets - other governmental funds | 2,441,194 | 4,217,075 |
| Combined total assets | 15,863,628 | 20,575,438 |
| Liabilities: | | |
| Total liabilities - major governmental funds | 6,418,761 | 7,844,399 |
| Total liabilities - other governmental funds | 1,783,411 | 2,440,599 |
| Combined total liabilities | 8,202,172 | 10,284,998 |
| Fund balances (deficits): | | |
| Reserved - major governmental funds | 8,646,920 | 9,263,656 |
| Reserved - other governmental funds | 657,783 | 1,776,476 |
| Unreserved - major governmental funds | (1,643,247) | (749,692) |
| Combined total fund balances | 7,661,456 | 10,290,440 |
| Total liabilities and fund balances | \$ 15,863,628 | \$ 20,575,438 |

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FINANCIAL ANALYSIS OF BUSINESS-TYPE ACTIVITIES

Analysis of Financial Position of Proprietary Fund

At June 30, 2009, the total assets of proprietary fund amounted to \$1,497,520, which consisted principally of: (1) restricted cash in commercial banks of \$136,567, and (2) capital assets of \$1,357,837, net of accumulated depreciation \$2,478,826.

At June 30, 2009, the total liabilities of the proprietary fund amounted to \$1,347,979, which consisted principally of: (1) mortgage notes payable of \$1,311,581, and (2) accounts payable and accrued liabilities of \$36,398.

The total restricted net assets of proprietary fund amounted to \$149,541 at June 30, 2009, of which \$46,256 are invested in capital assets, and \$103,285 are reserved for program activities. The following table presents a summary of the financial position of the proprietary fund (PF) at June 30, 2009 and 2008:

| | 2009 | 2008 |
|---|-------------------|-------------------|
| Assets: | | |
| Total current assets | \$ 139,683 | \$ 131,817 |
| Total non-current assets | 1,357,837 | 1,452,191 |
| Total assets | 1,497,520 | 1,584,008 |
| Liabilities: | | |
| Total current liabilities | 64,890 | 61,695 |
| Total non-current liabilities | 1,283,089 | 1,308,851 |
| Total liabilities | 1,347,979 | 1,370,546 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 46,256 | 116,808 |
| Restricted for federal funded program | 103,285 | 96,654 |
| Total restricted net assets | \$ 149,541 | \$ 213,462 |

BUDGETARY HIGHLIGHTS

a) General Fund

The original and the final budget of the general fund for the fiscal year ended June 30, 2009 amounted to \$16,063,454 and \$16,209,445, respectively. Over the course of the fiscal year, the Municipality revised the GF's budget in order to include increases and decreases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. The laws and regulations of the Commonwealth mandate a balanced budget.

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The total actual revenues (budgetary basis) of the general fund for the fiscal year ended June 30, 2009 were \$15,409,040, which is five percent (5%), or \$800,405 less than the budgeted revenues. In addition, the total actual expenditures and other financing sources (budgetary basis) of the general fund for the fiscal year ended June 30, 2009 were \$16,344,127, which is one percent (1%), or \$134,682 more than the budgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$86,470,670 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$22,666,969 at June 30, 2009. The net capital assets of governmental activities increased during the current fiscal year due to the current fiscal year's capital additions (\$8,169,958), which were partially offset by the depreciation and amortization expense (\$1,838,482) for the same period.

The capital additions made to capital assets during the fiscal year ended June 30, 2009 were the following:

| | |
|--|---------------------|
| Construction in progress | \$ 4,137,019 |
| Buildings, structures and improvements | 3,260,766 |
| Machinery, equipment, furniture and fixtures | 311,292 |
| Licensed vehicles | <u>460,881</u> |
| Other capital additions for the fiscal year ended June 30, 2009 | <u>\$ 8,169,958</u> |

During the current year, construction in progress amounted to \$8,500,000 was reclassified to building, structures and improvements category.

b) Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act establishes that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Funds and the annual amounts collected with respect to such Municipality's Sales and Use Tax and Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a Special Additional Tax and a Sales and Use Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general

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obligation municipal bonds and notes to the extent that the Special Additional Tax and the Sales and Use Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Funds, are not sufficient to cover such debt service. In the particular case of the Municipality of Juana Díaz, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent, but for the fiscal year 2009-2010, the property tax and subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government were drastically reduced. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2009-2010.

FINAL COMMENTS

The Municipality of Juana Díaz is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, sales taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

Since the Municipality is significantly dependent on the intergovernmental grants and contributions received from the government of the Commonwealth of Puerto Rico and from property tax advances received from CRIM, the municipality could suffer a significant financial burden for certain scheduled intergovernmental revenues that could not be collected during the fiscal year 2009-2010, and accordingly, management is currently evaluating alternatives for the permanent financing of the operations of the general fund and the Municipality.

Among the actions currently taken by the management of the Municipality in relation to these matters are: (1) the implementation of a cost reduction plan and related activities, (2) the implementation of increased collection efforts over accounts receivable and inter-fund balances, and (3) the evaluation of different alternatives through possible long-term financing agreements with GDB.

In order to achieve its budget control and cost reduction objectives, management is currently trying to manage the Municipality within its cash and budget constraints, including the periodic review and update of its cash flows projections, actual vs. budget comparisons for budget adjustments as needed, and the monitoring of the execution of the collections.

The success of the foregoing plans and strategies to reduce the general fund's accumulated deficit, to improve the cash flows and liquidity of the Municipality and to achieve excess revenues over expenditures in the general fund of the Municipality cannot be assured, as it is significantly dependent

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upon events and circumstances which outcome cannot presently be determined. However, management is committed to undertake whatever actions may be necessary to prevent operating deficiencies in the future, but without affecting its fiduciary duty with its citizens regarding services and city improvements.

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.

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: (a) Funding of essential infrastructure and; (b) Those municipalities with deficit can use those them to partially or fully liquidate existing debts with governmental agencies.

REQUEST FOR INFORMATION

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 1409, Juana Díaz, PR 00769, or call (787) 837-2185.

**Basic Financial Statements and
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009**

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Statement of Net Assets
June 30, 2009

| Assets | Governmental activities | Business-type activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| Current assets: | | | |
| Cash in commercial banks | \$ 539 | - | \$ 539 |
| Accounts receivable: | | | |
| Taxes: | | | |
| Property taxes | 57,473 | - | 57,473 |
| Municipal license taxes | 9,736 | - | 9,736 |
| Construction excise taxes | 7,200 | - | 7,200 |
| Sales and use taxes | 155,313 | - | 155,313 |
| Intergovernmental grants and contributions | 472,917 | - | 472,917 |
| Interests | 8,316 | - | 8,316 |
| Other | 52,152 | - | 52,152 |
| Restricted assets: | | | |
| Cash and cash equivalents: | | | |
| Cash in commercial banks | 4,588,953 | 136,567 | 4,725,520 |
| Cash in fiscal agent | 7,244,263 | - | 7,244,263 |
| Cash equivalents in commercial banks | 26,650 | - | 26,650 |
| Accounts receivable: | | | |
| Property taxes receivable | 178,233 | - | 178,233 |
| Sales and use taxes receivable | 55,722 | - | 55,722 |
| Intergovernmental grants and contributions | 1,448,820 | - | 1,448,820 |
| Other receivables | 3,208 | 447 | 3,655 |
| Other current assets | - | 2,669 | 2,669 |
| Total current assets | <u>14,309,495</u> | <u>139,683</u> | <u>14,449,178</u> |
| Non-current assets: | | | |
| Capital assets: | | | |
| Depreciable capital assets, net of accumulated depreciation of \$ 22,666,969 and \$ 2,478,826 for governmental and business-type activities, respectively. | 37,321,012 | 1,261,608 | 38,582,620 |
| Non-depreciable capital assets | 26,482,689 | 96,229 | 26,578,918 |
| Deferred charges, net of accumulated amortization of \$ 76,254. | 103,131 | - | 103,131 |
| Total non-current assets | <u>63,906,832</u> | <u>1,357,837</u> | <u>65,264,669</u> |
| Total assets | <u>\$ 78,216,327</u> | <u>1,497,520</u> | <u>\$ 79,713,847</u> |

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Statement of Net Assets (concluded)
June 30, 2009

Liabilities and net assets (liabilities)

| | Governmental activities | Business-type activities | Total |
|--|------------------------------------|-------------------------------------|----------------------|
| Current liabilities (due within one year): | | | |
| Accounts payable: | | | |
| Trade payables | \$ 2,574,841 | 36,398 | \$ 2,611,239 |
| Intergovernmental payables | 420,724 | - | 420,724 |
| Accrued liabilities: | | | |
| Accrued interests on bonds and notes payable | 327,502 | - | 327,502 |
| Accrued christmas bonuses of employees | 246,097 | - | 246,097 |
| Unearned revenues | 2,154,055 | - | 2,154,055 |
| Current portion of long-term obligations: | | | |
| Bonds payable | 834,000 | - | 834,000 |
| Notes payable | 1,712,264 | 28,492 | 1,740,756 |
| Obligation under capital leases | 22,891 | - | 22,891 |
| Compensated absences | 525,000 | - | 525,000 |
| Total current liabilities | <u>8,817,374</u> | <u>64,890</u> | <u>8,882,264</u> |
| Non-current liabilities, excluding current portion (due in more than one year): | | | |
| Bonds payable | 16,531,000 | - | 16,531,000 |
| Notes payable | 6,132,415 | 1,283,089 | 7,415,504 |
| Obligation under capital leases | 4,272 | - | 4,272 |
| Compensated absences | 1,811,991 | - | 1,811,991 |
| Total non-current liabilities | <u>24,479,678</u> | <u>1,283,089</u> | <u>25,762,767</u> |
| Total liabilities | <u>33,297,052</u> | <u>1,347,979</u> | <u>34,645,031</u> |
| Net assets (liabilities): | | | |
| Invested in capital assets, net of related debt | <u>45,406,058</u> | <u>46,256</u> | <u>45,452,314</u> |
| Restricted for: | | | |
| Debt service | 2,477,354 | - | 2,477,354 |
| Other purposes | 2,953,139 | 103,285 | 3,056,424 |
| Unrestricted net liabilities | <u>(5,917,276)</u> | <u>-</u> | <u>(5,917,276)</u> |
| Total net assets | <u>\$ 44,919,275</u> | <u>149,541</u> | <u>\$ 45,068,816</u> |

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Statement of Activities
Fiscal Year Ended June 30, 2009

| Activities and Functions | Expenses, Including depreciation/ amortization expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|---|----------------------------|---|---|--|-----------------------------|----------------------|
| | | Charges for services | Program - specific operating grants and contributions | Program - specific capital grants and contributions | Governmental activities | Business-type activities | Total |
| <i>Governmental activities:</i> | | | | | | | |
| General government | \$ 5,678,569 | \$ - | \$ 203,348 | \$ - | \$ (5,475,221) | \$ - | \$ (5,475,221) |
| Urban and economic development | 4,953,750 | 407,651 | - | 2,892,669 | (1,653,430) | - | (1,653,430) |
| Health and sanitation | 1,298,062 | - | - | - | (1,298,062) | - | (1,298,062) |
| Public safety | 3,988,033 | - | 90,954 | 174,189 | (3,722,890) | - | (3,722,890) |
| Public housing and welfare | 2,021,615 | - | 1,409,250 | 31,458 | (580,907) | - | (580,907) |
| Culture, recreation and education | 8,428,574 | 48,865 | 5,986,540 | 4,351,784 | 1,958,615 | - | 1,958,615 |
| Interest on long-term obligations | 1,266,133 | - | - | - | (1,266,133) | - | (1,266,133) |
| Total governmental activities | <u>\$ 27,634,736</u> | <u>456,516</u> | <u>7,690,092</u> | <u>7,450,100</u> | <u>(12,038,028)</u> | <u>-</u> | <u>(12,038,028)</u> |
| <i>Business-type activities:</i> | | | | | | | |
| Public housing and welfare, including interests on long term obligations of \$95,735 | \$ 479,617 | 25,407 | 388,737 | - | - | (65,473) | (65,473) |
| Total business-type activities | <u>\$ 479,617</u> | <u>25,407</u> | <u>388,737</u> | <u>-</u> | <u>-</u> | <u>(65,473)</u> | <u>(65,473)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | \$ 4,711,159 | - | \$ 4,711,159 |
| Municipal license taxes | | | | | 1,811,910 | - | 1,811,910 |
| Sales and use taxes | | | | | 2,183,542 | - | 2,183,542 |
| Construction excise taxes | | | | | 1,260,949 | - | 1,260,949 |
| Total tax revenues | | | | | <u>9,967,560</u> | <u>-</u> | <u>9,967,560</u> |
| Intergovernmental grants and contributions, not restricted to specific programs | | | | | 4,630,780 | - | 4,630,780 |
| Interest on deposits | | | | | 250,168 | 1,102 | 251,270 |
| Miscellaneous | | | | | 708,759 | 450 | 709,209 |
| Total general revenues | | | | | <u>15,557,267</u> | <u>1,552</u> | <u>15,558,819</u> |
| Net change in net assets | | | | | 3,519,239 | (63,921) | 3,455,318 |
| Net assets at beginning of fiscal year, as restated | | | | | 41,400,036 | 213,462 | 41,613,498 |
| Net assets at end of fiscal year | | | | | <u>\$ 44,919,275</u> | <u>\$ 149,541</u> | <u>\$ 45,068,816</u> |

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO
Balance Sheet – Governmental Funds
June 30, 2009**

| | Major governmental funds | | | | | | | Total government funds |
|--|--------------------------|-------------------------|-----------------------|----------------|---|--|--------------------------------|------------------------------|
| | General fund | Debt service fund | Head start fund | CDBG fund | Legislative joint resolutions Fund | Capital improvement bond fund | Other governmental funds | |
| Assets | | | | | | | | |
| Cash in commercial banks | \$ 539 | - | - | - | - | - | - | \$ 539 |
| Accounts receivable: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes | 57,473 | - | - | - | - | - | - | 57,473 |
| Municipal license taxes | 9,736 | - | - | - | - | - | - | 9,736 |
| Construction excise taxes | 7,200 | - | - | - | - | - | - | 7,200 |
| Sales and use taxes | 155,313 | - | - | - | - | - | - | 155,313 |
| Intergovernmental grants and contributions | 472,917 | - | - | - | - | - | - | 472,917 |
| Due from other governmental funds | 987,573 | - | - | - | - | - | - | 987,573 |
| Interest | 8,316 | - | - | - | - | - | - | 8,316 |
| Other receivables | 52,152 | - | - | - | - | - | - | 52,152 |
| Restricted assets: | | | | | | | | |
| Cash and cash equivalents: | | | | | | | | |
| Cash in commercial banks | - | - | 163,363 | 57,873 | 3,358,629 | 144,936 | 864,152 | 4,588,953 |
| Cash in fiscal agent | 190,097 | 2,380,804 | - | - | - | 4,291,389 | 381,973 | 7,244,263 |
| Investments | - | - | - | - | - | - | 26,650 | 26,650 |
| Accounts receivable: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes | - | 178,233 | - | - | - | - | - | 178,233 |
| Sales and use taxes | - | 55,722 | - | - | - | - | - | 55,722 |
| Intergovernmental grants and contributions | - | - | 79,553 | 452,691 | - | - | 916,576 | 1,448,820 |
| Due from other governmental funds | - | 190,097 | - | - | 127,828 | - | 248,635 | 566,560 |
| Other receivables | - | - | - | - | - | - | 3,208 | 3,208 |
| Total assets | <u>\$ 1,941,316</u> | <u>2,804,856</u> | <u>242,916</u> | <u>510,564</u> | <u>3,486,457</u> | <u>4,436,325</u> | <u>2,441,194</u> | <u>\$ 15,863,628</u> |
| Liabilities | | | | | | | | |
| Accounts payable and accrued liabilities: | | | | | | | | |
| Trade payables | \$ 424,791 | - | 216,718 | 430,353 | 1,029,519 | 197,229 | 276,231 | \$ 2,574,841 |
| Intergovernmental payables | 420,724 | - | - | - | - | - | - | 420,724 |
| Due to other governmental funds | 331,413 | - | 26,198 | 63,878 | 109,289 | - | 1,023,355 | 1,554,133 |
| Deferred revenues: | | | | | | | | |
| Unearned revenues | 1,653,897 | - | - | 16,333 | - | - | 483,825 | 2,154,055 |
| Earned and unavailable revenues | 472,917 | - | - | - | - | - | - | 472,917 |
| Matured bonds due and payable | - | 698,000 | - | - | - | - | - | 698,000 |
| Matured interest due and payable | - | 327,502 | - | - | - | - | - | 327,502 |
| Total liabilities | <u>3,303,742</u> | <u>1,025,502</u> | <u>242,916</u> | <u>510,564</u> | <u>1,138,808</u> | <u>197,229</u> | <u>1,783,411</u> | <u>8,202,177</u> |
| Fund balances (deficits) | | | | | | | | |
| Reserved for: | | | | | | | | |
| Encumbrances | 280,821 | - | - | - | - | - | - | 280,821 |
| Other restricted assets | - | - | - | - | - | - | 330,296 | 330,296 |
| Debt service | - | 1,779,354 | - | - | - | - | - | 1,779,354 |
| Capital projects | - | - | - | - | 2,347,649 | 4,239,096 | 327,487 | 6,914,232 |
| Unreserved | (1,643,247) | - | - | - | - | - | - | (1,643,247) |
| Total fund balances (deficits) | <u>(1,362,426)</u> | <u>1,779,354</u> | <u>-</u> | <u>-</u> | <u>2,347,649</u> | <u>4,239,096</u> | <u>657,783</u> | <u>7,661,456</u> |
| Total liabilities and fund balances (deficits) | <u>\$ 1,941,316</u> | <u>2,804,856</u> | <u>242,916</u> | <u>510,564</u> | <u>3,486,457</u> | <u>4,436,325</u> | <u>2,441,194</u> | <u>\$ 15,863,628</u> |

