

RECIBIDO
10.05.0180
10 MAY -6 PM 2:35
RECIBIDO
UNIDAD DE CORREO

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2009

maunabo (49) mayo 6/5/09

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

RECEIVED
UNIDAD DE CORREOS
10 MAY -6 PM 2: 35

TABLE OF CONTENTS

Pages

PART I – Financial:

Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-11
Governmental-Wide Statements:	
Statement of Net Assets	12
Statement of Activities.....	13
Governmental Funds Statements:	
Balance Sheet.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances.....	15
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Assets	16
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	17
Notes to the Basic Financial Statements.....	18-46
Required Supplementary Information:	
Budgetary Comparison Schedule and Notes – General Fund	47-48

PART II – Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and OMB Circular A-133:

Schedule of Expenditures of Federal Awards	49-50
Notes to Schedule of Expenditures of Federal Awards.....	51
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards.....	52-53
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance Required by OMB Circular A-133.....	54-55

PART III – Findings and Questioned Costs:

Schedule of Findings and Questioned Costs	56-76
Schedule of Prior Audits' Findings and Questioned Costs.....	77

Pedro C. Ortíz Ledée

Certified Public Accountant

INDEPENDENT AUDITORS' REPORT

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

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of **Maunabo**, Puerto Rico (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 conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note 4 to the financial statements, the Municipality did not have a complete, updated and accurate accounting records of capital assets in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the accompanying statement of net assets for \$25,500,365, net of accumulated depreciation of \$6,364,489, and accordingly, the amount by which this departure would affect the assets, net assets and expenses of the governmental activities is not reasonably determinable.

The Municipality did not maintain adequate accounting records of the interfund cash transactions and the corresponding due from and due to account balances. I was unable to obtain sufficient evidence to support and satisfy myself about the amounts recorded in the beginning and ending interfund balances in the amount of \$3,434,693 and \$1,803,001 respectively, recorded in each major fund and the aggregate remaining fund in the Balance Sheet of the governmental funds.

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

In addition, in my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary has I been able to audit evidence regarding interfund transactions, as described in the fourth paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2009, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

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 discussion and analysis and the budgetary comparison information on pages 3 through 11 and 47 through 48 respectively, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Municipality. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


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

Guayama, Puerto Rico
January 2, 2010



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Management of the **Municipality of Maunabo**, Puerto Rico (**Municipality**) provides this *Management's Discussion and Analysis* (MD&A) to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Municipality's financial activity, (c) identify changes in the Municipality's financial plan (its ability to address the next subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

The Management's Discussion and Analysis ("MD&A") is focused on the current year activities, resulting changes and currently known facts; therefore, it should be read in conjunction with the Municipality's Basic Financial Statements. This MD&A will provide comparable information to the readers with the Municipality's prior year financial statements. Also, it can assist readers to get more specific understanding of the financial activities regarding the Municipality's Basic Financial Statements for the fiscal year ended June 30, 2009.

FINANCIAL HIGHLIGHTS

Government-wide:

The Municipality's Net Assets for the year ended on June 30, 2009 were \$14,250,648 in comparison with the fiscal year 2008 which were \$16,728,661, a \$2,478,013 decreased.

The Municipality's Government Wide Financial Statements show that governmental activities revenues were \$16,283,416 for the fiscal year ended June 30, 2009 in comparison with the prior fiscal year that were \$14,996,218, an increased of \$1,287,198 in the governmental activities revenues. The difference is mainly caused in the State Grants and Contributions that reported approximately \$1,971,000 more than fiscal year 2008, as consequence of State Assignments received during fiscal year 2009.

The General Fund showed a deficiency of expenditures over revenues of \$2,706,716 during the course of this year in comparison with fiscal year 2008 that showed deficiency of revenues over expenditure amounting to \$379,466. The current year revenues were not enough to comply with Municipality's current obligation disregarding the funds accumulated in prior years.

The governmental activities expenditure for the current fiscal year were \$18,761,429 in comparison with the fiscal year ended June 30, 2008 that reported expenditures of \$15,425,070, an increase over last fiscal year of \$3,336,359. The General Fund total expenditure for the current fiscal year showed an increase of \$1,006,900 with the last year's expenditure balance. The difference is due to the construction of a sport complex facility in the Municipality.

USING THIS ANNUAL REPORT

This annual report consists of three components: 1) Management Discussion and Analysis (this section), 2) Basic Financial Statements, and 3) Required Supplementary Information.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

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

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

FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

The entire Municipality's basic service are reported in the governmental funds, which focus in how money flows into out of those funds and the balances left at year-end that are available for future spending. Consequently, the governmental fund financial statements provide a detailed short-term view of the Municipality general information, general operation and the basis service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs.

These funds are reported using modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Under this method, revenues are recognized when measurable and available. Expenditure is generally recognized when the related fund liability is incurred. This is the manner in which these funds are normally budgeted.

Since the governmental fund statements (current financial resources) are presented on a different measurement focus and basis of accounting than governmental-wide statements (total economic resources), a reconciliation of the differences are reflected on the page following each statements. The flow of current financial resources will reflect bond proceeds and inter-fund transfer as other financing sources as well as capital expenditure and bond principal payments as expenditure. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligation (bonds and other) into the Governmental Activities column (in the Government-Wide Statements).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets [infrastructure – roads, bridges, traffic signals, underground pipes (unless associated with a utility), etc.] have not been reported nor depreciated in governmental financial statements. GASB Statements Number 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of assets management designed to maintain the service delivery potential to near perpetuity. If the governmental develops the assets management system (the alternative method), which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established condition levels, the government may record all expenditure incurred (except for additions and improvements which extend the asset life) in lieu of depreciation. While the Municipality has acquired an asset management system which a) would allow the election to use the alternative methods, and b) will provide valuable management information, the Municipality has elected to initially implement the depreciation method, and will monitor and consider, over time, a possible conversion to the alternative method.