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) – Governmental Funds
Fiscal Year Ended June 30, 2009

| | Major governmental funds | | | | | | | Total Government Funds |
|---|--------------------------|-------------------------|-----------------------|------------------|---|--|--------------------------------|------------------------------|
| | General fund | Debt service fund | Head start fund | CDBG Fund | Legislature joint resolutions fund | Capital improvement Bond Fund | Other governmental funds | |
| Revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes | \$ 3,444,619 | 1,214,643 | - | - | - | - | - | \$ 4,659,26 |
| Municipal license taxes | 1,811,910 | - | - | - | - | - | - | 1,811,91 |
| Sales taxes | 1,697,963 | 485,579 | - | - | - | - | - | 2,183,54 |
| Construction excise taxes | 1,260,949 | - | - | - | - | - | - | 1,260,94 |
| Total tax revenues | 8,215,441 | 1,700,222 | - | - | - | - | - | 9,915,66 |
| Intergovernmental grants and contributions | 6,126,670 | - | 5,986,540 | 2,149,915 | 4,349,250 | - | 2,654,487 | 21,266,86 |
| Interest on deposits | 220,506 | - | - | - | 29,012 | - | 650 | 250,16 |
| Charges for services | 407,651 | - | - | - | - | - | 48,865 | 456,51 |
| Miscellaneous | 496,593 | - | - | - | - | - | 212,166 | 708,75 |
| Total revenues | 15,466,861 | 1,700,222 | 5,986,540 | 2,149,915 | 4,378,262 | - | 2,916,168 | 32,597,96 |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| General government | 5,562,596 | - | - | - | - | - | 203,924 | 5,766,52 |
| Urban and economic development | 3,354,765 | - | - | 558,560 | - | - | 208,597 | 4,121,92 |
| Health and sanitation | 1,151,813 | - | - | - | - | - | 129,214 | 1,281,02 |
| Public safety | 3,621,134 | - | - | - | - | - | 262,231 | 3,883,36 |
| Public housing and welfare | 280,914 | - | - | - | - | - | 1,740,701 | 2,021,61 |
| Culture, recreation and education | 1,612,798 | - | 5,986,540 | - | - | - | 63,124 | 7,662,46 |
| Debt service: | | | | | | | | |
| Principal | 176,950 | 827,000 | - | 50,000 | - | - | - | 1,053,95 |
| Interest | 45,637 | 911,416 | - | 309,080 | - | - | - | 1,266,13 |
| Capital outlays | 249,098 | - | - | 1,232,275 | 2,885,443 | 2,366,321 | 1,436,821 | 8,169,95 |
| Total expenditures | 16,055,705 | 1,738,416 | 5,986,540 | 2,149,915 | 2,885,443 | 2,366,321 | 4,044,612 | 35,226,95 |
| Revenues over (under) expenditures | (588,844) | (38,194) | - | - | 1,492,819 | (2,366,321) | (1,128,444) | (2,628,984) |
| Other financing sources (uses): | | | | | | | | |
| Transfers from other governmental funds | - | 190,097 | - | - | - | - | 9,751 | 199,84 |
| Transfers to other governmental funds | (199,848) | - | - | - | - | - | - | (199,848) |
| Total other financing sources (uses), net | (199,848) | 190,097 | - | - | - | - | 9,751 | - |
| Net increase (decrease) in fund balances (deficit) | (788,692) | 151,903 | - | - | 1,492,819 | (2,366,321) | (1,118,693) | (2,628,984) |
| Fund balance (deficit) at beginning of fiscal year | \$ (573,734) | 1,627,451 | - | - | 854,830 | 6,605,417 | 1,776,476 | \$ 10,290,44 |
| Fund balance (deficit) at end of fiscal year | \$(1,362,426) | 1,779,354 | - | - | 2,347,649 | 4,239,096 | 657,783 | \$ 7,661,45 |

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances (Deficits) – Governmental Funds and the Statement of Revenues, Expenses
and Changes in Fund Net Assets – Proprietary Fund to the Statement of Activities
Fiscal Year Ended June 30, 2009**

| | Governmental activities | Business-type activities | Total |
|--|------------------------------------|-------------------------------------|---------------------|
| The amounts of governmental and business-type activities reported in the statement of activities are different to the amounts reported in statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds and the statement of revenues, expenses and changes in fund net assets – proprietary fund, respectively, for the following reasons: | | | |
| Total net decrease in fund balances and total net decrease fund net assets reported in the statement of revenues, expenditures and changes in fund balances – governmental funds and the statement of revenues, expenses and changes in fund net assets – proprietary fund | \$ (2,628,984) | (63,921) | \$ (2,692,905) |
| Add (Deduct): | | | |
| Certain revenue streams recorded in the statement of activities do not necessarily provide current financial resources, therefore, sometimes are deferred in the governmental funds. This is the net change in deferred revenues of the revenue items, that are measurable but not available at fiscal year end: | 58,310 | - | 58,310 |
| 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 as depreciation and amortization expense. This is the amount by which capital outlays expenditures (\$8,169,958) exceeded depreciation and amortization expense (\$1,838,482) for the fiscal year ended June 30, 2009. | 6,331,476 | - | 6,331,476 |
| Repayment of principal of long-term obligations is reported as an expenditure in the governmental funds; however, the repayment reduces long-term liabilities in the statement of net assets. | 1,053,950 | - | 1,053,950 |
| Amortization of deferred charges reported in the statement of activities does not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds. | (9,924) | - | (9,924) |
| Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds. This is the net change in liabilities of the related expenses/expenditures accounts. | 216,714 | - | 216,714 |
| Issuance of long term debt provides current financial resources to governmental funds, but issuing such debt increases long-term liabilities in the statement of net assets. | (1,502,303) | - | (1,502,303) |
| Net increase (decrease) in net assets, as reported in the statement of activities | \$ 3,519,239 | (63,921) | \$ 3,455,318 |

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Statement of Net Assets - Proprietary Fund
June 30, 2009

Business-Type Activities - Enterprise Fund

**Villas del Parque
FmHA Project
No. 63-033-0690660049**

Restricted Assets

Current assets:

Restricted assets:

| | |
|---|----------------|
| Cash in commercial banks (including cash for operations of \$44,865) | \$ 136,567 |
| Tenants accounts receivable | 447 |
| Prepaid insurance | 344 |
| Other assets | 2,325 |
| Total current assets | <u>139,683</u> |

Non-current assets:

| | |
|---|---------------------|
| Depreciable capital assets, net of accumulated depreciation of \$2,478,426 | 1,261,608 |
| Non-depreciable capital assets | <u>96,229</u> |
| Total non-current assets | <u>1,357,837</u> |
| Total assets | <u>\$ 1,497,520</u> |

Liabilities and fund net assets

Current liabilities (due within one year):

| | |
|--|---------------|
| Accounts payables and accrued liabilities, including accrued interests of \$7,903 | \$ 36,398 |
| Current portion of mortgage notes payable | 28,492 |
| Total current liabilities | <u>64,890</u> |

Non-current liabilities, excluding current portion

| | |
|--|------------------|
| Mortgage notes payable – due in more than one year | <u>1,283,089</u> |
| Total liabilities | <u>1,347,979</u> |

Fund net assets:

| | |
|---|-------------------|
| Invested in capital assets, net of related debt | 46,256 |
| Restricted for other purposes | <u>103,285</u> |
| Total restricted net assets | <u>\$ 149,541</u> |

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
Fiscal year ended June 30, 2009

| | Business-Type Activities - Enterprise Fund |
|--|---|
| | Villas del Parque FmHA Project No. 63-033-0690660049 |
| Operating revenues: | |
| Intergovernmental grants and contributions – tenants assistance payments from U.S. Department of Housing and Urban Development | \$ 388,737 |
| Charge for services – rental income from tenants | 25,407 |
| Miscellaneous | 450 |
| Total operating revenues | 414,594 |
| Operating expenses: | |
| General and administrative | 153,712 |
| Utilities | 17,992 |
| Maintenance | 67,755 |
| Taxes and insurance | 28,766 |
| Interest on mortgage notes payable | 95,735 |
| Depreciation of capital assets | 115,657 |
| Total operating expenses | 479,617 |
| Operating loss | (65,023) |
| Non-operating income – interest on deposits | 1,102 |
| Net decrease in restricted fund net assets | (63,921) |
| Restricted fund net assets at beginning of fiscal year | 213,462 |
| Restricted fund net assets at end of fiscal year | \$ 149,541 |

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2009

| | | <u>Business-type Activities-Enterprise Fund</u> |
|---|----|---|
| | | <u>Villa del Parque</u> |
| | | <u>FmHA Project No.</u> |
| | | <u>63-033-0690660049</u> |
| Cash flows from operating activities: | | |
| Receipts from rent | \$ | 414,144 |
| Interest received | | 1,102 |
| Other cash received | | 450 |
| Payments to suppliers and employees | | (265,466) |
| Payment of mortgage interests | | (95,735) |
| Net cash provided (used) by operating activities | | <u>54,495</u> |
| Cash flows from investing activities: | | |
| Interest deposited on replacement reserve | | (905) |
| Withdrawals from replacement reserve | | 20,763 |
| Decrease in other reserves | | (5,672) |
| Deposit to replacement reserve | | (19,620) |
| Acquisition of capital assets | | (21,303) |
| Net cash provided (used) by investing activities | | <u>(26,737)</u> |
| Cash flows from financing activities: | | |
| Principal payments on mortgage | | (23,802) |
| Net cash used by capital and related financing activities | | <u>(23,802)</u> |
| Net change in cash and cash equivalents | | 3,956 |
| Cash and Cash Equivalents – Beginning | | <u>40,909</u> |
| Cash and Cash Equivalents – Ending | \$ | <u><u>44,865</u></u> |
| Displayed on statement of net assets as a component of: | | |
| Cash in commercial banks | \$ | <u><u>44,865</u></u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | \$ | (63,921) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation expense | | 115,657 |
| Bad debt expense | | 678 |
| Increase (Decrease) in: | | |
| Tenants accounts receivable | | 223 |
| Prepaid expenses | | 477 |
| Accounts payable and accrued payroll taxes | | 1,381 |
| Total adjustments | | <u>118,416</u> |
| Net cash provided (used) by operating activities | \$ | <u><u>54,495</u></u> |

The accompanying notes to the basic financial statements are an integral part to this statement.

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

1. Summary of Significant Accounting Policies

The Municipality of Juana Díaz, Commonwealth of Puerto Rico (the Municipality), is a local municipal government constituted in 1798 in the Commonwealth of Puerto Rico. The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipal governments legally separated from the state government of the Commonwealth of Puerto Rico (the Commonwealth).

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

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

a) Financial Reporting Model

The accompanying basic financial statements present the financial position of the governmental activities, the business-type activities, each major governmental and proprietary funds, and the aggregate remaining fund information of the Municipality at June 30, 2009, in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, the business-type activities, each major governmental and proprietary funds, and the aggregate remaining fund information for the fiscal year ended June 30, 2009 in conformity with GAAP. Furthermore, the basic financial statements referred to above present the cash flows of the business-type activities (proprietary fund) for the fiscal year ended June 30, 2009 in conformity with GAAP.

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental and proprietary fund financial statements (FFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI consists of: (1) a Management's Discussion and Analysis (MD&A) and (2) a budgetary comparison schedule – general fund. RSI is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements.

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COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

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 fiscal 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.

In addition to the required financial reporting requirements referred to above, the accompanying basic financial statements are accompanied by additional supplementary information consisting of a budgetary comparison schedule – general fund and the notes to the budgetary comparison schedule – general fund, which have been subjected to the auditing procedures applied in the audit of the accompanying basic financial statements as of and for the fiscal year ended June 30, 2009.

b) *Financial Reporting Entity*

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance, as prescribed by Act No. 81.

The accompanying basic financial statements include the financial statements of Villas del Parque (FmHA Project No. 63-033-0690660049), an operational unit and a business-type activity (proprietary fund) of the Municipality which single audit report reflect total assets, liabilities, net assets, revenues and expenses of \$1,497,520, \$1,347,979, \$149,541, \$415,696 and \$479,617, respectively, as of and for the fiscal year ended June 30, 2009. The financial position, results of operations and cash flows of Villas del Parque as of and for the fiscal year ended June 30, 2009 are reported in the accompanying statement of net assets – proprietary fund, the statement of revenues, expenses and changes in fund net assets – proprietary fund, and the statement of cash flows – proprietary fund, respectively.

Villas del Parque is a housing development project consisting of eighty-four (84) dwelling units located in Juana Díaz. The project is owned by the Municipality, but its operations are carried out by a private management agent unrelated to the Municipality. The housing development project of Villas del Parque has been designed to assist various segments of the general public in obtaining adequate and reasonable priced rental housing. The project operates under financing through the Section 8 New Construction and Substantial Rehabilitation Program of the U.S. Department of Housing and Urban Development and the Section 515 Rural Rental Housing Loans Program of the U.S. Department of Agriculture. The purpose of Villas del Parque is to provide adequate housing to low-income residents of the Municipality. Separate audited financial statements of Villas del Parque can be obtained directly from the management agent's offices at Professional Center Building, Suite 302, San Juan, Puerto Rico 00927.

On July 1, 2005, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the

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primary government, including their ongoing financial support of the primary government and its other component units.

According to GASB No. 39, a legally separate, tax-exempt organization should be reported as a discretely presented component unit of a reporting entity if all of the following criteria are met:

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

In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14. The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2009.

c) *Government-Wide Financial Statements*

The accompanying GWFS are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements report information of all governmental and business-type nonfiduciary activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net assets provides short-term and long-term information about the Municipality's financial position by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity) and/or net liabilities (accumulated deficit). This statement assists management in assessing the level of services that can be provided by the Municipality in the future and its ability to meet its obligations as they

**MUNICIPALITY OF JUANA DÍAZ,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets and discloses legal and contractual restrictions on resources.

Net assets (liabilities) are classified in the accompanying statement of net assets within the following three categories:

- **Invested in capital assets, net of related debt** – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net assets** – This net asset category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- **Unrestricted net liabilities** – This category consists of the excess of liabilities over related assets (accumulated deficit) that are neither externally nor legally restricted, neither invested in capital assets. However, assets reported within unrestricted net liabilities often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified. When both restricted and unrestricted resources are available for use, it is the Municipality's policy to generally use restricted resources first, and then unrestricted resources as they are needed.

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net assets or liabilities changed during the fiscal year ended June 30, 2009, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education and (6) public housing and welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

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Notes to Basic Financial Statements
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General government:

Municipal legislature
Mayor's office
Department of finance
Department of human resources
Department of municipal secretary
Department of internal audit
Office of communications
Office of administrative services

Urban and economic development:

Department of public works
Department of planning and development

Public safety:

Department of emergency management – civil defense
Department of municipal police
Department of sanitation

Health and sanitation:

Department of recycling services
Municipal enterprises
Department of health

Culture, recreation and education:

Department of sports and recreation
Department of art, culture and tourism

Public housing and welfare:

Department of citizen affairs

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

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

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by

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the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.

- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes, construction excise taxes and sales and use taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

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

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

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

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

The Municipality classifies the most significant portion of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the FFS. On the other hand, the operations of Villas del Parque are reported as business-type

**MUNICIPALITY OF JUANA DÍAZ,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

activities in the accompanying GWFS. These activities are primarily financed from grants and contributions and charges for services. These business-type activities are also reported in the FFS.

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

The Municipality has operations and activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; and where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

d) Fund Financial Statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying FFS are composed of: (1) the balance sheet – governmental funds, (2) the statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds, (3) the statement of net assets – proprietary fund, (4) the statement of revenues, expenses and changes in fund net assets – proprietary fund, and (5) the statement of cash flows – proprietary fund.

These financial statements report the financial position and results operations of the Municipality's governmental and proprietary funds and fund types by presenting sources, uses and balances of current and non-current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental fund and fund types, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying FFS segregate governmental funds, proprietary funds and fund types according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds and fund types is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental and proprietary funds within the following categories:

- **General fund** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another

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fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

- **Debt service fund** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2009, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

The outstanding balance of general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as notes payable and obligations under capital leases) are only accounted for in the accompanying statement of net assets. The debt service payments of such debts, as applicable, are generally accounted for as debt service – principal and debt service – interest expenditures in the general fund, except for certain notes payable to HUD, which are accounted for in the community development block grant fund and other debt which are accounted for within other governmental funds.

- **Special revenue funds** – The special revenue funds are major and non-major governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital project funds). The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.
- **Capital projects funds** – Capital projects funds are major and non-major governmental funds, as defined below, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds accounted for also in the capital projects funds.

The use of the capital projects funds has been reserved only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

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- **Proprietary fund** – Proprietary fund is a fund used to report the financial position, results of operation and cash flows of Villas del Parque (FmHA Project No. 63-033-0690660049), which are activities for which the intent of management is to recover, partially through user charges for services (rent) and mostly through federal grants, the cost of low-income housing services to the general public.