CAPITAL ASSETS INVESTMENTS

Municipality realized capital assets additions of \$5,107,581 in current fiscal year that ended June 30, 2009 as compared with the \$4,472,397 that was added during the previous fiscal year. A depreciation expense was \$979,480 for fiscal year 2009. Principal investment consist of land, machinery and equipment acquisition, improvements, construction of buildings, parks, roads, highways, and bridges. Total Investment in Capital Assets, net of related debt, is \$16,200,365.

LONG-TERM DEBT

At June 30, 2009 the Municipality had a total of \$12,212,790 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$6,300,000 comprises debt backed by the full faith and credit of the government and \$5,912,790 are other obligations.

Table 6	
Long Term Debts	Amount
General obligations	\$ 6,300,000
Section 108 Guaranteed Loan	3,000,000
Others	<u>2,912,790</u>
Total Long Term Debts	<u>\$ 12,212,790</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Summary of Net Assets

GOVERNMENT-WIDE FINANCIAL ANALYSIS

GOVERNMENTAL NET ASSETS

The net assets of the Municipality have decreased by \$2,478,013 during the current fiscal year. The Municipality's net assets include investments in Capital Assets for \$16,200,365 and over \$3,481,209 restricted for future expenses. The Municipality's net assets at the end of the fiscal year ended on June 30, 2009 were \$14,250,648, as detailed on Table 1.

<u>Table 1</u> <u>Statement of Net Assets</u>	<u>2009</u>	<u>2008</u>
Current and non-current assets	\$ 4,524	\$ 12,198
Capital assets	25,500	21,372
Total Assets	30,024	33,570
Current liabilities	3,561	3,805
Long-term liabilities	12,212	12,812
Total Liabilities	15,773	16,617
Net assets:		
Investment in capital assets, net of related debt	16,200	14,782
Restricted	3,481	7,968
Deficit	(5,431)	(6,021)
Total Net Assets	\$ 14,250	\$ 16,729

Normal Impacts

There are six basic (normal) transactions that will affect the comparability of the Net Assets summary presentation.

- **Net Results of Activities** – This will impact (increase/decrease) current assets and unrestricted net assets.
- **Borrowing for Capital** – This will increase current assets and long-term debts.
- **Spending Borrowed Proceeds on New Capital** – This will reduce current assets and increase capital assets. There is a second impact, an increase in invested in capital assets and an increase in related net debt which will not change the invested in capital assets, net of debt.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Normal Impacts

- **Spending of Non-borrowed Current Assets on New Capital** – This will (a) reduce current assets and increase capital assets and (b) will reduce unrestricted net assets and increase invested in capital assets, net of debt.
- **Principal Payment on Debt** – This will (a) reduce current assets and reduce long-term and (b) reduce unrestricted net assets and increase invested in capital assets, net of debt.
- **Reduction of Capital Assets through Depreciation** – This will reduce capital assets and invested in capital assets, net of debt.

Current Year Impacts

The following schedule (as detailed on Table 2) presents the revenues and expenses for the current fiscal year.

Table 2			
Statement of Activities	2009	2008	
Revenues			
Federal grants and contributions	\$ 2,601	\$ 2,768	
State grants and contributions	3,771	1,800	
General revenues:			
Property and Sales taxes	1,686	1,622	
Volume of business taxes	199	338	
Construction taxes	1,663	1,433	
Intergovernmental	5,530	6,004	
Charges for services	793	823	
Other General revenues	39	207	
Total revenues	16,282	14,995	
Expenses			
General government	4,058	3,184	
Public safety	787	753	
Public works	5,004	4,544	
Health and sanitation	1,044	2,155	
Culture and recreation	868	804	
Human services and welfare	2,680	1,614	
Urban development	3,501	1,626	
Education	474	574	
Interest on long-term debts	344	171	
Total expenses	18,760	15,425	
Changes in net assets	(2,478)	(430)	
Net assets – beginning, as restated	16,729	17,159	
Net assets – ending	\$ 14,251	\$ 16,729	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Normal Impacts

There are five impacts on revenues and expenses as reflected below.

Revenues:

- **Economic Condition** – which can reflect a declining, stable or growing economic environment and has substantial impact on property and volume tax revenues as well as public spending habits for building permits, elective user fees and volumes of consumption.
- **Construction Permits** – increase due to a mega-project being constructed in the jurisdiction by the State Government (Maunabo Road Tunnels).
- **Federal Grants and Contributions** – increased mainly due to the passage of the Health Care Facilities to the Municipality by the State Government and the State contributions to the Municipality for the construction of a public recreational facility.

Expenses:

- **Introduction of New Programs** – within the functional expenses categories individual programs may be added or deleted to meet changing community needs.
- **Increase/Decrease in Authorized Personnel** – changes in service demand may cause the Municipality to increase/decrease authorized staffing. Staffing cost (salary and related benefits) represent approximately 60% of the Municipality's operating cost in the General Fund.
- **Salary Increase (cost of living, merit and market adjustments)** – the ability to attract and retain human and intellectual resources requires the Municipality to strive to approach a competitive salary range position in the marketplace.
- **Inflation** – while overall inflation appears to be reasonably modest, the Municipality is a major consumer of certain commodities such as chemical and supplies, fuels and parts. Some functions may experience unusual commodity specific increases.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

The Municipality uses fund accounting to ensure and demonstrate compliance with related legal and contractual requirements.