The activities of Villas del Parque have been reported as a proprietary fund since GAAP permits the use of enterprise funds to report any activity for which a fee is charged to external users of goods or services, regardless of whether the government intends to fully recover the cost of the goods or services provided. Thus, it is common to use proprietary fund reporting to account for services where the government intends to recover only a portion of its costs through fees or user charges (GASB No. 34, paragraph 67).

As required by GASB No. 34, the proprietary fund of the Municipality applies all pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB) and the Committee on Accounting Procedure, issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict the standards of the Governmental Accounting Standards Board. However, the Municipality has elected to continue following more recent FASB guidance, provided it neither conflicts nor contradicts GASB pronouncements.

The focus of the FFS is on major governmental funds, proprietary funds and fund types, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds, proprietary funds and fund types between major and non-major categories within the FFS. Major individual governmental and proprietary funds and fund types are reported individually as separate columns in the FFS, while data from all non-major governmental and proprietary funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the FFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. In addition, the same element that meets the 10 percent criterion must be at least 5 percent of the corresponding element total for all governmental and enterprise (proprietary) funds combined. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures\expenses for these purposes mean all expenditures\expenses, including operating and non-operating expenditures\expenses, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying FFS are: (1) the general fund, (2) the debt service fund, (3) the head start fund, (4) the legislative joint resolutions fund, (5) the community development block grant fund and (6)

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the capital improvement bond fund. In addition, Villas del Parque has been reported separately from governmental funds as the only proprietary fund of the Municipality.

The head start fund is a special revenue fund used to account for the receipts and disbursements of the head start program grant administered by the Administration for the Integral Care and Development of Children of the Commonwealth of Puerto Rico, as a pass-through entity of the U.S. Department of Health and Human Services.

The legislative joint resolutions fund is a major capital projects fund used to account for financial resources that are assigned by the Legislature of the Commonwealth of Puerto Rico principally for use in the acquisition, construction or improvement of major capital facilities and assets.

The community development block grant fund is a major capital projects fund used to account for financial resources that are assigned by the US Housing and Urban Development Agency and by the PR Office of the Commissioner of Municipal Affairs principally for use in the community development projects.

The capital improvement bond fund is a major capital projects fund used to account for proceeds of general obligation, public improvement or special obligation bonds. These proceeds are used for the acquisition, construction or improvement of major capital facilities and other assets.

The accompanying FFS are accompanied by other statements and schedules required by GAAP: (1) the reconciliation of the balance sheet – governmental funds to the statement of net assets, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

e) Measurement Focus and Basis of Accounting

Government-wide financial statements and proprietary fund – The accompanying GWFS and proprietary fund are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and rent) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include certain charges for services and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital

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resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses. The major operating revenue of the Municipality's enterprise fund is from rent charges collected principally from a Section 8 New Construction and Substantial Rehabilitation Program housing assistance grant agreement with U.S. Department of Housing and Urban Development.

In the case of derived tax revenue transactions, which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

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According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying statement of net assets and the statement of net assets – proprietary fund. The measurement focus and the basis of accounting used in the accompanying GWFS and the proprietary fund differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying governmental fund financial statements. Therefore, the accompanying governmental fund financial statements include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the governmental fund financial statements.

Governmental fund financial statements – The accompanying governmental fund financial statements are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality considers most revenues to be available if collected generally within 90 days after June 30, 2009, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred (earned and unavailable) revenues at June 30, 2009.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying governmental fund financial statements, except for amounts recorded as deferred (earned and unavailable) revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed previously, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, certain charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

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Interest on deposits is recorded when earned only if collected within 90 days after the fiscal year-end since these revenues would be considered both measurable and available.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and an expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated with current available financial resources. GASBI No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet – governmental funds generally reflects assets that will be converted into cash to satisfy current liabilities. Long-term assets (except for accounts receivables and inter-fund advances) and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

Modifications to the accrual basis of accounting in accordance with GASBI No. 6 include:

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2009, which have been recorded as governmental fund liabilities at June 30, 2009, which is the date when resources are available in the debt service fund (generally, June 30).
- Notes payable, obligations under capital leases, compensated absences, and amounts subject to accrued claims and judgments under litigation are recorded only when they mature (when payment is due).
- Certain accrued liabilities not due and payable or not normally expected to be liquidated with current available and expendable financial resources are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.
- Executory purchase orders and contracts are recorded as a reservation of fund balance in the governmental funds FFS.

The measurement focus of the governmental funds financial statements is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities and the statement of revenues, expenses and changes in fund net assets, but are not recorded in the accompanying governmental fund financial statements.

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f) Stewardship, Compliance and Accountability

Budgetary Control

According to Law No. 81, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for each fiscal year commencing on July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than the immediately preceding May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 13.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to eight (8) days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This regulation permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances, and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance and Budget has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

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The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the function/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects 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 accompanying budgetary comparison schedule – general fund and the budgetary comparison schedule – debt service fund provide information about the general and debt service funds' original budgets, its amendments, and the actual results of operations of such major governmental funds under the budgetary basis of accounting for the fiscal year ended June 30, 2009. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2009.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general and debt service funds' budgetary bases and GAAP actual amounts are presented at the bottom of the respective budgetary comparison schedules.

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g) Unrestricted and Restricted Deposits

The Municipality's deposits are composed of: (1) cash on hand, (2) demand deposits in commercial banks, (3) demand deposits in the Government Development Bank for Puerto Rico (fiscal agent) and (4) cash equivalents in commercial banks.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations. At June 30, 2009, the cash available in the pooled cash account amounted to \$736,465, which has been recorded within major and non-major governmental funds.

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 Deposits 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 in fiscal agent in the general fund, amounting to \$190,097 consists of cash retained by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronym), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico, for the payment of the Municipality's debt service of bonds payable. Cash in fiscal agent in the debt service fund consists of cash related to property tax and sales and use tax collections amounting to \$2,380,804 which are restricted for the payment of the Municipality's debt service of bonds payable, as required by law. Restricted cash in commercial bank in the Capital improvement bond fund, amounting to \$144,936, and Cash in fiscal agent in the capital improvement bond fund and other governmental funds, amounting to \$4,291,389 and \$381,973, respectively, consists principally of unspent proceeds of bonds and federal public assistance grants funds, which are restricted for the acquisition, construction or improvement of major capital assets.

Restricted cash in commercial banks of the head start fund, amounting to \$163,363, represents the balance of a non-interest bearing account restricted to finance the operations of this federal financially assisted program. Restricted cash in commercial banks of the community development block grant fund, amounting to \$57,873, represents the balance of a non-interest bearing account restricted to finance the operations of this federal financially assisted program. Restricted cash in commercial banks for the legislative joint resolutions fund, amounting to \$3,358,629, represents the balance of an interest bearing account whose proceeds arose from grants and contributions from the Legislature of the Commonwealth of Puerto Rico which are restricted to principally finance the acquisition, construction or improvement of major capital assets and other activities. Restricted cash in commercial banks for other governmental funds, amounting to \$864,152, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain federal, state and local funded programs.

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Restricted cash equivalents of the other governmental funds, consist of certificate of deposit with original maturity of three months or less, amounting to \$26,650 at June 30, 2009, which arose from unspent funds from the U.S. Department of Housing and Urban Development Section 8 housing choice voucher program, which is restricted to finance program activities.

Restricted cash in commercial banks of Villas del Parque (proprietary fund), amounting to \$136,567, represents the balance of interest and non-interest bearing accounts restricted to finance the project operations. Villas del Parque is required to set amounts for the replacement of property and other project expenditures, as approved by the U.S. Department of Housing and Urban Development. Accordingly, the restricted cash balances of Villas del Parque include a replacement reserve of \$61,583, a cash balance for operations of \$44,865, tenants' security deposits of \$7,175 and a cash balance reserved for taxes and insurance of \$22,944.

h) Unrestricted and Restricted Accounts Receivable

Accounts receivable consist of all revenues earned but not collected at June 30, 2009. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans), as applicable. All other outstanding balances between funds are reported as "due to/from other funds."

i) Other Current Assets

Other current assets in the accompanying statement of net assets and the balance sheet – governmental funds consist principally of prepaid costs, which are capitalized rather than charged to operations.

j) Deferred Charges

Deferred charges in the accompanying statement of net assets consist of debt issue costs associated with the issuance of bond and notes. Deferred charges are reported net of accumulated amortization. Deferred charges are amortized over the term of the related debt using the straight-line method. In the governmental funds FFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

k) Capital Assets

Capital assets used in governmental and business-type activities include land and land improvements, buildings, structures and building improvements, machinery and equipment (including equipment held under capital leases), furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net assets and the statement of net assets – proprietary fund.

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Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost basis of \$100 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$100 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities and the statement of revenues, expenses and changes in fund net assets. In the governmental funds, all capital assets are recorded as capital outlays (expenditures), while all assets with individual costs under \$100 are recorded as expenditures in the corresponding function/program identified with the asset.

In the statement of net assets and the statement of net assets – proprietary fund, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net assets as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

| | <u>Years</u> |
|--|--------------|
| Land improvements | 20 |
| Buildings, structures and building improvements | 30 to 50 |
| Infrastructure | 20 to 50 |
| Motor vehicles | 5 |
| Furniture, fixtures, machinery and equipment, excluding those held under capital leases | 5 to 20 |
| Office equipment held under capital leases | 3 to 5 |

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

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l) Deferred Revenues

In the governmental fund financial statements, deferred revenue arises when one of the following situations occur:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (reported as “*earned and unavailable revenue*” in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2009 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Unearned revenues at the government-wide and the proprietary fund levels arise only when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying statement of net assets). No “*earned and unavailable revenue*” is accounted for in the accompanying statement of net assets nor the statement of net assets – proprietary fund.

m) Compensated Absences

The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2009 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer’s share of social security taxes and medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per fiscal year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per fiscal year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each fiscal year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each fiscal year, if not consumed.

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Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously. After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is in the statement of net assets. A liability for compensated absences is reported in the governmental fund financial statements only when matured (when payment is due), for example, as a result of employee resignations or retirements.

n) Long-term Debt

The long-term liabilities reported in the accompanying statements of net assets include the Municipality's bonds payable, notes payable, obligations under capital leases, accrued compensated absences and accrued legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due on July 1, 2009 have been recorded as governmental fund liabilities in the debt service fund at June 30, 2009, when resources were available. In the governmental fund financial statements, the face amount of debt issued (gross debt proceeds) is reported as other financing sources when issued.

In the governmental activities of the GWFS, debt issuance costs have been capitalized and reported as deferred charges, which are being amortized under the straight-line method over the respective lives of the debts. In the GFFS, such costs are recorded as expenditures as incurred.

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables*, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net assets, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses as incurred.

o) Leases

The Municipality classifies its lease agreements either as operating or capital leases obligations according to Statement No.13, *Accounting for Leases*, issued by Financial Accounting Standards Board (FASB No. 13). Capital lease agreements are generally non-cancelable and involve, substance over form, the transfer of substantially all benefits and risks inherent in the ownership of the leased property, while operating leases do not involve such transfer. Accordingly, a capital lease involves the recording of an asset and a related lease obligation at the inception of the lease.

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According to FASB No. 13, the Municipality classifies a lease agreement as a capital lease if at its inception the lease meets one or more of the following four criteria:

- By the end of the lease term, ownership of the leased property is transferred to the Municipality.
- The lease agreement contains a bargain purchase option.
- The lease term is substantially equal (75 percent or more) to the estimated useful life of the leased property.
- At the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the estimated fair value of the leased property.

Although the Municipality is prevented legally from entering into obligations extending beyond one fiscal year, most capital lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. Leases that meet at least one of the aforementioned four criteria, and have a fiscal funding or a cancellation clause, have been accounted for as capital leases in the accompanying GWFS, since the likelihood of invoking the provision is considered remote. The Municipality's lease agreements do not include contingent rental payments nor escalation clauses.

In the GWFS, the obligation under capital leases is recorded at the lesser of the estimated fair value of the leased property or the present value of the minimum lease payments, excluding any portion representing executory costs and profit thereon to be paid by the lessor. A portion of each minimum lease payment is allocated to interest expense and the balance is applied to reduce the lease obligation using the effective interest method.

In the governmental fund financial statements, the net present value of the minimum lease payments at the inception of the capital lease, if applicable, is recorded simultaneously as: (1) capital outlays and (2) other financing sources. Minimum lease payments are recorded as expenditures in the governmental fund financial statements.

p) 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

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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.

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.

q) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each fiscal year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronym), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA, by its Spanish acronym), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2009 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been cancelled or terminated at June 30, 2009. Premiums are paid on

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a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

r) Reservations of Fund Balances

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

- **Encumbrances** – Represent reservations of fund balances for commitments related to unperformed (executory) contracts for goods or services (future expenditures under purchase orders, contracts and other commitments). These committed amounts represent reservations of unexpired appropriations and generally will become liabilities in future fiscal years as the goods or services are received.
- **Debt service** – Represent fund balances available and restricted to cover future debt service payments (principal and interest) on bonds payable, which are accounted for in the debt service fund.
- **Capital projects** – Represent the reservation of financial resources that are restricted for the acquisition, construction or improvement of major capital assets under contracts and other commitments. These amounts are accounted for in the capital projects funds.
- **Federal and state funded programs** – Represent financial resources set aside for use in federal and state grant programs.

s) Inter-fund Activities

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying FFS:

- **Inter-fund loans** – Represent resources (assets) provided by one governmental fund to other governmental fund with a requirement and commitment for repayment (reimbursement), which are recorded as “*due from*” in the lender governmental fund and “*due to*” in the borrower governmental fund. Inter-fund receivables, which are not considered to be currently available financial resources, are reported as “*advances*”. For amounts not expected to be collected, inter-fund receivables/payables are reduced to their estimated realizable (settlement) value, and the portion of the inter-fund loan that is not expected to be repaid is reported as a “*transfer-in*” from the governmental fund that provided the loan.
- **Inter-fund transfers (transfers-in/(out))** – 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.

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- ***Inter-fund reimbursements*** – Represent repayments (reimbursements) from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the FFS, inter-fund activity has not been eliminated, as permitted by GAAP.

t) Use of Estimates

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

u) Future Adoption of Accounting Pronouncements

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

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB No. 51). This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB No. 53). This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. This Statement is effective for periods beginning after June 15, 2009.
- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54). This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement is effective for periods beginning after June 15, 2010.

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

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2. Deposits

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

On July 1, 2004, 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 credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, 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 is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit 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 investments portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to periods of three months or less and (3) keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalent 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 collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, amounting to \$7,244,263 at June 30, 2009, 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. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has

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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** – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for 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.

Cash and cash equivalents at June 30, 2009, are classified in the accompanying balance sheet – governmental funds a follows:

| | General fund | Debt service fund | Head start fund | CDBG fund | Legislature joint resolutions fund | Capital Improvement bond fund | Other governmental funds | Total |
|--------------------------------------|--------------|-------------------|-----------------|-----------|------------------------------------|-------------------------------|--------------------------|---------------|
| Unrestricted: | | | | | | | | |
| Cash in commercial banks | \$ 539 | - | - | - | - | - | - | \$ 539 |
| Total unrestricted deposits | 539 | - | - | - | - | - | - | 539 |
| Restricted: | | | | | | | | |
| Cash in commercial banks | - | - | 163,363 | 57,873 | 3,358,629 | 144,936 | 864,152 | 4,588,953 |
| Cash in GDB, as fiscal agent | 190,097 | 2,380,804 | - | - | - | 4,291,389 | 381,973 | 7,244,263 |
| Cash equivalents in commercial banks | - | - | - | - | - | - | 26,650 | 26,650 |
| Total restricted deposits | 190,097 | 2,380,804 | 163,363 | 57,873 | 3,358,629 | 4,436,325 | 1,272,775 | 11,859,866 |
| Total carrying amount of deposits | \$ 190,636 | 2,380,804 | 163,363 | 57,873 | 3,358,629 | 4,436,325 | 1,272,775 | \$ 11,860,405 |

3. Municipal License Taxes

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Juana Díaz. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2009, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$1 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due.

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Total municipal license tax receivable, amounted to \$9,736 at June 30, 2009.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the general fund. Unearned municipal license tax revenues recorded in the accompanying GWFS and the general fund amounted to \$1,653,897 at June 30, 2009. Those unearned municipal license revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2009-2010, therefore, generally cannot be used to pay obligations of the fiscal year 2008-2009.

The unearned municipal license, recorded in the general fund at June 30, 2009, include municipal license tax revenues of the fiscal year 2009-2010 amounting to \$1,653,897, which were collected in advance from taxpayers between January and June, 2009 (known in Spanish as "Patente en Suspenso").

4. Sales and Use Taxes

The Municipality is authorized by Law No. 117 of July 4, 2006, as amended by Law No. 80 of July 29, 2007, to impose and collect sales and uses taxes of one point five (1.5) percent to substantially all products and services sold or provided within the territorial limits of the Juana Díaz. The mentioned Laws establish the applicable tax rate. At June 30, 2009, the municipal sales and uses tax rate imposed by the Municipality was 1.50, from which the Municipality collect one (1) percent, and the Puerto Rico Secretary of the Treasury collect the remaining point five (.5) percent without including food and food ingredients as defined in Section 2301(a) of the Act No. 107.

The tax collected by merchants during a given month is due and must be paid accompanied by a sales and use tax return to the Municipality and to the Puerto Rico Treasury Department on or before the 20 days of the following month.