Table 3			
Balance Sheet		2009	2008
Assets:			
Total assets – Major Funds	\$	4,333	\$ 13,062
Total assets – Other Funds		1,994	2,024
Combined total assets		<u>6,327</u>	<u>15,086</u>
Liabilities:			
Total liabilities – Major Funds		4,279	5,909
Total liabilities – Other Funds		1,085	1,333
Combined total liabilities		<u>5,364</u>	<u>7,242</u>
Fund Balances:			
Reserved – Major Funds		2,694	7,047
Reserved – Other Funds		909	691
Unreserved – Major Funds		(2,640)	106
Combined total fund balances		<u>963</u>	<u>7,844</u>
Total liabilities and fund balances	\$	<u>6,327</u>	\$ <u>15,086</u>

Table 4			
Changes in Fund Balances		2009	2008
Revenues:			
Total revenues – Major Funds	\$	10,023	\$ 12,056
Total revenues – Other Funds		6,581	2,920
Combined total revenues		<u>16,605</u>	<u>14,976</u>
Expenditures:			
Total expenditures – Major Funds		17,750	16,276
Total expenditures – Other Funds		5,736	2,643
Combined total expenditures		<u>23,486</u>	<u>18,919</u>
Other financing sources (uses):			
Proceed from issuance of bonds		-	6,515
Transfer – In		270	1,345
Transfer – Out		(270)	(1,345)
Combined other financing sources (uses), net		<u>-</u>	<u>6,515</u>
Net changes in fund balance		(6,881)	2,572
Fund Balance – beginning, as restated		7,844	5,272
Fund Balance – ending	\$	<u>963</u>	\$ <u>7,844</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT FUNDS

The Municipality's Governmental Funds information is useful in assessing the Municipality's financial requirements. At the end of the fiscal year any resource available for spending should be measured by the unreserved fund balance. In the current fiscal year, the Municipality's Governmental Funds reported an ending fund balance of \$963,073 as compared to the \$7,844,006 balance for the prior year. There are reservations of Fund Balance up to \$3,603,330 a decrease of \$4,052,096 over last fiscal year.

This Reserve Fund Balance is committed to cover balances show as follows:

- \$122,121 is reserved to cover purchase order placed
- \$739,347 is to pay Debt Service Fund
- \$2,741,862 is reserved for Capital Project Funds, State Assignments and for other Governmental purposes.

The Municipality's Governmental Funds include the General Fund, which is the Major Operation Fund of the Municipality and as of June 30, 2009, it showed a deficit of \$2,640,257 net of the reserved amounts for specific purposes. This deficit was caused by the excess over revenues during fiscal year 2008-2009.

General Fund Budgetary Highlights:

The Budgetary Comparison Schedule for budgeted and actual amounts from General Fund is presented in the Municipality's Basic Financial Statement. These schedules show the original adopted budget, the final revised budget, actual results, and variances between final and actual budgeted amounts for the General Fund. An original budget is presented by the Mayor and approved by the Municipality's Legislative Body in an ordinary session, but it may be revised for various reasons and circumstances, or due to unanticipated budgeted issues that arise during the normal course of the fiscal year.

- The budget was revised by \$122,447 with available resources from prior year balances to cover the operational cost of the Municipality and the hiring of new temporarily personnel.

Economic Factor and Next Year's Budgets

The Municipality relies primarily on Intergovernmental Revenues as well as Federal Financial Assistance to carry out the Governmental Activities. Historically, these amounts have been predictable for every fiscal year, providing the Municipality with increases of approximately five percent. Federal Financial Assistance may vary if new grants are available, but revenue is also predictable.

Local, national and international economics factors may influence the Municipality's revenues, positively or negatively. Positive economic grow is correlated with increased revenues from property taxes, volume of business tax, charges for services, as well as State and Federal Grants. In a local economy, the growth may be monitored by a variety of indicators such as employment growth, unemployment, new constructions, assessed valuation, and other revenues.

All these factors will be considered when preparing the budget for the year ending on June 30, 2009, as well as the increases in property and volume of business tax rates that will be in effect for that fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CONTACTING THE MUNICIPALITY'S OFFICE OF FINANACIAL MANAGEMENT

This report is designed to provide a general overview of the Municipality's finances and to demonstrate the accountability for the money it receives. If you have any questions about this report or need additional information, contact the Municipality's Finances Department at (787) 861-1112

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

STATEMENT OF NET ASSETS

June 30, 2009

	<u>Governmental Activities</u>
ASSETS:	
Cash	\$ 1,176,821
Cash with Fiscal Agent	2,948,129
Receivables (net):	
Sales Taxes	35,054
Intergovernmental	209,833
Federal Grants	137,230
Others	17,127
	<u>4,524,194</u>
Capital Assets:	
Land, Work of Arts, and Construction in Progress	10,723,917
Other Capital Assets, Net of Depreciation	14,776,448
Total Capital Assets	<u>25,500,365</u>
TOTAL ASSETS	<u><u>30,024,559</u></u>
 LIABILITIES:	
Bank Overdraft	215,817
Accounts Payable and Accrued Expense	2,156,998
Accrued Interest	162,070
Due to Governmental Units	564,937
Deferred Revenue:	
Volume of Business Tax	124,873
Federal Grants	336,426
Long-Term Liabilities:	
Due within One Year	557,419
Due in More than One Year	11,655,371
Total Liabilities	<u><u>15,773,911</u></u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	16,200,365
Restricted for:	
Debt Service	739,347
Others Purposes	2,741,862
Unrestricted (Deficit)	(5,430,926)
Total Net Assets	<u><u>\$ 14,250,648</u></u>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 1,757,599	\$ -	\$ -	\$ -	\$ (1,757,599)
General Government	2,300,692	-	11,226	-	(2,289,466)
Public Safety	787,367	-	228,683	-	(558,684)
Public Works	5,003,756	-	15,040	-	(4,988,716)
Culture and Recreation	867,867	24,233	-	-	(843,634)
Health and Sanitation	1,044,181	769,388	591,238	-	316,445
Human Services and Welfare	2,679,945	-	509,525	-	(2,170,420)
Urban Development	3,501,830	-	-	4,560,915	1,059,085
Education	473,835	-	456,003	-	(17,832)
Interest on Long-Term Debt	344,357	-	-	-	(344,357)
Total Governmental Activities	\$ 18,761,429	\$ 793,621	\$ 1,811,715	\$ 4,560,915	(11,595,178)

General Revenues:

Taxes:

Property, levied for General Purposes	767,977
Property, levied for Debt Services	187,617
Volume of Business	199,457
Sales, levied for General Purposes	422,206
Sales, levied for Debt Services	307,989
Intergovernmental	5,530,235
Rent	12,662
Licences and Permits	1,662,763
Miscellaneous	26,259
Total General Revenues	9,117,165
CHANGE IN NET ASSETS	(2,478,013)
Net Assets - Beginning of Year - Restated (Note 14)	16,728,661
NET ASSETS - END OF YEAR	\$ 14,250,648

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	General Fund	Capital Project Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash	\$ -	\$ 528,790	\$ -	\$ 648,031	\$ 1,176,821
Cash with Fiscal Agent	-	1,559,329	971,413	417,387	2,948,129
Receivables:					
Sales Tax	-	-	-	35,054	35,054
Intergovernmental	-	-	-	209,833	209,833
Federal Grants	-	-	-	137,230	137,230
Due from Other Funds	444,748	811,778	-	546,475	1,803,001
Others	17,127	-	-	-	17,127
Total Assets	\$ 461,875	\$ 2,899,897	\$ 971,413	\$ 1,994,010	\$ 6,327,195
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Bank Overdraft	\$ 215,817	-	-	-	215,817
Accounts Payable and Accrued Expense Liabilities	847,722	77,832	-	199,329	1,124,883
Bonds and Notes Payable	-	-	150,000	-	150,000
Accrued Interest	-	-	82,066	80,004	162,070
Due to Governmental Units	564,937	-	-	-	564,937
Due to Other Funds	1,226,662	217,339	-	359,000	1,803,001
Deposits and Retainages	-	771,948	-	110,167	882,115
Deferred Revenue:					
Volume of Business Tax	124,873	-	-	-	124,873
Federal Grants	-	-	-	336,426	336,426
Total Liabilities	2,980,011	1,067,119	232,066	1,084,926	5,364,122
Fund Balances:					
Reserve For:					
Encumbrances	122,121	-	-	-	122,121
Debt Service	-	-	739,347	-	739,347
Other Purposes	-	1,832,778	-	909,084	2,741,862
Unreserved (Deficit)	(2,640,257)	-	-	-	(2,640,257)
Total Fund Balances	(2,518,136)	1,832,778	739,347	909,084	963,073
TOTAL LIABILITIES AND FUND BALANCES	\$ 461,875	\$ 2,899,897	\$ 971,413	\$ 1,994,010	\$ 6,327,195

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	Capital Project Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 767,977	\$ -	\$ 187,617	\$ -	\$ 955,594
Sales Tax	-	-	307,989	422,206	730,195
Volume of Business Taxes	199,457	-	-	-	199,457
Federal Assistances	-	-	-	2,602,037	2,602,037
Intergovernmental	5,530,235	1,007,121	-	2,147,739	8,685,095
Health Services	-	-	-	1,366,058	1,366,058
Licenses and Permits	1,662,763	-	-	-	1,662,763
Rent	12,662	-	-	-	12,662
Miscellaneous	347,572	-	-	43,296	390,868
Total Revenues	8,520,666	1,007,121	495,606	6,581,336	16,604,729
EXPENDITURES					
Current:					
Mayor and Municipal Legislature	1,597,621	-	-	-	1,597,621
General Government	2,611,038	-	-	7,554	2,618,592
Public Safety	143,885	-	-	570,728	714,613
Public Works	4,536,037	-	-	21,337	4,557,374
Culture and Recreation	654,703	-	-	156,524	811,227
Health and Sanitation	973,469	-	-	1,366,058	2,339,527
Human Services and Welfare	600,174	-	-	645,575	1,245,749
Urban Development	-	6,218,798	-	2,390,613	8,609,411
Education	-	-	-	473,835	473,835
Capital Outlay	-	-	-	23,356	23,356
Debt Service:	-	-	-	-	-
Principal	-	-	150,000	-	150,000
Interest and Other Charges	-	-	264,353	80,004	344,357
Total Expenditures	11,116,927	6,218,798	414,353	5,735,584	23,485,662
Excess (deficiency) of revenues over (under) expenditures	(2,596,261)	(5,211,677)	81,253	845,752	(6,880,933)
OTHER FINANCING SOURCES (USES)					
Transfers - In	40,000	80,004	-	150,455	270,459
Transfers - Out	(150,455)	-	-	(120,004)	(270,459)
Total Other Financing Sources and Uses	(110,455)	80,004	-	30,451	-
Net Change in Fund Balances	(2,706,716)	(5,131,673)	81,253	876,203	(6,880,933)
Fund Balance - Beginning as Restated (Note13)	188,580	6,964,451	658,094	32,881	7,844,006
Fund Balances - Ending	\$ (2,518,136)	\$ 1,832,778	\$ 739,347	\$ 909,084	\$ 963,073

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Total Fund Balances – Governmental Funds	\$ 963,073
---	-------------------

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

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

Non Depreciable Capital Assets	\$ 10,723,917	
Depreciable Capital Assets.....	12,902,846	
Infrastructure Assets.....	8,238,091	
Accumulated Depreciation.....	<u>(6,364,489)</u>	
 Total Capital Assets.....		 25,500,365

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

General Bonds and Notes Payable	6,300,000	
Compensated Absences.....	1,529,932	
Property Tax Debt – Law 42.....	1,306,377	
Section 108 Loan.....	3,000,000	
LIMS Repayment Plan.....	23,798	
Treasury Department Debt.....	18,921	
CRIM Settlement	<u>33,762</u>	
Total Long-Term Liabilities		<u>(12,212,790)</u>

Total Net Assets of Governmental Activities.....	<u>\$ 14,250,648</u>
---	-----------------------------

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Net Change in Fund Balances – Total Governmental Funds..... \$ (6,880,933)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of
Activities the cost of those assets is allocated over their estimated useful lives and reported
as depreciation expense. In the current period, these amounts are:

Urban Development and Capital Outlay.....	\$ 5,107,581	
Depreciation Expense	<u>(979,480)</u>	
Excess of Capital Outlay over Depreciation Expense		4,128,101