The sales and use tax receivable is recognized as revenue when it becomes measurable and available base on actual collection during the 30 days following the fiscal year-end related to sales and use tax returns due before year end.

Sales and use tax receivable of \$155,313 and \$55,722 in the general and debt service funds, respectively, represent actual collection during the 30 days following the fiscal year-end related to sales and use tax returns due before year end.

5. Property Taxes

The Municipality is authorized by Law No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of \$15,000 (at 1957 estimated market prices).

The Municipal Revenue Collection Center (CRIM, by its Spanish acronym) is a governmental entity not related to the Municipality which is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality and all other municipalities in the

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Commonwealth of Puerto Rico. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds (estimated collections) to the Municipality based on the initial estimated (forecasted) collection amounts for the fiscal year. 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 the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year. This settlement has to be completed on a final basis not later than December 31 following the fiscal year end. If in any given fiscal year, CRIM remits to the Municipality property tax advances that are less than the property taxes actually collected by CRIM on behalf of the Municipality, then CRIM will increase the amount of the monthly property tax advances during for the next fiscal year. However, if advances exceed the amount actually collected by CRIM, then CRIM will reduce the amount of the monthly property tax advances during the next fiscal year.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2009 was 7.03 percent (of which taxpayers pay 6.83 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2009 was 9.03 percent (of which 8.83 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively), except for property assessed for less than \$3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

According to Law No. 81, included within the total personal and real property tax rates of 7.03 percent and 9.03 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth of Puerto Rico but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the debt service fund of the Commonwealth of Puerto Rico, for the payment of the general long-term debt of the state government.

In addition, included within the total personal and real property tax rates of 7.03 percent and 9.03 percent, respectively, there is a portion of the tax rate in the amount of 2.00 percent that is restricted for the Municipality's debt service requirements of bonds. Such amounts are recorded in the Municipality's debt service fund.

The portion of the property taxes recorded in the general fund is used to finance the operating activities of the Municipality, including the payment of: (1) the insurance premiums acquired through the Puerto Rico Department of Treasury, (2) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM's operating expenses, (4) statutory contributions to the

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Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens, (5) certain notes payable to CRIM and the Puerto Rico Department of Treasury and, (6) certain amounts due to certain agencies and component units of the Commonwealth, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS. The 0.20 percent of unrestricted personal and real property taxes paid by the Puerto Rico Department of Treasury as a subsidy is recorded in the Municipality's general fund.

The Additional Lottery System of the Commonwealth of Puerto Rico (the Additional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth of Puerto Rico's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth of Puerto Rico, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth of Puerto Rico. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

At June 30, 2009, property taxes receivable recorded in the general and debt service fund amounted to \$57,473 and \$178,233, respectively.

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6. Intergovernmental Receivables and Payables

Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows:

| | Major governmental funds | Other governmental funds | Total governmental funds | Statement of net Assets |
|--|--------------------------------|--------------------------------|--------------------------------|-------------------------------|
| <i>Intergovernmental receivables:</i> | | | | |
| Grants and contributions: | | | | |
| U.S. Department of Housing and Urban Development - Community Development Block Grants Program | \$ 452,691 | - | 452,691 | \$ 452,691 |
| Puerto Rico Department of Public Works | - | 181,326 | 181,326 | 181,326 |
| Puerto Rico Municipal Revenue Collection Center | 358,613 | - | 358,613 | 358,613 |
| Puerto Rico Rural Development Corporation | - | 241,154 | 241,154 | 241,154 |
| Puerto Rico Transit Safety Commission | - | 95,431 | 95,431 | 95,431 |
| Puerto Rico Department of Labor | - | 112,635 | 112,635 | 112,635 |
| Puerto Rico Treasury Department – general fund | 114,304 | - | 114,304 | 114,304 |
| Puerto Rico Department of Education | - | 215,391 | 215,391 | 215,391 |
| Puerto Rico Emergency Management Agency | - | 55,986 | 55,986 | 55,986 |
| Puerto Rico Administration for Integral Care and Development of Children | 79,553 | 11,005 | 90,558 | 90,558 |
| Municipality of Ponce | - | 880 | 880 | 880 |
| Puerto Rico Special Communities Office | - | 2,768 | 2,768 | 2,768 |
| Total intergovernmental receivables | <u>\$ 1,005,161</u> | <u>916,576</u> | <u>1,921,737</u> | <u>\$ 1,921,737</u> |
| <i>Intergovernmental payables:</i> | | | | |
| Payroll withholdings (general fund): | | | | |
| U.S. Department of Treasury - Internal Revenue Service | \$ 60,167 | - | 60,167 | \$ 60,167 |
| Puerto Rico Treasury Department | 10,635 | - | 10,635 | 10,635 |
| Employees Retirement System of the Government of the Commonwealth of Puerto Rico | 95,612 | - | 95,612 | 95,612 |
| Puerto Rico Department of Labor | 58,285 | - | 58,285 | 58,285 |
| Utilities (general fund): | | | | |
| Puerto Rico Aqueduct and Sewer Authority | 29,177 | - | 29,177 | 29,177 |
| Puerto Rico Electric Power Authority | 32,229 | - | 32,229 | 32,229 |
| Miscellaneous (general fund): | | | | |
| General Services Administration | 134,619 | - | 134,619 | 134,619 |
| Total intergovernmental payables | <u>\$ 420,724</u> | <u>-</u> | <u>420,724</u> | <u>\$ 420,724</u> |

Intergovernmental receivables and payables represent the pending settlements of the aforementioned intergovernmental transactions.

At June 30, 2009, the earned and unavailable intergovernmental grant and contributions (deferred revenues) reported in the accompanying general fund, amounted to \$472,917.

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7. Inter-fund Transactions

The composition of inter-fund balances at June 30, 2009 and for the fiscal year then ended is as follows:

| <u>Due/advances to:</u> | Due/advances from: | | | | <u>Total governmental funds</u> |
|------------------------------------|--------------------------|---|---|---|---|
| | Major governmental funds | | | <u>Other governmental funds</u> | |
| | General fund | Debt service fund | Legislature joint resolutions fund | | |
| Major governmental funds: | | | | | |
| General fund | \$ - | 190,097 | 320 | 140,996 | \$ 331,413 |
| CDBG fund | 63,878 | - | - | - | 63,878 |
| Legislative joint resolutions fund | 1,650 | - | - | 107,639 | 109,289 |
| Head Start fund | 26,198 | - | - | - | 26,198 |
| Non-major governmental funds: | 895,847 | - | 127,508 | - | 1,023,355 |
| Total | <u>\$ 987,573</u> | <u>190,097</u> | <u>127,828</u> | <u>248,635</u> | <u>\$ 1,554,133</u> |
| Transfers out: | | | | | |
| <u>Transfers in:</u> | <u>General fund</u> | <u>Total governmental funds</u> | | | |
| Major governmental funds: | | | | | |
| Debt service fund | \$ 190,097 | \$ 190,097 | | | |
| Non-major governmental funds | 9,751 | 9,751 | | | |
| Total | <u>\$ 199,848</u> | <u>\$ 199,848</u> | | | |

The principal purposes of inter-fund receivables and payables are:

- Recognize in the debt service fund the amounts due from the general fund to cover the principal and interest payments on certain bonds, amounting to \$190,097. These payments are due on July 1, 2009.
- Recognize in the other governmental funds the amounts due from the general fund mostly for loans to the general fund (pool of cash in the general fund current bank account), amounting to \$140,996, to satisfy general fund current bank account cash needs.
- Recognize in the general fund the outstanding balance of the loans granted to CDBG fund (\$63,878), head start fund (\$26,198), and non-major funds (\$895,847) to temporarily cover the payroll and other operating costs of several federally and state funded programs.
- Recognize in the legislative joint resolutions fund the amounts due from (\$127,828) and due to (\$109,289) the non-major funds mostly for errors in the disbursements and deposits process.

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The principal purposes of inter-fund transfers are to:

- Make a routinary transfer of resources, amounting to \$190,097, from the general fund to the debt service fund to cover the principal and interest payments on certain bonds. These debt service payments were made on January and July 2009.
- Make a routinary transfer of cash from the general fund, amounting to \$9,751, to non-major funds, to cover costs of program operations in excess of available resources.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers at June 30, 2009

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8. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2009:

a) Governmental Activities

| | Cost basis at beginning of fiscal year | Additions | Reductions/ Reclassifications | Cost basis at end of fiscal year |
|--|---|-------------------|----------------------------------|---|
| <i>Cost basis:</i> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,453,035 | - | - | \$ 2,453,035 |
| Construction in progress | 28,392,635 | 4,137,019 | 8,500,000 | 24,029,654 |
| Total capital assets, not being depreciated | <u>30,845,670</u> | <u>4,137,019</u> | <u>8,500,000</u> | <u>26,482,689</u> |
| Capital assets, being depreciated: | | | | |
| Buildings, structures, and improvements | 30,619,128 | 11,760,766 | - | 42,379,894 |
| Infrastructure | 6,966,511 | - | - | 6,966,511 |
| Machinery and equipment, and furniture and fixtures | 4,324,343 | 311,292 | - | 4,635,635 |
| Office equipment under capital leases | 207,068 | - | - | 207,068 |
| Licensed vehicles | 5,337,992 | 460,881 | - | 5,798,873 |
| Total capital assets, being depreciated | <u>47,455,042</u> | <u>12,532,939</u> | <u>-</u> | <u>59,987,981</u> |
| Total cost basis of capital assets | <u>\$ 78,300,712</u> | <u>16,669,958</u> | <u>8,500,000</u> | <u>\$ 86,470,670</u> |
| | | | | |
| | Accumulated depreciation at beginning of fiscal year | Additions | Reductions/ Reclassifications | Accumulated Depreciation at end of fiscal year |
| Accumulated depreciation: | | | | |
| Buildings, structures, and improvements | \$ 10,316,242 | 977,751 | - | \$ 11,293,993 |
| Infrastructure | 1,873,869 | 268,377 | - | 2,142,246 |
| Machinery and equipment, and furniture and fixtures | 3,727,425 | 234,113 | - | 3,961,538 |
| Office equipment under capital leases | 150,150 | 35,882 | - | 186,032 |
| Licensed vehicles | 4,760,801 | 322,359 | - | 5,083,160 |
| Total accumulated depreciation | <u>20,828,487</u> | <u>1,838,482</u> | <u>-</u> | <u>22,666,969</u> |
| Net capital assets, governmental activities | <u>\$ 57,472,225</u> | <u>14,831,476</u> | <u>8,500,000</u> | <u>\$ 63,803,701</u> |

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2009.

The infrastructure assets recorded in the accompanying statement of net assets for \$4,824,265 (net of accumulated depreciation of \$2,142,246) do not include a substantial portion of the Municipality's general infrastructure assets that were constructed or acquired by the Municipality from 1980 through June 30, 2009.

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Several real property assets, including buildings, structures, land and land improvements have not been recorded in the accompanying statement of net assets at June 30, 2009.

Depreciation and amortization expense of governmental activities for the fiscal year ended June 30, 2009 was charged to functions/programs in the accompanying statement of activities as follows:

| | | |
|---|----|-----------|
| General government | \$ | 118,839 |
| Public safety | | 104,668 |
| Economic and urban development | | 831,828 |
| Health and sanitation | | 17,035 |
| Culture, recreation, and education | | 766,112 |
| Total depreciation and amortization expense | \$ | 1,838,482 |

b) Business-type Activities

| | Cost basis at beginning of fiscal year | Increase | Decrease | Cost basis at end of fiscal year |
|--|---|----------|----------|---|
| <i>Business-type activities:</i> | | | | |
| <i>Cost basis:</i> | | | | |
| Capital assets, not being depreciated - land | \$ 96,229 | - | - | \$ 96,229 |
| Total capital assets, not being depreciated | 96,229 | - | - | 96,229 |
| Capital assets, being depreciated: | | | | |
| Buildings, structures, and improvements | 3,453,388 | - | - | 3,453,388 |
| Machinery and equipment, and furniture and fixtures | 265,743 | 21,303 | - | 287,046 |
| Total capital assets, being depreciated | 3,719,131 | 21,303 | - | 3,740,434 |
| Total cost basis of capital assets | \$ 3,815,360 | 21,303 | - | \$ 3,836,663 |
| | | | | |
| | Accumulated depreciation at beginning of fiscal year | Increase | Decrease | Accumulated Depreciation at end of fiscal year |
| Accumulated depreciation and amortization: | | | | |
| Buildings, structures, and improvements | \$ 2,112,569 | 109,879 | - | \$ 2,222,448 |
| Machinery and equipment, and furniture and fixtures | 250,600 | 5,778 | - | 256,378 |
| Total accumulated depreciation | 2,363,169 | 115,657 | - | 2,478,826 |
| Net capital assets, business-type activities | \$ 1,452,191 | (94,354) | - | \$ 1,357,837 |

Depreciation and amortization expense of business-type activities, amounting to \$115,657 for the fiscal year ended June 30, 2009, was charged to the public housing and welfare function in the accompanying statement of activities.

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9. Deferred Revenues

At June 30, 2009, deferred revenues recorded in the GWFS and the governmental fund financial statements are as follows:

| | <u>General fund</u> | <u>Debt service fund</u> | <u>CDBG Fund</u> | <u>Nonmajor funds</u> | <u>Total governmental funds</u> | <u>Statement of net assets</u> |
|---|-------------------------|----------------------------------|----------------------|---------------------------|---|--|
| <i>Measurable and unavailable revenues:</i> | | | | | | |
| Intergovernmental grants and contributions | \$ 472,917 | - | - | - | 472,917 | \$ - |
| Total measurable and unavailable revenue | <u>472,917</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>472,917</u> | <u>-</u> |
| <i>Unearned revenues:</i> | | | | | | |
| Municipal licenses | 1,653,897 | - | - | - | 1,653,897 | 1,653,897 |
| Intergovernmental grants and contributions | - | - | 16,333 | 483,825 | 500,158 | 500,158 |
| Total unearned revenues | <u>1,653,897</u> | <u>-</u> | <u>16,333</u> | <u>483,825</u> | <u>2,154,055</u> | <u>2,154,055</u> |
| Total deferred revenues | <u>\$ 2,126,814</u> | <u>-</u> | <u>16,333</u> | <u>483,825</u> | <u>2,626,972</u> | <u>\$ 2,154,055</u> |

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10. Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2009 is as follows:

| | <u>Balance at beginning of fiscal year, as restated</u> | <u>Borrowings or additions</u> | <u>Payments and deductions</u> | <u>Balance at end of fiscal year</u> | <u>Balance due within one year</u> |
|--|---|--|--|--|--|
| <u>Governmental activities:</u> | | | | | |
| Bonds payable: | | | | | |
| General obligation serial bonds | \$ 16,347,000 | - | 675,000 | \$ 15,672,000 | \$ 673,000 |
| Public improvement serial bonds | 2,052,000 | - | 359,000 | 1,693,000 | 161,000 |
| Notes payable: | | | | | |
| Section 108 loan guarantee notes – series 2004-A | 5,450,000 | - | 50,000 | 5,400,000 | 50,000 |
| Puerto Rico Health Services Administration (PRHSA) | 356,882 | - | - | 356,882 | - |
| Municipal Revenue Collection Center: | | | | | |
| Law No. 146 of October 11, 2001 | 237,116 | - | 9,880 | 227,236 | 9,880 |
| Land Information Management System | 160,397 | - | 42,521 | 117,876 | 45,088 |
| Settlement Statement 2008-2009 | - | 1,502,303 | - | 1,502,303 | 1,502,303 |
| Puerto Rico Department of Treasury: | | | | | |
| Financing agreement to pay legal Judgment; JAC-96-0341 (603) | 192,608 | - | 32,257 | 160,351 | 48,852 |
| Financing agreement to pay legal judgment; JAC-2002-02-02, PE-2002-0223, 63-033-0660433516 | 129,986 | - | 51,330 | 78,656 | 54,766 |
| Financing agreement for payment of the excess of property tax advances over collections through 1992 | 9,327 | - | 7,952 | 1,375 | 1,375 |
| Obligations under capital leases | 60,173 | - | 33,010 | 27,163 | 22,891 |
| Compensated absences | 2,567,513 | 297,193 | 527,715 | 2,336,991 | 525,000 |
| Totals for governmental activities | <u>\$ 27,563,002</u> | <u>1,799,496</u> | <u>1,788,665</u> | <u>\$ 27,573,833</u> | <u>\$ 3,094,155</u> |
| <u>Business-type activities:</u> | | | | | |
| Mortgage notes payable: | | | | | |
| Section 515 loan no. 001 | \$ 1,208,661 | - | 22,035 | \$ 1,186,626 | \$ 23,864 |
| Section 515 loan no. 002 | 126,722 | - | 1,767 | 124,955 | 4,628 |
| Totals for business-type activities | <u>\$ 1,335,383</u> | <u>-</u> | <u>23,802</u> | <u>\$ 1,311,581</u> | <u>\$ 28,492</u> |

Historically, the general fund has been used to liquidate the notes payable to CRIM, the Puerto Rico Health Services Administration and the Puerto Rico Department of Treasury, compensated absences, obligations under capital leases and any other long-term liabilities other than bonds.

a) Debt Limitation

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

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- Direct obligations of the Municipality (evidenced principally by bonds) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

b) Bonds Payable

The Municipality issues general obligation and public improvement serial bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt is composed of bonds payable. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

As more fully described in Note 4, the Municipality levies an annual additional special property tax of 2.00 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at the Government Development Bank for Puerto Rico, fiscal agent, whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual and semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

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For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2009:

| | <u>Outstanding balance</u> |
|---|---------------------------------------|
| <u>General Obligation Bonds:</u> | |
| 1996 serial bonds (face amount of \$1,180,000) due in annual principal installments ranging from \$25,000 to \$110,000; plus interests due in semiannual installments at variable rates (6.2% at June 30, 2009) through July, 1, 2016. | \$ 690,000 |
| 1999 serial bonds (face amount of \$2,270,000) due in annual principal installments ranging from \$45,000 to \$215,000; plus interests due in semiannual installments at variable rates (5.78% at June 30, 2009) through July, 1, 2019. | 1,620,000 |
| 1999 serial bonds (face amount \$1,025,000) due in annual principal installments ranging from \$40,000 to \$115,000; plus interests due in semiannual installments at variable rates (4.1% at June 30, 2009) through July, 1, 2014. | 550,000 |
| 2003 serial bonds (face amount \$900,000) due in annual principal installments ranging from \$15,000 to \$75,000; plus interests due in semiannual installments at variable rates (4.1% at June 30, 2009) through July 1, 2026. | 780,000 |
| 2003 serial bonds (face amount of \$215,000) due in annual principal installments ranging from \$5,000 to \$15,000; plus interests due in semiannual installments at variable rates (4.1% at June 30, 2009) through July 1, 2026. | 180,000 |
| 2003 serial bonds (face amount of \$1,510,000) due in annual principal installments ranging from \$25,000 to \$120,000; plus interests due in semiannual installments at variable rates (4.38% at June 30, 2009) through July 1, 2027. | 1,330,000 |
| 2003 serial bonds (face amount of \$1,050,000) due in annual principal installments ranging from \$120,000 to \$180,000; plus interests due in semiannual installments at variable rates (3.93% at June 30, 2009) through July 1, 2009. | 180,000 |
| 2004 serial bonds (face amount of \$785,000) due in annual principal installments ranging from \$15,000 to \$65,000; plus interests due in semiannual installments at variable rates (4.38% at June 30, 2009) through July 1, 2027. | 690,000 |

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| | <u>Outstanding balance</u> |
|--|---------------------------------------|
| 2005 serial bonds (face amount of \$875,000) due in annual principal installments ranging from \$10,000 to \$65,000; plus interests due in semiannual installments at variable rates (4.38% at June 30, 2009) through July 1, 2028. | 790,000 |
| 2007 serial bonds (face amount of \$2,180,000) due in annual principal installments ranging from \$30,000 to \$185,000; plus interests due in semiannual installments at variable rates (2.43% at June 30, 2009) through July 1, 2031. | 2,115,000 |
| 2007 serial bonds (face amount of \$1,910,000) due in annual principal installments ranging from \$25,000 to \$160,000; plus interests due in semiannual installments at variable rates (2.43% at June 30, 2009) through July 1, 2031. | 1,855,000 |
| 2008 serial bonds (face amount of \$255,000) due in annual principal installments ranging from \$5,000 to \$20,000; plus interests due in semiannual installments at variable rates (2.43% at June 30, 2009) through July 1, 2032. | 250,000 |
| 2008 serial bonds (face amount of \$4,642,000) due in annual principal installments ranging from \$83,000 to \$4,047,000; plus interests due in semiannual installments at variable rates (3.93% at June 30, 2009) through July 1, 2015. | 4,642,000 |
| Total general obligation bonds | <u>15,672,000</u> |
| <u>Public Improvement Bonds:</u> | |
| 1995 serial bonds (face amount of \$1,758,000) due in annual principal installments ranging from \$44,000 to \$142,000; plus interests due in annual installments at variable rates (5.62% at June 30, 2009) through January 1, 2016. | 836,000 |
| 1995 serial bonds (face amount of \$615,000) due in annual principal installments ranging from \$10,000 to \$55,000; plus interests due in semiannual installments at variable rates (7.71% at June 30, 2009) through July 1, 2018. | 390,000 |
| 1996 serial bonds (face amount of \$835,000) due in annual principal installments ranging from \$18,000 to \$58,000; plus interests due in annual installments at fixed rate of 4.50% through January 1, 2019. | 467,000 |
| Total public improvement bonds | <u>1,693,000</u> |
| Total bonds payable | <u>\$ 17,365,000</u> |

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Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code.

Interest expense on bonds payable amounted to \$911,416 for the fiscal year ended June 30, 2009. Annual debt service requirements of maturity for bonds payable are as follows:

| Fiscal year ending June 30, | Principal | Interest | Total |
|--|----------------------|------------------|----------------------|
| 2010 | \$ 834,000 | 1,088,841 | \$ 1,922,841 |
| 2011 | 713,000 | 1,047,516 | 1,760,516 |
| 2012 | 758,000 | 1,003,189 | 1,761,189 |
| 2013 | 813,000 | 955,345 | 1,768,345 |
| 2014 | 870,000 | 903,964 | 1,773,964 |
| 2015-2019 | 7,572,000 | 2,589,669 | 10,161,669 |
| 2020-2024 | 2,300,000 | 1,443,582 | 3,743,582 |
| 2025-2029 | 2,460,000 | 693,563 | 3,153,563 |
| 2030-2034 | 1,045,000 | 84,825 | 1,129,825 |
| Totals | <u>\$ 17,365,000</u> | <u>9,810,494</u> | <u>\$ 27,175,494</u> |

c) Section 108 Loan Guarantee Notes Payable - Series 2004-A

On June 30, 2004, the Municipality entered into a loan guarantee commitment of \$5,500,000 with the U.S. Department of Housing and Urban Development (HUD) pursuant to an application under Section 108 of the Housing and Community Development Act of 1974 (Section 108). Section 108 commitments are required to be supported by a credit subsidy appropriation pursuant to the Federal Credit Reform Act of 1990 (Credit Reform Act) and implementing guidance issued by the U.S. Office of Management and Budget (OMB). Therefore, in connection with its guarantee of these notes, HUD obligated appropriated funds to cover the credit subsidy cost of the loan guarantee, as required under the Credit Reform Act. Under the Credit Reform Act procedures, such funds are disbursed into a financing account as loan proceeds are disbursed by the lender (a commercial bank). The financing account is in some respects equivalent to an internal loss reserve for the federal government. Each disbursement into the financing account is equal to the loan advance times the credit subsidy rate, which is part of HUD's budget approved by OMB and the Congress.

The proceeds of \$5,500,000 of the loan guarantee commitment are used by the Municipality to finance the construction of the Fine Arts Center and to provide low-income communities with another source of financing for the economic development, housing rehabilitation, public facilities and large-scale physical development projects. The notes on the loan guarantee commitment bear interest at various rates ranging from 3.50 percent to 6.70 percent. The

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proceeds and uses of the loan guarantee commitment are accounted for in the Section 108 loan guarantee, a non-major capital projects fund. The loan guarantee commitment is repaid with grant awards received from the Community Development Block Grants – Entitlement Grants Program (CDBG), administered by HUD. Principal and interest on these notes are accounted for in the Section 108 loan guarantee fund, a non-major capital projects fund. At June 30, 2009, the outstanding principal balance of the loan guarantee commitment amounted to \$5,400,000.

Interest expense on the Section 108 loan guarantee notes payable amounted to \$309,080 for the fiscal year ended June 30, 2009. The principal and interest maturities on the Section 108 loan guarantee commitment are as follows:

| Fiscal year ending June 30, | Principal | Interest | Total |
|--|---------------------|------------------|---------------------|
| 2010 | \$ 50,000 | 307,000 | \$ 357,000 |
| 2011 | 50,000 | 304,777 | 354,777 |
| 2012 | 100,000 | 301,240 | 401,240 |
| 2013 | 100,000 | 296,365 | 396,365 |
| 2014 | 150,000 | 290,075 | 440,075 |
| 2015-2019 | 1,500,000 | 1,271,353 | 2,771,353 |
| 2020-2024 | 2,850,000 | 519,110 | 3,369,110 |
| 2025-2029 | 600,000 | 18,030 | 618,030 |
| Totals | <u>\$ 5,400,000</u> | <u>3,307,950</u> | <u>\$ 8,707,950</u> |

d) Notes Payable to Puerto Rico Health Services Administration

The Municipality entered into a financing agreement with the Puerto Rico Health Services Administration (PRHSA) for the payment of the Municipality's debt on the payment of the government's public health insurance program (the Puerto Rico Health Reform) applicable to the residents of Juana Díaz for fiscal years 1994-1995 through 1996-1997. The note bears no interests and is payable with the Municipality's share on the state's Additional Lottery System of the Commonwealth of Puerto Rico (the Additional Lottery) as established by Law No. 29 of July 1, 1997 and described below.

As more fully described in Note 4, the Additional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent of its net earnings is earmarked to the municipalities of the Commonwealth of Puerto Rico, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth of Puerto Rico. When the accumulated

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municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

During fiscal year ended June 30, 2009, there were no payments or deductions applied to the notes payable due to PRHSA. The outstanding balance of these notes payable amounted to \$356,882 at June 30, 2009. No principal maturities are due during the fiscal 2008-2009.

e) Notes Payable to Municipal Revenue Collection Center

The Municipality had the following notes payables to Municipal Revenue Collection Center (CRIM, by its Spanish acronym) at June 30, 2009:

- **Land Information Management System (LIMS)** – On July 10, 2001, the Municipality entered into a financing agreement with CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by CRIM on behalf of all municipalities, for the management of a digital database of taxpayers properties located in Puerto Rico. The face amount of the loan was \$383,542 and bears no interest. The note is payable in monthly installments of \$2,972 through November 28, 2011. This note has an imputed interest rate of 5.95%. At June 30, 2009, the balance of this note, net of the unamortized discount of \$10,726, amounted to \$117,876.
- **Law No. 146** – On September 24, 2002, 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, as amended (Law No. 146). The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by Public Finance Corporation (PFC), a subsidiary of the Government Development Bank for Puerto Rico, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse.

The original face amount of the note allocated by CRIM to the Municipality was \$736,727, for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years. During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest, except for property tax receivables collections related to the transaction explained in the above paragraph, which will be applied as principal payment to reduce the debt balance. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. Interest payments on this financing agreement are accounted for in the general fund. The outstanding principal of the note payable to CRIM amounted to \$227,236, at June 30, 2009. Interest expense on these notes amounted to \$14,748 for the fiscal year ended June 30, 2009.

- **Fiscal Year 2008-2009 Settlement Statement** – On December 16, 2009, CRIM, as required by law, prepared the final settlement for the fiscal year 2008-2009, whereby a comparison was made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. According to the final settlement, advances to the

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Municipality exceeded the amount actually collected by the CRIM, and therefore, according to law, a payable to the CRIM amounted to \$1,502,303 should be recorded in the GWFS at June 30, 2009. But, although such debt was recorded in the GWFS as recommended by external auditors, the Municipality will start a legal proceeding to claim for a revision of final settlement for the fiscal year 2008-2009.

f) Notes Payable to Puerto Rico Department of Treasury

- **Financing Agreement to Settle Legal Judgments (JAC-96-0341 (603)** – On February 20, 2002 the Municipality obtained a loan from the Puerto Rico Department of Treasury to pay a legal judgment. The face amount of the loan was \$361,005, and bears no interest. The note is payable in monthly installments ranging from \$1,000 to \$10,055 through February 1, 2012. This note has an imputed interest rate of 6.50%. At June 30, 2009, the balance of this note, net of the unamortized discount of \$15,702, amounted to \$160,351. Discount amortization recorded as interest expense on these notes payable amounted to \$11,743 for the fiscal year ended June 30, 2009, which are recorded in the general fund.

- **Financing Agreement to Settle Legal Judgments (JAC-2002-02-02, JPE-2002-0223, 63-033-0660433516)** – On November 3, 2005 the Municipality obtained a loan from the Puerto Rico Department of Treasury to pay three legal judgments. The face amount of the loan was \$291,338, and bears no interest. The note is payable in monthly installments of \$4,855.83 through November 1, 2010. This note has an imputed interest rate of 6.50%. At June 30, 2009, the balance of this note, net of the unamortized discount of \$3,890, amounted to \$78,656. Discount amortization recorded as interest expense on these notes payable amounted to \$6,938 for the fiscal year ended June 30, 2009, which are recorded in the general fund.

- **Financing Agreement for Payment of the Excess of Property Tax Advances over Collections** - On November 1994 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 Rico Treasury Department amounted to \$1,375 at June 30, 2009. Discount amortization recorded as interest expense on these notes payable amounted to \$372 for the fiscal year ended June 30, 2009, which are recorded in the general fund.

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**MUNICIPALITY OF JUANA DÍAZ,
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Fiscal Year Ended June 30, 2009

g) Lease Obligations

The Municipality is obligated under capital leases with third parties that expire through 2011 for the acquisition of machinery and equipment. At June 30, 2009, the capitalized costs and the related accumulated depreciation of the leased machinery and equipment amounted to \$207,068 and \$186,033, respectively, which are accounted for as capital assets in the accompanying statement of net assets. Amortization charges applicable to capital leases and included within depreciation expense amounted to \$35,882 for the fiscal year ended June 30, 2009. The present value of the future minimum capital lease payments reported in the accompanying statement of net assets is as follows:

| | Fiscal year Ending June 30, | Amount |
|--|--|---------------|
| | 2010 | \$ 23,875 |
| | 2011 | 4,380 |
| Total future minimum lease payments | | 28,255 |
| Less: amounts representing future interests at a rate ranging from 4.20% to 7.50% | | (1,092) |
| Present value of minimum lease payments at June 30, 2009 | | 27,163 |
| Less: current portion of obligation under capital leases | | (22,891) |
| Obligation under capital leases, excluding current portion | | \$ 4,272 |

Interest expense on the obligations under capital leases amounted to \$2,834 for the fiscal year ended June 30, 2009, which is recorded in the general fund.

h) Compensated Absences

At June 30, 2009, the government-wide statement of net assets – governmental activities includes a liability amounting \$2,336,991, of which \$1,447,902 represents accrued sick leave benefits, and \$889,089 represents accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations. The Municipality did not have accurate and updated records of compensated absences (accrued vacations and sick leave). In addition, the liability for compensated absences, recorded in the accompanying statement of net assets for \$2,336,991, does not include the accumulated compensatory time of all employees of the Municipality, which are required by GASB No. 16.

i) Mortgage Notes Payable - Section 515 (business-type activities)

The long-term debt of Villas del Parque (FmHA Project No. 63-033-0690660049) consist of two mortgages notes, collateralized with land and buildings, payable to the U.S. Department of Agriculture Rural Development in monthly installments of \$8,880 and \$1,094, respectively, including interest at an annual rate of 8.00% and 10.00%, respectively, (reduced to 7.00% and 9.00%, respectively) through December 2029.

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Notes to Basic Financial Statements
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At June 30, 2009, the outstanding principal balance of the two mortgage notes amounted to \$1,186,626 and \$124,955, respectively. The mortgages notes are subject to various positive, negative and restrictive covenants that the Municipality has complied with at June 30, 2009.

Accrued interest payable on these notes amounted to \$7,903 at June 30, 2009 which is recorded as part of business-type activities in the accompanying statement of net assets and the statement of net assets – proprietary fund. Interest expense on these notes amounted to \$95,735 for the fiscal year ended June 30, 2009, which is recorded in the accompanying statement of activities and the statement of revenues, expenses and changes in fund net assets – proprietary fund.

11. Employees' Retirement Systems

a) Plan Description

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed.

ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

- ***Retirement Annuity***

ERS members are eligible for a retirement annuity upon reaching the following age:

| | |
|--------------------------------------|--------------------------------------|
| Policemen and firemen: | Other employees: |
| 50 with 25 years of credited service | 55 with 25 years of credited service |
| 58 with 10 years of credited service | 58 with 10 years of credited service |

ERS members are eligible for monthly benefit payments determined by the application of the stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a member is eligible, is limited to a minimum of \$300 per month and a maximum of 75 percent of the average compensation.

- ***Merit Annuity***

ERS members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65 percent and a maximum of 75 percent of the average compensation.

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- ***Deferred Retirement Annuity***

A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.

- ***Coordinated Plan***

On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- (a) \$165 per month, if retired with 55 years of age and 30 years of credited service.
- (b) \$110 per month, if retired with less than 55 years of age and 30 years of credited service.
- (c) All other between \$82 and \$100 per month.
- (d) Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

- ***Non-Coordinated Plan***

On the non-coordinated plan the participating employee and does not have any change on the pension benefits upon receiving social security benefits.

- ***Reversionary Annuity***

An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than \$240 per year or greater than the annuity payments being received by the retiree.

- ***Occupational Disability Annuity***

A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50 percent of the compensation received at the time of the disability.

- ***Nonoccupational Disability Annuity***

A participating employee, totally and permanently disabled for causes not related to his/her occupation and with no less than 10 years of credited service, is eligible for an annuity of 1.50 percent of the average compensation of the first 20 years of credited services, increased by 2 percent for every additional year of credited service in excess of 20 years.

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- ***Death Benefits***

Occupational:

(a) **Surviving spouse** – annuity equal to 50 percent of the participating employee’s salary at the date of the death.

(b) **Children** - \$10 per month for each child, minor or student, up to a maximum benefit per family of \$100.

Nonoccupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Post-retirement:

Beneficiary with surviving spouse age 60 or over and a child, 18 or under, up to 30 percent (60 percent, if not covered under Title II of the Social Security Act) (increased to 50 percent effective January 1, 2005) of retiree’s pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of \$750.

- ***Refunds***

A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.