Repayment of debt proceeds principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were.	150,000
--	---------

Revenues and expenditures in the Statement of Activities that correspond to prior year resources are not reported as revenues and expenditures in the funds.....	95,573
---	--------

Some expenses reported in the Statement of Activities do not require the use of current
financial resources and therefore are not reported as expenditures in governmental funds.
These activities consist of:

Increase in Compensated Absences.....	(44,634)	
Decrease in Property Tax Debt – Law 42	24,231	
Decrease in Treasury Department	37,844	
Decrease in LIMS Repayment Plan	8,584	
Increase in CRIM Settlement	(33,762)	
Decrease in State Department of Labor- Debt Agreement.....	<u>36,983</u>	
Total Additional Expenditures		<u>29,246</u>

Change in Net Assets of Governmental Activities..... \$ (2,478,013)

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTE TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Maunabo, Puerto Rico (Municipality) was founded in the year 1799, and operates as a local governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 12 Legislators also elected in the general elections of Puerto Rico for a four-year period. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

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

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

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

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement established new financial reporting requirements for state and local governments. On July 1, 2002, the Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2009, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As previously mentioned, on July 1, 2002, other statements and interpretations were also adopted in conjunction and simultaneously with GASB No. 34. Those statements and interpretations are: (1) GASB Statement No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*, (2) GASB Statement No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, (3) GASB Statement No. 38 – *Certain Financial Statement Note Disclosures* and (4) GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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

A. Financial Reporting Entity

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

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

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

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2009, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

10050170

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

Governmental Fund Financial Statements

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

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

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

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

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- ❖ Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2009, has been reported only in the government-wide financial statements.

C. Financial Statement Presentation

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

Government-Wide Financial Statements

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

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

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

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

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

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

Governmental Fund Financial Statements

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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

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

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

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

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

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

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

Capital Project Fund – This is the fund used to account for financial resources used for the acquisition or construction of major capital facilities. The resources of this fund came from State assignments and loans.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Reporting Presentation

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

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

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

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

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

E. Budgetary Data

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data (Continued)

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

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

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message;
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature;
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law;
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data (Continued)

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

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

F. Cash, Cash Equivalent and Investment

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

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

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

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. The sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

G. Receivables

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

H. Inventories

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$50 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

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

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

J. Long-Term Obligations

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

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

K. Compensated Absences

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Compensated Absences (Continued)

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

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2009.

<u>BALANCE</u> <u>JULY 1, 2008</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2009</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$ 1,485,298	\$ 44,634	\$ _____	\$ 1,529,932	\$ 171,641	\$ 1,358,291

L. Insurance

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

M. Interfund Transactions

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Reservations of Fund Balance – Governmental Funds

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

- ❖ **Encumbrances** – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- ❖ **Debt Service Fund** – Represents net assets available to finance future debt service payments. The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former.
- ❖ **Other Purposes** – Represents net assets available for specific use and/or legally segregated for other specific future use.

O. Claims and Judgments

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

P. Use of Estimates

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

Q. Accounting for Pension Costs

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Accounting for Pension Costs (Continued)

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

R. Risk Financing

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2009 amounted to \$117,504. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$339,167 for workers compensation insurance covering all municipal employees.

S. Future Adoption of Accounting Pronouncements

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

The Municipality's bank balances in commercial banks of \$528,790 in the capital project fund were fully collateralized at June 30, 2009. In the other governmental funds there were deposits with commercial banks of \$648,031 that were fully collateralized.

The deposits at GDB of \$1,559,329 in the capital project fund, the \$971,413 in the debt service fund, and the \$417,387 in other governmental funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3 – RECEIVABLES

A. Other Receivables

Other receivable in the General Fund, for the amount of \$17,127, represents miscellaneous income due at June 30, 2009.

B. Sales Tax Receivables

As described below in Note 14, the Municipal Legislature approved the imposition of the municipal sales and use tax. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. Therefore, sales tax receivable of \$35,054 in other governmental fund represents the amount due by the taxpayers at June 30, 2009.

C. Federal Grants Receivable

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

<u>Description</u>	<u>Amount</u>
Community Development Block Grant – State Program	\$ 4,753
Homeland Security Department	35,000
Puerto Rico Regional Elderly Office	7,003
Community Service Block Grant	35,000
Puerto Rico Rural Development Corporation	19,000
Puerto Rico Emergency Management Agency	<u>36,474</u>
Total	<u>\$ 137,230</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 3 – RECEIVABLES (CONTINUED)

D. State Government Receivables

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

Governmental Entity	Amount
Puerto Rico Department of Health	<u>\$ 209,833</u>

E. Due From Other Funds

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

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Other Governmental Funds	Interfund Loans and related accruals paid and not reimbursed	\$ 444,748
General Fund	Other Governmental Funds	Payroll and reimbursable expenditures	76,788
Other Governmental Funds	General Fund	Interfund Loans	242,023
Other Governmental Funds	General Fund	Cash pool in the same bank account	227,664
Capital Project Fund	General Fund	Interfund Loans	<u>811,778</u>
Total			<u>\$1,803,001</u>

10.05.0170

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 – CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$50 or more, are primarily funded through the issuance of long-term bonds and loans and state and federal assignments. A summary of capital assets and changes occurring in 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

Governmental Activities	Balance July 1, 2008 As Restated	Additions	Retirements / Reclassifications	Balance June 30, 2009
Capital asset, not being depreciated:				
Land	\$ 952,313	\$ -	\$ -	\$ 952,313
Work of Art	90,000	-	-	90,000
Construction in progress	<u>4,574,023</u>	<u>5,107,581</u>	-	<u>9,681,604</u>
Total capital assets not being depreciated	<u>5,616,336</u>	<u>5,107,581</u>	-	<u>10,723,917</u>
Capital assets, being depreciated:				
Buildings	4,585,285	-	-	4,585,285
Improvements	4,760,769	-	-	4,760,769
Infrastructure	8,238,091	-	-	8,238,091
Machinery and equipment	1,359,931	-	-	1,359,931
Motor vehicles	<u>2,196,861</u>	-	-	<u>2,196,861</u>
Total capital assets being depreciated	<u>21,140,937</u>	-	-	<u>21,140,937</u>
Less accumulated depreciation for:				
Buildings	(1,720,666)	(177,193)	-	(1,897,859)
Improvements	(805,352)	(239,133)	-	(1,044,485)
Infrastructure	(670,039)	(207,100)	-	(877,139)
Machinery and equipment	(929,051)	(129,688)	-	(1,058,739)
Motor vehicles	<u>(1,259,901)</u>	<u>(226,366)</u>	-	<u>(1,486,267)</u>
Total accumulated depreciation	<u>(5,385,009)</u>	<u>(979,480)</u>	-	<u>(6,364,489)</u>
Total capital assets being depreciated, net	<u>15,755,928</u>	-	-	<u>14,776,448</u>
Governmental activities capital assets, net	<u>\$ 21,372,264</u>	<u>\$ 4,128,101</u>	<u>\$ -</u>	<u>\$ 25,500,365</u>

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

Governmental activities	Amount
General government	\$ 128,232
Mayor and Municipal	159,978
Public Safety	72,754
Public Works	422,366
Culture and Recreation	56,640
Sanitation	70,712
Human services and welfare	<u>68,798</u>
Total depreciation expenses	<u>\$ 979,480</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 – CAPITAL ASSETS (CONTINUED)

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the capital assets reported in the governmental activities. In addition, the infrastructure assets recorded in the accompanying statement of net assets do not include a substantial portion of the Municipality's infrastructure assets constructed or acquired by the Municipality from 1980 through June 30, 2009. GASB Statement No. 34 requires to retroactively apply the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with this requirement.

NOTE 5 – BANK OVERDRAFT

The bank overdraft of \$215,817 in the general fund was the result of the adjusted cash balance at June 30, 2009, of the Municipality's current account, payroll accounts and other miscellaneous account.

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES LIABILITIES

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

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 85,878	\$ 761,844	\$ 847,722
Capital Project Fund	-	77,832	77,832
Other Governmental Funds	-	199,329	199,329
Total	<u>\$ 85,878</u>	<u>\$ 1,039,005</u>	<u>\$ 1,124,883</u>

NOTE 7 – DUE TO OTHER GOVERNMENTAL UNITS

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

Governmental Agency	Amount
Puerto Rico Aqueduct and Sewer Authority	\$ 77,252
General Service Administration	1,626
State Department of Labor	55,959
State Retirement System Administration	<u>430,100</u>
Total	<u>\$ 564,937</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 8 – DEFERRED REVENUES

- A. Volume of business tax** – The deferred revenues of \$124,873 in the General Fund relates to volume of business tax collected in fiscal year 2008-2009 that will be earned in fiscal year 2009-2010.
- B. Federal Grants** – The deferred revenues presented in the Other Governmental Funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

Program Description	Amount
Special Program for Aging, Title III	\$ 8,711
Child and Adult Care Food Program	8,554
Public and Indian Housing	163,943
Public Assistant Grants	<u>155,218</u>
Total	<u>\$ 336,426</u>

NOTE 9 – GENERAL LONG-TERM DEBTS

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

Description	Beginning Balance, as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$ 6,450,000	\$ -	\$ 150,000	\$ 6,300,000	\$ 165,000
Property Tax Advances – Treasury Department	56,765	-	37,844	18,921	18,921
Property Tax Debt – Law 42	1,330,608	-	24,231	1,306,377	25,754
Compensated absences	1,485,298	44,634	-	1,529,932	171,641
LIMS Repayment Plan	32,382	-	8,584	23,798	9,103
Section 108 Guaranteed Loan	3,000,000	-	-	3,000,000	167,000
State Department of Labor- debt agreement	36,983	-	36,983	-	-
CRIM Settlement 08-09	-	33,762	-	33,762	-
Total	<u>\$ 12,392,036</u>	<u>\$ 78,396</u>	<u>\$ 257,642</u>	<u>\$ 12,212,790</u>	<u>\$ 557,419</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES

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

DESCRIPTION	AMOUNT
\$485,000, Series 2008, for purchase of equipment, payable in annual installments ranging from \$50,000 to \$85,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2014	\$ 375,000
\$4,920,000, Series 2008, for construction of public recreational facilities, payable in annual installments ranging from \$70,000 to \$420,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2032	4,850,000
\$1,110,000, Series 2007, for construction of public recreational facilities, payable in annual installments ranging from \$15,000 to \$95,000, excluding variable interest from 2.43% to 7.50%, through July 1, 2032	<u>1,075,000</u>
Total General Obligations – Bonds	<u>\$ 6,300,000</u>

These bonds, except the 2008 Series amounting to \$4,920,000, the 2007 Series amounting to \$1,110,000 and the 2008 Series amounting to \$485,000, are payable from the special ad valorem property tax, which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2008 series bond, amounting to \$4,920,000 is payable with resources collected from the sales tax through the Municipal Redemption Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 – GENERAL LONG-TERM DEBTS (CONTINUED)

B. BONDS AND NOTES AMORTIZATION

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

<u>Year Ending June 30,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total</u>
2010	\$ 165,000	\$ 403,842	\$ 568,842
2011	175,000	460,125	635,125
2012	185,000	447,000	632,000
2013	200,000	433,125	633,125
2014	215,000	418,125	633,125
2015-2019	910,000	1,883,625	2,793,625
2020-2024	1,240,000	1,495,875	2,735,875
2025-2029	1,780,000	956,250	2,736,250
2030-2034	<u>1,430,000</u>	<u>220,125</u>	<u>1,650,125</u>
Total	<u>\$ 6,300,000</u>	<u>\$6,718,092</u>	<u>\$13,018,092</u>

C. PROPERTY TAX ADVANCES – TREASURY DEPARTMENT

The Municipality entered into a financing agreement with the Puerto Rico Treasury Department to pay a debt related to the excess of property tax advances over collections made by the Puerto Rico Treasury Department prior to the creation of CRIM in 1993. The outstanding principal balances of the note payable to the Puerto Rico Treasury Department amounted to \$18,921 at June 30, 2009.