- ***Cost of Living Adjustment for Pension Benefits***

Public Act No. 10 of May 21, 1992 (Act No. 10) provided for increases of 3 percent every three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years subject to the presentation of actuarial studies regarding its costs and the source of financing. To protect the financial health of ERS, the increase granted during 2001 and the one granted on January 1, 2005 are being financed by the Municipality and the other participating employers.

To avoid any economic impact on ERS, the employers are responsible for contributing to ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the participants covered until the participants reach the normal retirement age.

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**MUNICIPALITY OF JUANA DÍAZ,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

- ***Amendment to Act No. 447 effective January 1, 2000 to create a Defined Contribution Plan***

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as System 2000, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

Historically, the state government of the Commonwealth of Puerto Rico has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

- ***Recent Amendments to Act No. 447***

The Senate and the House of Representatives of the Commonwealth of Puerto Rico have the authority for establishing or amending the contribution requirements of System 2000 by approving the necessary amendments or laws, subject to the final approval of the Governor of the Commonwealth of Puerto Rico.

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Notes to Basic Financial Statements
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In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following certain benefits to retirees:

- (a) Increase in minimum monthly pension payments to \$300, effective January 1, 2005.
- (b) Triennial 3 percent increase in all pensions, effective January 1, 2005.
- (c) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2005.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective November 17, 2003, an increase in the amount granted on personal loans to participating employees from \$3,000 to \$5,000.

b) Funding Policy

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

| | |
|----------------------------------|---|
| Municipality and other employers | 9.28 percent of applicable payroll |
| Employees: | |
| Coordination plan: | 5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600. |
| Supplementation plan: | 8.28 percent of gross salary. This is the only choice available to policemen, firemen and mayors |

The contribution requirement to System 2000 is also established by law and is not actuarially determined. These contributions are as follows:

| | |
|----------------------------------|---|
| Municipality and other employers | 9.28 percent of applicable payroll |
| Employees: | 5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600. |

**MUNICIPALITY OF JUANA DÍAZ,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

c) Actual Contributions

The actual combined employer and employee contributions to ERS and System 2000, which are equal to the statutory required contributions, were approximately \$464,954 and \$330,459, respectively.

During the fiscal years ended June 30, 2007, 2008, and 2009, the Municipality and the participating employees contributed at least 100 percent of the required contributions to ERS and System 2000. The authority under which obligations to contribute to ERS and System 2000 by the plans' members, employers and other contributing entities (i.e., state or municipal contributions) are established or may be amended by law by the House of Representatives, the Senate and the Governor of the Commonwealth of Puerto Rico.

Readers can obtain copies of the audited basic financial statements (GAAP basis) of ERS and System 2000 by writing to the Retirement Systems Administration of the Commonwealth of Puerto Rico (the entity that administers ERS and System 2000) at PO Box 42003, Minillas Station, Santurce, Puerto Rico 00940.

12. Landfill Closure and Postclosure Care Costs Obligations

The Municipality owns a municipal solid waste landfill. However, the Municipality has not adopted the required provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environment Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. According to these standard and regulations, the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Municipality has not performed an independent study of the activities that need to be implemented at the Municipality's solid waste landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations and, accordingly, the accompanying statement of net assets does not include the required liability for closure and postclosure care costs of the solid waste landfill using current costs allocated based on the actual landfill capacity used at June 30, 2009.

The Municipality has a contract with a private company to operate its municipal solid waste landfill for a period of twenty (20) years started on June 1, 2004. As part of its contract to operate the landfill, the private company agreed to provide closure and postclosure care subject to the following conditions: (1) the private company will be operating the landfill up to the termination of the space of the landfill; (2) the landfill will not be ordered to stop accepting waste in the first ten (10) years of contract term; (3) if during the contract period, the company is ordered to close the landfill to develop any other alternate facility for waste disposition, the private contractor will have preference status to operate it.

However, because as owner of a solid waste landfill the Municipality is primarily liable under applicable federal, state, or local law and regulations, the Municipality, as part of the evaluation of the proposals submitted by private companies interested to operate the landfill, partially considered the

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

financial capability and stability of all of interested private companies to meet closure and postclosure care obligations when they are due. However, since the independent required study referred to above has not been prepared at June 30, 2009, the Municipality was unable to verify the economic impact of the closing and postclosing care costs, which remain undetermined at June 30, 2009. It is the management's conclusion that the private company selected and actually operating the landfill will be able to meet its contractual obligations about the closure and postclosure care costs, subject to the conditions listed above.

13. Commitments, Contingencies and Uncertainties

Claims and Judgments

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are allowed to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities. With respects to pending or threatened litigation, the Municipality has reported no liabilities as of June 30, 2009. Management believes, 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.

Encumbrances

The Municipality has reported, outstanding encumbrances amounting to \$280,821 in the general fund at June 30, 2009. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

Federal Financially Assisted Programs

The Municipality receives financial assistance from the federal government in the form of grants and entitlements. Receipts of grants are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal law and regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133). Disallowance as a result of these audits may become liabilities of the Municipality

Management Agreement of Villas del Parque (FmHA Project No. 63-033-0690660049)

**MUNICIPALITY OF JUANA DÍAZ,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

The Municipality maintains entered into a management agreement with GR Management Corp., for the administration of Villas del Parque (FmHA Project No. 63-033-0690660049). Management fees amounted to \$41,580 for the fiscal year ended June 30, 2009 and consist of a monthly fixed payment established in the Administrative Notice PR AN No. 125 (Inst. 1930-C).

14. Prior-Period Adjustments and Restatements

During the current fiscal year, the Municipality revised its government-wide financial statements, which resulted in the correction of balance of long term debt balance reported in the prior year government wide financial statements. This error consists principally in the effect of recording an amount in excess of the total long-term liability payable to Puerto Rico Treasury Department by \$43,162.

a) Government-Wide Financial Statements

The following schedule reconciles the total net asset balance at June 30, 2008, as previously reported by the Municipality, to the beginning net assets, as restated in the accompanying GWFS:

| | <u>Net assets – governmental activities</u> | <u>Net assets – business-type activities</u> | <u>Total net assets</u> |
|---|---|--|-----------------------------|
| As previously reported in the audited financial statements at June 30, 2008 | \$ 41,356,874 | 213,462 | \$ 41,570,336 |
| Add:(deduct): prior-period adjustments | 43,162 | - | 43,162 |
| Total net assets at June 30, 2008, as restated | <u>\$ 41,400,036</u> | <u>213,462</u> | <u>\$ 41,613,498</u> |

End of Notes to Basic Financial statements

**Required Supplementary Information
Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2009**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ
 Budgetary Comparison Schedule – General Fund
 Fiscal Year Ended June 30, 2009

| | <u>Budgeted amounts</u> | | <u>Actual amounts (budgetary basis)</u> | <u>Variance with final budget – over (under)</u> |
|--|-------------------------|-------------------|---|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Property taxes | \$ 3,259,304 | 3,405,295 | 3,387,146 | \$ (18,149) |
| Municipal license taxes | 2,035,625 | 2,035,625 | 1,811,257 | (224,368) |
| Sales and use taxes | 1,339,000 | 1,339,000 | 1,697,963 | 358,963 |
| Construction excise taxes | 2,413,727 | 2,413,727 | 1,260,949 | (1,152,778) |
| Intergovernmental grants and contributions | 6,043,558 | 6,043,558 | 6,126,670 | 83,112 |
| Interest on deposits | 326,140 | 326,140 | 220,506 | (105,634) |
| Charges for services | 341,600 | 341,600 | 407,651 | 66,051 |
| Miscellaneous | 304,500 | 304,500 | 496,898 | 192,398 |
| Total revenues | <u>16,063,454</u> | <u>16,209,445</u> | <u>15,409,040</u> | <u>(800,405)</u> |
| Expenditures and encumbrances: | | | | |
| General government | 5,191,950 | 5,392,365 | 5,654,651 | (262,286) |
| Urban and economic development | 3,568,655 | 3,551,668 | 3,536,184 | 15,484 |
| Health and sanitation | 963,248 | 1,050,116 | 1,156,062 | (105,946) |
| Public safety | 3,859,301 | 3,850,208 | 3,645,139 | 205,069 |
| Public housing and welfare | 336,762 | 285,025 | 283,583 | 1,442 |
| Culture, recreation and education | 1,641,138 | 1,631,870 | 1,628,866 | 3,004 |
| Capital outlays | 310,700 | 256,493 | 249,545 | 6,948 |
| Total expenditures | <u>15,871,754</u> | <u>16,017,745</u> | <u>16,154,030</u> | <u>(136,285)</u> |
| Revenues over (under) expenditures and encumbrances | <u>191,700</u> | <u>191,700</u> | <u>(744,990)</u> | <u>(936,690)</u> |
| Other financing sources (uses): | | | | |
| Transfer to other governmental funds | (191,700) | (191,700) | (190,097) | 1,603 |
| Total other financing sources (uses) | <u>(191,700)</u> | <u>(191,700)</u> | <u>(190,097)</u> | <u>1,603</u> |
| Net increase (decrease) in fund balance (deficit) | <u>\$ -</u> | <u>-</u> | <u>(935,087)</u> | <u>\$ (935,087)</u> |

Reconciliation of differences:

Sources/inflows of financial resources:

Actual amounts (budgetary basis) "available for appropriations"

from the budgetary comparison schedule

\$ 15,409,040

Differences - budgetary basis to GAAP:

Differences in bases of accounting:

GAAP adjustments to revenues

57,821

Total revenues reported on the statement of

revenues, expenditures and changes in fund balances

\$ 15,466,861

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ
 Budgetary Comparison Schedule – General Fund
 Fiscal Year Ended June 30, 2009

Reconciliation of differences (concluded):

Uses/outflows of financial resources:

| | |
|---|---------------|
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | \$ 16,344,127 |
|---|---------------|

Timing differences:

| | |
|---|-----------|
| Current year encumbrances recorded as expenditures for budgetary purposes | (280,822) |
|---|-----------|

| | |
|--|---------|
| Prior year encumbrances recorded as expenditures for GAAP purposes | 175,957 |
|--|---------|

Entity differences

| | |
|---------------------------------------|-------|
| Non-budgeted transfers to other funds | 9,751 |
|---------------------------------------|-------|

| | |
|---------------------------|-------|
| Non-budgeted expenditures | 6,540 |
|---------------------------|-------|

| | |
|---|----------------------|
| Total expenditures and other financing sources reported on the statement of revenues, expenditures and changes in fund balances | <u>\$ 16,255,553</u> |
|---|----------------------|

See accompanying notes to financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

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>Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|--------------------------------------|---------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE: | | | |
| Pass-through the Department of Education of the Commonwealth of Puerto Rico: | | | |
| Child and Adult Care Food Program | 10.558 | Not Available | <u>514,750</u> |
| Total U.S. Department of Agriculture | | | <u>514,750</u> |
| U.S. DEPARTMENT OF TRANSPORTATION: | | | |
| Pass-through the Transit Safety Commission of the Commonwealth of Puerto Rico: | | | |
| Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | 20.601 | Not Available | <u>85,592</u> |
| Total U.S. Department of Transportation | | | <u>85,592</u> |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | |
| Direct Programs: | | | |
| Community Development Block Grant – Entitlement Grants | 14.218 | | 1,937,305 |
| Section 108 Loan Guarantee | 14.248 | | 126,561 |
| Section 8 Housing Choice Vouchers Program | 14.871 | | 649,799 |
| Pass-through the Office of the Commissioner of Municipal Affairs of the Commonwealth of Puerto Rico: | | | |
| Community Development Block Grants – State Administered Small Cities Program | 14.228 | Not Available | <u>212,610</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>2,926,275</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUATION)

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>Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|--------------------------------------|---------------------------------|
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE: | | | |
| Pass-Through the Communal Services Institute: | | | |
| Community Services Block Grant | 93.569 | Not Available | 954 |
| Pass-Through the Administration for Integral Care and Development of Children of the Commonwealth of Puerto Rico: | | | |
| Community Services Block Grant | 93.569 | Not Available | 11,005 |
| Head Start Program | 93.600 | Not Available | 5,986,540 |
| Child Care and Development Block Grant | 93.575 | Not Available | 84,036 |
| Pass-Through the Municipality of Ponce, Commonwealth of Puerto Rico | | | |
| HIV Emergency Relief Project Grant | 93.914 | Not Available | <u>113,628</u> |
| Total U.S. Department of Health and Human Service | | | <u>6,196,163</u> |
| DEPARTMENT OF HOMELAND SECURITY | | | |
| Direct Programs: | | | |
| Law Enforcement Terrorism Prevention Program | 97.074 | | 2,450 |
| Pass-Through the Governor's Authorized Representative at the Federal Emergency Management Agency: | | | |
| Public Assistance Grants | 83.544 | Not Available | 2,912 |
| Pass-Through the Governor's Office – Public Security Affairs Office of the Commonwealth of Puerto Rico | | | |
| Homeland Security Grant Program | 97.067 | Not Available | <u>174,189</u> |
| Total Department of Homeland Security | | | <u>179,551</u> |
| TOTAL EXPENDITURE OF FEDERAL AWARDS | | | <u>\$ 9,902,331</u> |

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

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 Juana Díaz, 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 sub recipient. Numbers identified as N/AV are not available.

NOTE 5 – MAJOR PROGRAMS

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

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 Juana Díaz, Puerto Rico**

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of **Juana Díaz**, 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 2, 2010. My report was modified to include a reference to other auditors. The report on the governmental fund financial and business-type activities 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, the liability related to the solid waste landfill and the balance of compensated absences accumulated in the financial statements. 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. Other auditors audited the financial statements of Villas del Parque (FmHA Project No. 63-033-0690660049), a business-type activity (proprietary fund), as described in my report on the Municipality's financial statements. This report does not include the results of the auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 through 09-II-05.

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)

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider items 09-II-02 through 09-II-05 to be material weaknesses.

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 2, 2010.

The Municipality's response to the findings identified in my audit is 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 2, 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 Juana Díaz, Puerto Rico**

Compliance

I have audited the compliance of the Municipality of **Juana Díaz**, 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.

The Municipality's basic financial statements include the financial statements of Villas del Parque (FmHA Project No. 63-033-0690660049) (Villas del Parque), a proprietary fund which Single Audit report reflect total revenues and expenditures (expenses) of federal awards of \$415,696 and \$479,617, respectively, for the fiscal year ended June 30, 2009. Other auditors audited the compliance of Villas del Parque, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to the major program of Villas del Parque for the fiscal year ended June 30, 2009. This report does not include the results of the other auditors' testing of compliance or internal control over compliance that are reported on separately by those auditors.

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-06 and 09-III-07 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Davis-Bacon Act and Special Test-Rehabilitation that are applicable to its Community Development Block Grant – Entitlement Grants. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

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

As described in items 09-III-08, 09-III-09, 09-III-10, 09-III-11 and 09-III-12 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Cost, Cash Management, Matching, Level of Effort, Earmarking and Procurement and Suspension and Debarment that are applicable to its Head Start Program. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 09-III-13 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Reporting that is applicable to its Section 8 Housing Choice Vouchers. 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-14, 09-III-15, 09-III-16 and 09-III-17 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Cost, Cash Management, Procurement, Suspension and Debarment and Period of Availability that are applicable to its Child and Adult Care Food Program. 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.

Internal Control Over Compliance

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing 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.

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

I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 09-III-06 through 09-III-17 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-07, 09-III-09, 09-III-10, 09-III-13, and 09-III-17 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
March 20, 2010



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

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 X | No |
| Significant deficiencies identified not considered to be material weaknesses? | Yes X | None reported |
| Noncompliance material to financial statements noted? | Yes | No X |

Federal awards

| | | |
|---|------------------|---------------|
| Internal Control over major programs: | | |
| Material weakness identified? | Yes X | No |
| Significant deficiencies identified not considered to be material weaknesses? | Yes X | None reported |
| Type of auditor’s report issued on compliance for major programs: | Qualified | |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | Yes X | No |

Identification of major programs

| CFDA Number | Name of Federal Program or Cluster |
|-------------|---|
| 10.558 | Child and Adult Care Food Program |
| 14.218 | Community Development Block Grants – Entitlement Grants |
| 14.871 | Section 8 Housing Choice Voucher Program |
| 93.600 | Head Start Program |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

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 a 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 generally accepted accounting principles in the United States of America (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. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|---|---|
| FINDING | 09-II-01 (CONTINUATION) |
| REQUIREMENT | ACCOUNTING RECORDS AND REPORTING SYSTEM |
| 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. |
| RECOMMENDATION | I recommend management to establish the necessary internal controls and procedures in order to establish a complete accounting system that provides for the preparation of financial statements in accordance with GAAP. |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | <p>The Municipality maintains two set of accounting records; a manual system and a uniform computerized accounting system provided in the past by the Office of the Commissioner of Municipal Affairs (OCAM). Actually, all of the transactions were recorded in both systems, but the manual system is the primary financial records for financial statements preparation purposes at the end of each fiscal year, due to the fact that the computerized system real accounts balances carried forward from prior years were affected by accounting errors in the first years of the system operation.</p> <p>As part of the corrective action plan, OCAM consider alternatives to improve the accounting system, including the acquisition of new accounting software, and therefore, we will hope to solve our accounting system condition in a near future. Nevertheless, we began the process to implement the Peachtree accounting software, in order to maintain monthly reconciled records of all of our funds.</p> <p>Implementation Date: June 30, 2011 Responsible Person: Mr. Francisco Torres- Finance Department Director</p> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|---|---|
| FINDING NUMBER | 09-II-02 |
| REQUIREMENT | ACCOUNTING RECORDS- BANK RECONCILIATIONS |
| CONDITION | The Municipality does not have effective internal control procedures to ensure that the bank reconciliations were prepared accurately and in a timely manner. |
| CONTEXT | During my cash test, I noted that the Municipality does not have effective internal control procedures to ensure the prompt preparation of the bank reconciliations of the current and payroll accounts. During my audit procedures, I found that these bank reconciliations were prepared various months after the end of the fiscal year. |
| CRITERIA | Chapter IV, Section 12 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM), establishes that the accounting system of the municipalities shall provide for the timely and accurate preparation of bank reconciliations. In addition, the Municipality shall prepare a monthly report of revenues and disbursements, which has to be reconciled with the bank reconciliations. |
| CAUSE | The Municipality's internal control procedures failed to assure that the bank reconciliations were prepared in a complete manner and within the time required by law. |
| EFFECT | The Municipality is not in compliance with Chapter IV, Section 12 of the Municipal Administration Regulatory Manual of the OCAM. |
| RECOMMENDATION | I recommend management to continue improving the internal control procedures over the preparation of the bank reconciliations and assure that accounting records are reconciled with these bank reconciliations within a reasonable amount of time in order to maintain proper control over cash. |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | The assigned Fiscal staff with the responsibilities to prepare the current and payroll account bank reconciliations has been properly advised of the need to reconcile these bank accounts in a reasonable lapse of time after the end of each month, not to exceed thirty (30) days. |

Implementation Date: June 30, 2010

Responsible Person: Mr. Francisco Torres- Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|---|--|
| FINDING | 09-II-03 |
| 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 internal controls and procedures to ensure that all capital expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality did not have adequate supporting documentation of the cost of the capital assets reported in the property records. |
| 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, stated that Municipality should maintain updated property accounting records. |
| CAUSE | The Municipality did not maintain an adequate control of the accountability of its capital assets. |
| 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, support it with adequate documentation and reconcile it with the capital assets subsidiary ledger. |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | <p>The Municipality's Finance Department staffs are still in the process of updating the capital assets subsidiary ledger, in order to comply with the requirements established in the GASB No. 34. We expect to complete this process during the fiscal year 2009-2010.</p> <p>Implementation Date: June 30, 2010 Responsible Person: Mr. Francisco Torres- Finance Department Director</p> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|-----------------------|---|
| FINDING NUMBER | 09-II-04 |
| REQUIREMENT | ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS |
| CONDITION | The Municipality did not adjust in its government wide financial statements, the required liability for closure and post closure care costs based on an adequate study of the activities of the solid waste landfill. |
| CONTEXT | At June 30, 2009, the Municipality did not realize the required study of the available space and the estimated cost of the closing and post closing of the Municipality's waste landfill. In addition, the amount of expenses recorded in the financial statements is based on an estimate made by the Municipality's management. |
| CRITERIA | Regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria"; the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. GASB 18 requires the Municipality to perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality must recognize a liability in its statement of net assets at June 30, 2009. |
| CAUSE | The Municipality did not maintain an adequate control of the accountability of the closure and post closure care costs of Municipal solid waste landfill. In addition, the Municipality did not perform the study required by EPA and GASB 18. |
| EFFECT | The Municipality is not in compliance with GASB 18 and the "Solid Waste Disposal Facility Criteria" issued by the U.S. Environmental Protection Agency. |
| RECOMMENDATION | I recommend management to perform the study of the activities that need to be implemented at the Municipality's solid waste landfill facilities and determine the amount of the liability that should be reported in the governmental activities. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|-----------------------|--|
| FINDING NUMBER | 09-II-04 (CONTINUATION) |
| REQUIREMENT | ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS |

**MANAGEMENT RESPONSE
AND CORRECTIVE ACTION PLAN**

The Municipality owns a solid waste landfill (“MSWLF”) and has a contract with a private company to operate its MSWLF for a period of twenty (20) year started on June 1, 2004. As part of its contract to operate the MSWLF, the private company agrees to provide closure and postclosure care subject to the following conditions: a) the private company will be operating the MSWLF up to the termination of the air space of the MSWLF; b) the MSWLF will not be ordered to stop accepting waste in the first ten (10) years of contract term; c) if during the contract period is ordered to close the MSWLF and to development any other alternate facility for waste disposition, the private contractor will have preference status to operate it. However, because the Municipality may be contingently liable under applicable federal, state, or local law and regulations, the Municipality, as part of the evaluation of the proposals submitted by private companies interested to operate the MSWLF, the Municipality considers the financial capability and stability of all of interested private companies to meet closure and postclosure care obligations when they are due. It’s the Municipality’s conclusion that the private company selected and actually operating the MSWLF will be able to meet its contractual obligations about the closure and postclosure care costs, subject to the conditions listed above.

Implementation Date: June 30, 2011

Responsible Person: Mr. Francisco Torres-Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|---|--|
| FINDING NUMBER | 09-II-05 |
| REQUIREMENT | ACCOUNTING RECORDS- COMPENSATED ABSENCES |
| CONDITION | The Municipality does not maintain accurate cumulative records of the compensated balances of the Municipality's employees. |
| CONTEXT | During my examination of the payroll process, I noted that the amounts reported in the cumulative records of compensated balances of the Municipality's employees, were incomplete and were not updated to reflect the real balance of the accumulated vacations and sick leaves at June 30, 2009. |
| CRITERIA | GASB 16, Accounting for Compensate Absences, issued by the Governmental Accounting Standards Board, establishes the standards for accounting and reporting for compensated absences for state and local governments. |
| CAUSE | The Municipality did not maintain adequate internal control procedures to assure that the time and attendance records are reconcile and updated on a monthly basis. |
| EFFECT | The Municipality is not in compliance with GASB 16, Accounting for Compensate Absences, issued by the Governmental Accounting Standards Board. |
| RECOMMENDATION | I recommend management to update and reconcile, on a monthly basis, the cumulative records of compensated balances of the employees, with the time and attendance records. |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | As part of the corrective action plan, the Human Resources Department staffs were instructed to update, on a monthly basis, the cumulative records of compensated absences of each Municipality's employee. |

Implementation Date: June 30, 2010

Responsible Person: Mr. Francisco Torres- Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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| FINDING NUMBER | 09-III-06 |
| FEDERAL PROGRAM | COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | DAVIS-BACON ACT |
| CONTEXT | The Program disbursed funds without obtaining the payrolls required by the Davis-Bacon Act. |
| CONDITION | During my Davis-Bacon Act test, I examined three (3) construction contracts that were active during fiscal year 2008-2009 and noted that in the project “Repavement of Roads and Streets”, the responsible person of the monitoring procedures did not obtain the weekly payrolls for review. |
| CRITERIA | Davis- Bacon Act, 42 USC 5310. |
| CAUSE | The Municipality failed to apply all the monitoring procedures developed to test applicable contractors with respect to the payment of prevailing wages. |
| EFFECT | The Municipality is not in compliance with Davis- Bacon Act, Davis-Bacon Act, 42 USC 5310. |
| RECOMMENDATION | I recommended management to obtain the contractor’s payrolls to be reviewed on a weekly basis and to document adequately, that the wages paid by the contractors are in accordance with the wages established by the Department of Labor and revise that all the employees that were interviewed were included in the contractor’s weekly payrolls. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | As part of our corrective action plan, we gave instructions to the program staff to perform the required visits to the project “Repavement of Roads and Streets”, in order to monitor the classifications of the workers. Also, we gave instructions to program staff to obtain and monitor the project weekly payrolls, in order to verify the contractor’s compliance with respect to payment of prevailing wages. |

Implementation Date: April 30, 2010

Responsible Person: Mrs. Ramonita Rentas- Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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| FINDING NUMBER | 09-III-07 |
| FEDERAL PROGRAM | COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | SPECIAL TEST- REHABILITATION |
| CONDITION | The Program failed to maintained appropriate supporting documentation regarding the inspections of the rehabilitation work upon completion in accordance with the contracts specifications. |
| CONDITION | During my housing rehabilitation test, I examined eight (8) participant's files and noted that there was no sufficient evidence of the Program's inspector visits, to follow up the usage of the material given to the participants. |
| CRITERIA | Code of Federal Regulations 24, Section 570.506 (b) state that at a minimum, the grantee should maintain records demonstrating that each activity undertaken meets one of the three national objectives of the CDBG Program. Also, Code of Federal Regulations 24, Section 570.506 (b) (9) states that when CDBG Entitlement Grant funds are used for residential rehabilitation activity to aid in the prevention or elimination of slums or blight in a slum or blighted area, the grantee must maintain records to support the local definition of "substandard", must document a pre-rehabilitation inspection report describing the deficiencies in each structure to be rehabilitated, and must document the details in each structure to be rehabilitated, and must document the details and scope of CDBG assisted rehabilitation, by structure. |
| CAUSE | The Municipality's internal controls and procedures failed to assure that the required unit's inspections were performed in accordance with the Federal regulation. |
| EFFECT | The Municipality is not in compliance with Code of Federal Regulations 24, Section 570.506 (b) and (b) (9). |
| RECOMMENDATION | I recommend management to follow the adequate procedures in order that the Program's personnel inspects the rehabilitation units to assure that is carried out in accordance with the Federal regulation. |
| QUESTIONED COSTS | None |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|---|---|
| FINDING NUMBER | 09-III-07 (CONTINUED) |
| FEDERAL PROGRAM | COMMUNITY DEVELOPMENT BLOCK GRANT- ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | SPECIAL TEST- REHABILITATION |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | As part of our correction action plan, we gave specific instructions to the program staff to assure that the procedures established in the operational guide are followed. These instructions include advice the need to follow up the usage of the material given to the participants through on-site visits. Implementation Date: April 30, 2010 Responsible Person: Mrs. Ramonita Rentas- Program Director |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|------------------------|---|
| FINDING NUMBER | 09-III-08 |
| FEDERAL PROGRAM | HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN) |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | ALLOWABLE COST/ COST PRINCIPLES |
| CONDITION | During the fiscal year 2008-2009, the Program disbursed funds without the appropriate supporting documentation established by the Federal and State regulations. |
| CONTEXT | <p>During my disbursement test, I examined seventy three (73) non payroll payments vouchers and noted the following conditions:</p> <ul style="list-style-type: none">a. In December 2, 2008, the Program formalized a contract amounting to \$10,720, from December 13, 2008 to May 30, 2009, for training purposes. The supplier issued an invoice for the services rendered, in December 10, 2009, in the amount of \$6,540. According to the supporting documents, the supplier provides services to the Program before the starting date established in the contract. In addition, the purchase orders for this contract were issued in January 21, 2009 and February 23, 2009, after the services were rendered by the supplier;b. The invoice for check 7909 of March 27, 2009, in the amount of \$3,088, for professional services rendered, was not available for my examination;c. Thirteen (13) invoices were not marked as "paid";d. In five (5) voucher payments, I noted that the purchases orders were issued after the services and goods were received. |
| CRITERIA | Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (2) states 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. Also, Code of Federal Regulation 45, Subpart C, Section 92.20 (a) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|---|---|
| FINDING NUMBER | 09-III-08 (CONTINUATION) |
| FEDERAL PROGRAM | HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN) |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | ALLOWABLE COST/ COST PRINCIPLES |
| CAUSE | The Program failed to maintain an adequate control over the maintenance of the documents that justify the disbursements. Also, the Program failed to appropriately review the payments vouchers and all the supporting documentation prior to the issuance of the payments. |
| EFFECT | The Program is not in compliance with Code of Federal Regulation 45, Subpart C, Sections 92.20 (b) (2) and (a) (6). |
| RECOMMENDATION | I recommend management to continue strengthening the internal controls and procedures designed to appropriately review the payment voucher and all the supporting documentation prior to the issuance of a payment. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | The Finance Department staffs have been properly advised of the need to issue a purchase order prior to any good or services acquisition, and of the requirement to support all expenditures transactions by source documentation such as invoice, cancelled checks, disbursement vouchers, and any other documentation required by Federal and local laws. |

Implementation Date: May 31, 2010

Responsible Person: Mr. Gerardo Carrasquillo- Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|---|---|
| FINDING NUMBER | 09-III-09 |
| FEDERAL PROGRAM | HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN) |
| 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 the Program maintained an average cash balance of approximately \$114,048 in book. In addition, the Program did not disburse in a timely manner the request of funds advanced by the pass-through entity. |
| CRITERIA | Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7) states that the Program must maintain procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement made by grantees and sub grantees when advance payment procedures are used. |
| CAUSE | The Program did not maintain appropriate cash management procedures in order to disburse the funds requested to the pass-through entity in a timely manner. |
| EFFECT | The Program is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7). |
| RECOMMENDATION | I recommended management to strengthen its disbursement procedures to minimize the time between the transfer of funds by the pass through and disbursement made by the Program. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | The requisition of funds system established by the Commonwealth of Puerto Rico Child Care and Development Administration (ACUDEN) has been designed to request funds on a monthly basis. |

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|---|---|
| FINDING NUMBER | 09-III-09 (CONTINUED) |
| FEDERAL PROGRAM | HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN) |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | CASH MANAGEMENT |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | <p>Therefore, each month, we complete and submit the request of funds form provided by ACUDEN, requesting funds based on cash received to date, cash outlay obligations and a forecast of expenditures for the next month (payroll, fringe benefits, contractual services, etc.). The funds requested and received from ACUDEN each month are disbursed during each month period principally to pay the payroll and fringe benefits or to reimburse it to the General Fund, to pay the monthly portion of contractual services, and to pay for other expenditures related to the Program administrative and programmatic activities. Therefore, is our opinion that the requisition of funds system established by the Pass-through Grantor, that is the non-federal entity that should exercise sound cash management in funds transfers to subgrantees, has been followed by us in compliance with the grant agreement clauses.</p> <p>Implementation Date: Not Applicable Responsible Person: Mr. Gerardo Carrasquillo- Program Director</p> |

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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| FINDING NUMBER | 09-III-10 |
| FEDERAL PROGRAM | HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN) |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | MATCHING, LEVEL OF EFFORT, EARMARKING |
| CONDITION | The Municipality did not comply with the requirements of matching established in the contract with the pass-through entity and in the Federal regulation. |
| CONTEXT | During my matching test, I examined two (2) months (November 2008 and May 2009) of the in-kind contributions and noted that the Municipality did not match the funds in these months, in accordance with the contract established with the pass-through entity. The Municipality matched in November 2008 and in May 2009, 18% and 17% respectively, of the Federal funds. In addition, I noted that for these months, the Municipality does not provide adequate supporting documentation for \$11,012 of in-kind contributions. These contributions were provided by the Municipality, and were for employees' salaries, fringe benefits, utilities and other expenses. |
| CRITERIA | Clause Eleven of the contract between the Municipality and the pass-through entity established that, monthly the Municipality shall submit the Project Expenditures Report and should specify the amount of matching in cash, in-kind or a combination, in accordance with the approved budget and the certification provided by the Municipality. The local matching should be not less than the 20% of the combined costs. In addition, Code of Federal Regulation 45, Sections 1301.20 (b) states that the non Federal share will not be required to exceed 20 percent of the total costs of the program. In addition, Code of Federal Regulation 45 Subpart C, Section 92.24 (b) (6) states that costs and third party in kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. |
| CAUSE | The Municipality did not maintain an adequate control over the maintenance of the documents that justifies the in-kind contributions. |

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|---|---|
| FINDING NUMBER | 09-III-10 (CONTINUATION) |
| FEDERAL PROGRAM | HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN) |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | MATCHING, LEVEL OF EFFORT, EARMARKING |
| EFFECT | The Municipality is not in compliance with Clause Eleven of the contract between the Municipality and the pass-through entity, Code of Federal Regulation 45, Sections 1301.20 (b) and Code of Federal Regulation 45 Subpart C, Section 92.24 (b) (6). |
| RECOMMENDATION | I recommend management to strengthen the internal controls and procedures to ensure that the in-kind is processed and recorded in a timely manner. In addition, I recommend management to assure that adequate documentation of the in-kind contributions made to the Head Start Program is obtained. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | We are revising our 2009-2010 In kind contributions to verify if we had any deficiency, and we are going to replace it with supported In kind contributions not previously recorded. |

Implementation Date: April 30, 2010

Responsible Person: Mr. Gerardo Carrasquillo- Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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| FINDING NUMBER | 09-III-11 |
| FEDERAL PROGRAM | HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN) |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | PROCUREMENT, SUSPENSION AND DEBARMENT TESTS |
| CONDITION | The Program did not include in the contracts, all the clauses required by the Federal regulations. In addition, the Program did not verify if these professionals were suspended or debarred by the Federal government. |
| CONTEXT | <p>During my procurement, suspension and debarment test, I examined five (5) professional services contracts to verify the completeness of its clauses and noted that the following clauses were missing:</p> <ul style="list-style-type: none">❖ Granting access to GAO and other federal agencies to books and records;❖ Contractual legal remedies when contractor violates contract terms. <p>In addition, there was no evidence that demonstrated if the Program verifies these professionals in the Excluded Parties List System (EPLS) maintained by the General Service Administration, nor obtained a certification from them.</p> |
| CRITERIA | Code of Federal Regulations 45, Subpart C, Section 92.36 (i) (1-13) establishes all the required clauses that contracts should include. Also, Code of Federal Regulations 45, Section 92.35 states that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension". |
| CAUSE | The Program did not maintain appropriate procurement standard procedures to assure that contracts include all the required clauses. In addition, the Program is not verifying against the EPLS, that the contracts formalized in excess of \$25,000, awarded to those contractors, are not suspended or debarred. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|---|---|
| FINDING NUMBER | 09-III-11 (CONTINUED) |
| FEDERAL PROGRAM | HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN) |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | PROCUREMENT, SUSPENSION AND DEBARMENT TESTS |
| EFFECT | The Program is not in compliance with Code of Federal Regulations 45, Subpart C, Section 92.36 (i) (1-13) and Section 92.35. |
| RECOMMENDATION | I recommend management to update the contract model according with the Federal requirements. Also, I recommend management to obtain the EPLS in printed or electronic format, every time the Municipality formalized a contract with Program's funds with contractors or professionals and verify if they are debarred or excluded. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | To correct this condition, we will modify our master contract to include all the general clauses required by Federal and State laws. Also, we improved our procurement procedures including a step to verify through the electronic version available on the Internet (http://epls.arnet.gov) whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. Implementation Date: April 30, 2010 Responsible Person: Mr. Gerardo Carrasquillo- Program Director |