D. PROPERTY TAX DEBT – LAW 42

The Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$1,306,377.

E. COMPENSATED ABSENCES

The government-wide statement of net assets includes \$1,529,932 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 – GENERAL LONG-TERM DEBTS (CONTINUED)

F. LIMS REPAYMENT PLAN

The Municipality entered into a financing agreement with the CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by the CRIM on behalf of all municipalities, for the management of a digital database of taxpayer's properties located in Puerto Rico. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$23,798.

G. SECTION 108 GUARANTEED LOAN

On September 14, 2006, the Municipality entered into a loan guarantee commitment of \$3,000,000 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).

The proceeds of \$3,000,000 of the loan guarantee commitment are used by the Municipality to finance the construction of a public recreational facility. The proceeds and uses of the loan guarantee commitment are accounted for in the Section 108 loan guarantee, a fund in the major Capital Projects Fund. The loan guarantee commitment is repaid with grant awards received from the Community Development Block Grants (CDBG), administered by the Puerto Rico pass-through, Office of the Commissioner of Municipal Affairs (OCAM). At June 30, 2009, the outstanding principal balance of the loan guarantee commitment amounted to \$3,000,000.

H. CRIM SETTLEMENT

For the fiscal year ended on June 30, 2009 the CRIM notify to the Municipality that the final settlement of property tax advances versus actual collections through fiscal year 2009 result in an overpayment to the Municipality of \$33,762. At June 30, 2009, the outstanding balance amounted to \$33,762.

NOTE 10 – DEBT RETIREMENT

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

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

NOTE 11 – PROPERTY TAXES

The Municipality is authorized by Law No. 81 to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally 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 6.83% (of which 2.30% belong to the Commonwealth of Puerto Rico and 4.03% belongs to the Municipality).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 11 – PROPERTY TAXES (CONTINUED)

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 8.83% (of which 2.30% belongs to the Commonwealth of Puerto Rico and 6.53% belongs to the Municipality).

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury assumes payment of the basic tax (4% and 6% for personal and real property, respectively) to the Municipality, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made.

CRIM is responsible for the billing and collections of real and personal property taxes on behalf of the Municipality. Prior to the beginning of each fiscal year, CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, CRIM advances funds to the Municipality based on the initial estimated collections. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

This settlement has to be completed on a preliminary basis not later than each December 31. If CRIM remits to the Municipality property tax advances, which are less than the property tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Law No. 81 provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied and collected by CRIM. Collections of this special tax are remitted to the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth.

In addition, 1.50% of the total personal and real property taxes collected by CRIM is restricted for the Municipality's debt service requirements and is retained by GDB for such purposes.

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

- ❖ Thirty five percent (35%) 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 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 35% corresponding to the municipalities of the Commonwealth. 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 the Health Insurance Administration, a component unit of the Commonwealth.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 12 – VOLUME OF BUSINESS TAXES

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes on all trade or business activities operated by any natural or legal person within the territorial area of Maunabo. This is a self-assessed tax generally based on the business volume measured by gross sales. The Municipality establishes the applicable tax rates. At June 30, 2009, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers. Any taxpayers that have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60% and 90% under standard rates.

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax return to be filed every April 15 based on the actual volume of business generated in the preceding calendar year.

Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax returns. 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.

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% discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred revenues in the GWFS and the GFFS (See Note 9).

NOTE 13 – SALES TAXES

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

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

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on July 1, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 14 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government. Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements.

Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the State Assignment, Loans and CDBG Funds.

NOTE 15 – INTERFUND TRANSFERS

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

Transfer Out	Transfer In	Purpose	Amount
General Fund	Other Governmental Fund	To cover operating expenditures	\$ 150,455
Other Governmental Fund	General Fund	To cover operating expenditures	40,000
CDBG	Capital Project Fund	Debt retirement	<u>80,004</u>
Total			<u>\$ 270,459</u>

NOTE 16 – EMPLOYEE'S RETIREMENT PLAN

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 16 – EMPLOYEE’S RETIREMENT PLAN (CONTINUED)

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

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 16 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

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

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

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2009 was approximately \$367,214. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2009. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

NOTE 17 – CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities.

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

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsels with the information currently available can not determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 17 – CONTINGENCIES (CONTINUED)

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds.

NOTE 18 – ACCOUNTING CHANGES AND RESTATEMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

Description	General Fund	Debt Service Fund	Other Governmental Fund
Fund balance, beginning	\$ 205,521	\$ -	\$ 1,114,651
Reclassification of the State Retirement System Administration debt	(328,056)	-	-
Reclassification of special revenue funds account in the General Fund	(146,181)	-	-
Correction of interfund transactions and other receivables	457,296	-	(423,676)
Major Fund reclassification	<u>-</u>	<u>658,094</u>	<u>(658,094)</u>
Fund balance, beginning as restated	<u>\$ 188,580</u>	<u>\$ 658,094</u>	<u>\$ 32,881</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 18 – ACCOUNTING CHANGES AND RESTATEMENTS (CONTINUED)

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

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

Description	Total
Net assets, beginning	\$ 16,888,892
Adjustment to Accounts Receivables- State	(112,561)
Adjustment to the State Retirement System Administration debt	<u>(47,670)</u>
Net assets, beginning as restated	<u>\$ 16,728,661</u>

NOTE 19 – SUBSEQUENT EVENTS

A. THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

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

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

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

B. INVESTMENT ON OUR INFRASTRUCTURE PLAN (PINI)

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 19 – SUBSEQUENT EVENTS (CONTINUED)

B. INVESTMENT ON OUR INFRASTRUCTURE PLAN (PINI) (CONTINUED)

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

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

The amount assigned to the Municipality was \$848,485 and the funds will be used for the construction and improvements of the infrastructures of the Municipality.