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|-------------------------|--|
| FINDING | 09-III-12 |
| FEDERAL PROGRAMS | HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN) |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | PROCUREMENT AND SUSPENSION AND DEBARMENT |
| CONDITION | The Program disbursed funds during fiscal year 2008-2009 not in accordance with the adequate procurement process established by the Federal and State regulations. |
| CONDITION | During my disbursements test, I examined seventy three (73) non payroll voucher payments and noted the following conditions: <ul style="list-style-type: none">a. During the fiscal year 2008-2009, the Program maintained contracts with two (2) dentists specialized in children, without requesting proposals from an adequate number of qualified professionals.b. In six (6) payments, I did not found evidence of the quotations requested from an adequate number of qualified suppliers for the purchases of goods. |
| CRITERIA | Code of Federal Regulations 45, 92.36 (c) (1), states that all procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of 92.36. |
| CAUSE | The Program does not performed an appropriate procurement process because failed to request quotations from an adequate number of qualified sources. |
| EFFECT | The Program is not in compliance with Code of Federal Regulations 45, 92.36 (c) (1). |
| RECOMMENDATION | I recommend management to implement procedures in order to obtain and maintain all the required documentation regards the procurement process to comply with this requirement. Also, the Municipality should be aware that all the bidders are professionally qualified and are bidding for the services that are being requested. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|---|--|
| FINDING | 09-III-12 (CONTINUED) |
| FEDERAL PROGRAMS | HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO- ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN) |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | PROCUREMENT AND SUSPENSION AND DEBARMENT |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | To correct this situation we are going to evaluate and modify our method of conducting competitive proposal in order to request proposals from an adequate number of qualified professionals and suppliers. Implementation Date: May 31, 2010 Responsible Person: Mr. Gerardo Carrasquillo- Program Director |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|-------------------------|--|
| FINDING NUMBER | 09-III-13 |
| FEDERAL PROGRAM | SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | REPORTING |
| CONDITION | The Program did not maintain adequate internal controls of its accounting transactions. |
| CONTEXT | During my reporting test, I noted that the Program does not maintain adequate accounting records and does not summarize the information of all the transactions related to assets, liabilities, revenues and expenditures of the Program, in a formal general ledger. Also, I noted that the expenditures transmitted to the Voucher Management System (VMS) during the fiscal year 2008-2009 did not agree with the amounts reported in the accounting records. |
| CRITERIA | Code of Federal Regulations 24, 982.158 (a) requires that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. |
| CAUSE | The Program failed to establish adequate internal controls over the transactions recorded on its accounting records. |
| EFFECT | The Program does not have current accurate and reliable financial reports and information necessary to take efficient and effective management decisions. |
| RECOMMENDATION | I recommend management to continue improving the accounting records created in the accounting software, Peachtree and assure that those accounting records are presented in accordance with program requirements. |
| QUESTIONED COSTS | None |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|---|---|
| FINDING NUMBER | 09-III-13 (CONTINUATION) |
| FEDERAL PROGRAM | SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | REPORTING |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | Actually, we are implementing a lower cost accounting software (Peachtree), exclusively for the Program transactions. Also, related to the VMS condition, the Program's accountant has been properly advised of the need to assure that the financial information submitted in the VMS agrees with the financial information maintains in its accounting records. Implementation Date: June 30, 2010 Responsible Person: Mrs. Magda Boglio- Program Coordinator |

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|------------------------|---|
| FINDING NUMBER | 09-III-14 |
| FEDERAL PROGRAM | CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | ALLOWABLE COST/ COST PRINCIPLES |
| CONDITION | During the fiscal year 2008-2009, the Program disbursed funds without the appropriate supporting documentation established by the Federal and State regulations. |
| CONTEXT | During my disbursement test, I examined thirty (30) non payroll payments vouchers and noted the following conditions: a. In thirteen (13) payments, the invoices were not marked as "paid"; b. In nine (9) payments, I noted that the purchases orders were issued after the goods were received. |
| CRITERIA | Code of Federal Regulation 7, Subpart C, Section 3016.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. |
| CAUSE | The Program failed to maintain an adequate control over the maintenance of the documents that justify the disbursement. Also, the Program failed to appropriately review the payment vouchers and all the supporting documentation prior to the issuance of the payments. |
| EFFECT | The Program is not in compliance with Code of Federal Regulation 7, Subpart C, Section 3016.20 (b) (6). |
| RECOMMENDATION | I recommend management to continue strengthening the internal controls and procedures designed to appropriately review the payment voucher and all the supporting documentation prior to the issuance of a payment. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|---|--|
| FINDING NUMBER | 09-III-14 (CONTINUATION) |
| FEDERAL PROGRAM | CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | ALLOWABLE COST/ COST PRINCIPLES |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | To correct this condition, the Finance Department staffs have been properly advised of the need to issue a purchase order prior to any good or services acquisition, and of the requirement to mark as "paid" the invoices that were processed. Implementation Date: May 31, 2010 Responsible Person: Mr. Gerardo Carrasquillo- Program Director |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|-------------------------|---|
| FINDING NUMBER | 09-III-15 |
| FEDERAL PROGRAM | CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION |
| 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 Program maintained an average monthly cash balance of approximately \$62,179 in books. In addition, I noted that Program requested funds to the pass-through entity that were not disbursed on a reasonable lapse of time. |
| CRITERIA | Code of Federal Regulations 7, Subpart C, Section 3016.20 (b) (7) states, procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed. |
| CAUSE | The Program and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to the pass-through only for immediate needs. |
| EFFECT | The Program is not in compliance with Code of Federal Regulations 7, Subpart C, Section 3016.20 (b) (7). |
| RECOMMENDATION | I recommend management to strengthen its disbursements procedures to minimize the time between the transfer of funds by the state and disbursement made by the Municipality. |
| QUESTIONED COSTS | None |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|---|--|
| FINDING NUMBER | 09-III-15 (CONTINUED) |
| FEDERAL PROGRAM | CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | CASH MANAGEMENT |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | We gave instructions to the Program's Finance Department and the Finance Department of the Municipality to issue the checks in approximately three (3) days once the transfers of funds from the State are received. |

Implementation Date: May 31, 2009

Responsible Person: Mr. Gerardo Carrasquillo- Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|------------------------|--|
| FINDING NUMBER | 09-III-16 |
| FEDERAL PROGRAM | CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | PROCUREMENT, SUSPENSION AND DEBARMENT TESTS |
| CONDITION | The Program did not include in the contract, all the clauses required by the Federal regulations. In addition, the Program did not verify if the supplier was suspended or debarred by the Federal government. |
| CONTEXT | <p>During my procurement, suspension and debarment test, I examined one (1) food supplier contract to verify the completeness of its clauses and noted that the following were missing:</p> <ul style="list-style-type: none">❖ Retention of all required records for three years after the performing of the final payment;❖ Notice of awarding agency requirements and regulations pertaining to reporting;❖ Granting access to GAO and other federal agencies to the records;❖ Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act;❖ Provision which requires compliance with all applicable standards, orders, or requirements issued under section 306 of the Clean Air Act; <p>In addition, there was no evidence that demonstrated if the Program verifies this supplier in the Excluded Parties List System (EPLS) maintained by the General Service Administration, nor obtained a certification from them.</p> |
| CRITERIA | Code of Federal Regulations 7, Section 226.22 (l) states that in addition to provisions defining a sound and complete procurement contract, institutions shall include the contract provisions or conditions in all procurement contracts and subcontracts as required by the provision, Federal Law or FNS. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|---|--|
| FINDING NUMBER | 09-III-16 (CONTINUED) |
| FEDERAL PROGRAM | CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | PROCUREMENT, SUSPENSION AND DEBARMENT TESTS |
| CRITERIA | In addition, Code of Federal Regulations 7, Subpart C, Section 3016.35 states that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension". |
| CAUSE | The Program did not maintain appropriate procurement standard procedures to assure that contracts include all the required clauses. In addition, the Program is not verifying against the EPLS, that the contracts formalized in excess of \$25,000, awarded to those contractors, are not suspended or debarred. |
| EFFECT | The Municipality is not in compliance with Code of Federal Regulations 7, Section 226.22 (l) and Subpart C, Section 3016.35. |
| RECOMMENDATION | I recommend management to update the contract model according with the Federal requirements. Also, I recommend management to obtain the EPLS every time the Municipality formalized a contract and should verify if the external parties are debarred or excluded. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | To correct this condition, we will modify our master contract to include all the general clauses required by Federal and State laws. Also, we improved our procurement procedures including a step to verify through the electronic version available on the Internet (http://epls.arnet.gov) whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. |

Implementation Date: April 31, 2010

Responsible Person: Mr. Gerardo Carrasquillo- Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|-------------------------|---|
| FINDING NUMBER | 09-III-17 |
| FEDERAL PROGRAM | CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | PERIOD OF AVAILABILITY |
| CONDITION | The Program disbursed funds for the payment of invoices after the period of availability. |
| CONTEXT | During my disbursement test, I examined thirty (30) voucher payments and noted that the Program issued two (2) checks in February and May 2009, amounting to \$181,498, for the payment of invoices. From this amount, \$92,816 was for accounts payable at September 30, 2008. My examination reveals that the Program liquidated obligations from approximately two (2) to five (5) months after the end of the period of availability. |
| CRITERIA | Code of Federal Regulation 7, Subpart C, Section 3016.23 (b) states that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee. |
| CAUSE | The Program failed to liquidate in a timely manner the purchases of food for the Head Start centers. |
| EFFECT | The Program is not in compliance with Code of Federal Regulation 7, Subpart C, Section 3016.23 (b). |
| RECOMMENDATION | I recommend management to improve the existing controls, to assure that the purchases orders are prepared in a timely basis. In addition, the Program should continue strengthening the internal controls and procedures designed to issue the checks within the period of availability. |
| QUESTIONED COSTS | None |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|---|---|
| FINDING NUMBER | 09-III-17 (CONTINUATION) |
| FEDERAL PROGRAM | CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | PERIOD OF AVAILABILITY |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN | <p>The Program staffs have been properly advised of the need to comply with the period of availability of funds applicable to the Program by liquidating all the obligations incurred in the period established by the Federal regulation.</p> <p>Implementation Date: June 30, 2010 Responsible Person: Mr. Gerardo Carrasquillo- Program Director</p> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The following schedule contains the original number and title of each of the findings of federal awards included in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133* and the Schedule of Prior Years' Audit Findings for the Fiscal Year ended June 30, 2009. The following legend indicates the current status of the prior years' audit findings:

| ORIGINAL FINDING NUMBER | CFDA NUMBER | TITLE |
|-------------------------------|----------------|---|
| 08-06 | 14.218 | Allowable Activities- Housekeeping Services Full corrective action was taken. |
| 08-07 | 14.218 | Cash Management Full corrective action was taken. |
| 08-08 | 14.218 | Davis- Bacon Partially corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-06 |
| 08-09 | 14.218 | Procurement, Suspension and Debarment Full corrective action was taken. |
| 08-10 | 14.218 | Reporting Full corrective action was taken. |
| 08-11 | 14.218 | Special Test- Rehabilitation No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-07 |

**COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| ORIGINAL FINDING NUMBER | CFDA NUMBER | TITLE |
|--|------------------------|--|
| 08-12 | 14.871 | <p>Reporting</p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-13</p> |
| 08-13 | 93.600 | <p>Allowable Cost / Cost Principles</p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-08</p> |
| 08-14 | 93.600 | <p>Cash Management</p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-09</p> |
| 08-15 | 93.600 | <p>Procurement, Suspension and Debarment</p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-12</p> |
| 08-16 | 10.558 | <p>Procurement, Suspension and Debarment</p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-16</p> |
| 08-17 | 10.558 | <p>Procurement, Suspension and Debarment</p> <p>Partially corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-16</p> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| ORIGINAL FINDING NUMBER | CFDA NUMBER | TITLE |
|-------------------------------|----------------|--|
| 08-18 | 10.558 | Reporting Full corrective action was taken. |
| 07-04 | 14.218 | Allowable Activities- Housekeeping Services Full corrective action was taken. |
| 07-05 | 14.218 | Cash Management Full corrective action was taken. |
| 07-07 | 14.218 | Procurement, Suspension and Debarment Full corrective action was taken. |
| 07-08 | 14.218 | Reporting Full corrective action was taken. |
| 07-09 | 14.218 | Special Test- Rehabilitation Partially corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-07 |
| 07-10 | 14.248 | Davis- Bacon Partially corrective action has been taken. No transactions occurred related to this Program during fiscal year 2008-2009. |
| 07-12 | 14.871 | Reporting Partially corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-13 |

**COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| ORIGINAL FINDING NUMBER | CFDA NUMBER | TITLE |
|--|------------------------|--|
| 07-16 | 93.600 | <p>Allowable Cost/ Cost Principles</p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-08</p> |
| 07-17 | 93.600 | <p>Cash Management</p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-09</p> |
| 07-18 | 93.600 | <p>Matching, level of effort, earmarking</p> <p>Partially corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-10</p> |
| 07-20 | 10.558 | <p>Procurement, suspension and debarment</p> <p>Partially corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-16</p> |
| 07-21 | 10.558 | <p>Procurement, suspension and debarment</p> <p>Partially corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 09-III-16</p> |
| 07-23 | 10.558 | <p>Reporting</p> <p>Full corrective action was taken.</p> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| ORIGINAL FINDING NUMBER | CFDA NUMBER | TITLE |
|--|------------------------|--|
| 06-14 | 10.558 | <p>Activities Allowed / Allowable Costs / Cost Principles Procurement, Suspension and Debarment</p> <p>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.</p> |
| 06-17 | 10.558 | <p>Reporting</p> <p>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.</p> |
| 06-18 | 10.558 | <p>Activities Allowed / Allowable Costs / Cost Principles Procurement, Suspension and Debarment</p> <p>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.</p> |
| 06-19 | 14.218 | <p>Activities Allowed / Allowable Costs / Cost Principles Procurement, Suspension and Debarment</p> <p>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.</p> |
| 06-20 | 14.218 | <p>Davis-Bacon Act</p> <p>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.</p> |
| 06-28 | 14.218 / 14.228 | <p>Cash Management</p> <p>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</p> |

**COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| ORIGINAL FINDING NUMBER | CFDA NUMBER | TITLE |
|--|------------------------|--|
| | | the Federal clearinghouse. |
| 06-31 | 14.218 / 14.228 | <p>Special Tests and Provisions – Rehabilitation Projects</p> <p>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.</p> |
| 06-36 | 14.218 / 14.228 | <p>Activities Allowed / Allowable Costs / Cost Principles Procurement, Suspension and Debarment</p> <p>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.</p> |
| 06-47 | 93.600 | <p>Cash Management</p> <p>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.</p> |
| 06-50 | 93.600 | <p>Activities Allowed / Allowable Costs / Cost Principles Procurement, Suspension and Debarment</p> <p>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.</p> |
| 06-53 | 93.600 | <p>Matching, Level of Effort, Earmarking</p> <p>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.</p> |
| 05-03 | 14.218 | <p>Allowable Activities-Housekeeper Activities</p> <p>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.</p> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| ORIGINAL FINDING NUMBER | CFDA NUMBER | TITLE |
|--|------------------------|--|
| 05-04 | 14.218 | <p>Allowable Activities-Housing Rehabilitation Activities</p> <p>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.</p> |
| 05-05 | 14.218 / 14.228 | <p>Cash Management</p> <p>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.</p> |
| 05-15 | 93.600 | <p>Cash Management</p> <p>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.</p> |
| 05-17 | 93.914 | <p>Reporting</p> <p>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.</p> |
| 05-18 | 83.544 | <p>Reporting</p> <p>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.</p> |
| 04-05 | 14.218 | <p>Cash Management</p> <p>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.</p> |

**COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| ORIGINAL FINDING NUMBER | CFDA NUMBER | TITLE |
|--|------------------------|---|
| 04-07 | 14.218 | <p>Allowable Activities- Housing Rehabilitation Activities</p> <p>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.</p> |
| 04-17 | 83.544 | <p>Reporting</p> <p>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.</p> |
| 04-18 | 93.600 | <p>Cash Management</p> <p>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.</p> |
| 03-07 | 14.218 | <p>Cash Management</p> <p>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.</p> |
| 03-11 | 14.218 | <p>Allowable Activities-Housing Rehabilitation Activities</p> <p>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.</p> |
| 03-18 | 93.600 | <p>Cash Management</p> <p>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.</p> |