C. LONG- TERM DEBT ISSUANCE

On September 3, 2009 the Municipality's executive branch approved Ordinance Number 2, authorizing the issuance of a Special Note in the amount of \$1,030,000, for construction purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note A)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES:				
Property taxes	\$ 767,976	\$ 767,976	\$ 767,976	\$ -
Volume of Business Taxes	165,000	165,000	199,457	34,457
Intergovernmental Revenues	5,681,607	5,681,607	5,530,235	(151,372)
Licenses, permits and other local taxes	2,350,500	2,350,500	1,662,763	(687,737)
Rent of Property	12,000	12,000	12,662	662
Miscellaneous	407,000	407,000	899,307	492,307
Prior Year Allocation	-	122,447	-	(122,447)
Total revenues	<u>9,384,083</u>	<u>9,506,530</u>	<u>9,072,400</u>	<u>(434,130)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
Mayor and Municipal Legislature	1,491,338	1,651,268	1,619,417	31,851
General government	1,746,994	1,784,327	1,987,025	(202,698)
Public safety	178,500	156,650	145,253	11,397
Public works	3,455,236	3,619,137	4,607,461	(988,324)
Culture and Recreation	760,480	674,480	656,407	18,073
Health and Sanitation	1,102,694	979,079	973,469	5,610
Human Service and Welfare	648,841	641,589	609,660	31,929
Total expenditures, encumbrances and other financing uses	<u>9,384,083</u>	<u>9,506,530</u>	<u>10,598,692</u>	<u>(1,092,162)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,526,292)</u>	<u>\$ (1,526,292)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule \$ 9,072,400

Differences-budget to GAAP:

Prior and current GAAP adjustments to revenues (551,734)

Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances \$ 8,520,666

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule \$ 10,598,692

Differences-budget to GAAP:

Prior Year expenditure are not outflows of budgetary resources but are expenditure for financial purposes 47,182

Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes (122,121)

GAAP adjustment to expenditures 593,174

Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances \$ 11,116,927

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program:			
Rural Housing Preservation Grant	10.433	Not Available	\$ 22,203
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	<u>38,930</u>
Total U.S. Department of Agriculture			<u>61,133</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Pass-Through State - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State's Program	14.228	08-FC-AB 07-FC-AB 06-FC-AB 05-FC-AB-FE 04-FC-AB-FE 03-FC-AB 01-FD	1,101,057
Community Development Block Grants – Section 108 Loan Guarantees	14.248		886,001
Pass-Through State – Puerto Rico Housing Administration:			
Public and Indian Housing	14.850	Not Available	<u>318,873</u>
Total U.S. Department of Housing and Urban Development			<u>2,305,931</u>
U.S. DEPARTMENT OF JUSTICE:			
Direct Program:			
Public Safety Partnership and Community Policing Grant	16.710	Not Available	<u>20,019</u>
Total U.S. Department of Justice			<u>20,019</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-Through Office of the Governor:			
Public Assistant Grant	97.036	Not Available	291,404
Total U.S. Department of Homeland Security:			291,404
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE			
Pass-Through Office of Governor, Regional Elderly Office:			
Special Program for Aging, Title III, Part B	93.045	Not Available	44,744
Pass-Through – "Instituto de Servicios Comunes, Inc.":			
Community Services Block Grant	93.569	Not Available	28,993
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant	93.575	Not Available	407,835
Total U.S. Department of Health and Human Service:			481,572
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,160,059

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO**

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 **Maunabo**, 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 – LOAN OUTSTANDING

The Municipality had an outstanding loan balance under program Section 108 Loan Guarantee Assistance (CFDA No. 14.248), for which the grantor does not impose continuing compliance requirements. The outstanding balance of the loan at June 30, 2009 was \$3,000,000.

NOTE 6 – MAJOR PROGRAMS

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

Pedro C. Ortíz Ledée

Certified Public Accountant

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

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

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of **Maunabo**, 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. The report on the governmental fund financial statements was qualified for the interfund balances and the report on the governmental wide financial statement has an adverse opinion because I was unable to obtain competent evidential matter related to capital assets including the infrastructure. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting.

In planning and performing my audit, I considered the Municipality's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting. 09-II-01 through 09-II-04.

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-04 to be material weaknesses.

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

Compliance and Other Matters

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

I noted certain matters that I reported to management of the Municipality in a separate letter dated January 2, 2010.

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

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



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

Guayama, Puerto Rico
January 2, 2010



Pedro C. Ortiz Ledée

Certified Public Accountant

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

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

Compliance

I have audited the compliance of the Municipality of **Maunabo**, Puerto Rico (Municipality) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. My responsibility is to express an opinion on the Municipality's compliance based on my audit.

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

As described in items 09-III-05, 09-III-07, 09-III-08, 09-III-09, 09-III-10 and 09-III-12 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Activities, Cash Management, Procurement, Suspension and Debarment, Reporting and Special Test that are applicable to its Community Development Block Grant. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

As described in item 09-III-10 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirement regarding Reporting that is applicable to its Section 108 Loan Guarantees. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 09-III-06 and 09-III-11 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Activities and Reporting that are applicable to its Public and Indian Housing. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraphs, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009.

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

Internal Control Over Compliance

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

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 09-III-05 through 09-III-12 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-05, 09-III-06, 09-III-07, 09-III-08, 09-III-10, 09-III-11 and 09-III-12 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 Ledee, CPA
License Number 5200
Expires on December 1, 2011

Guayama, Puerto Rico
January 30, 2010



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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:	Qualified 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, except for unqualified Child Care Development Block Grant	
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
14.228	Community Development Block Grants – State's Program
14.248	Section 108 Guarantees Loan
14.850	Public and Indian Housing
93.575	Child Care and Development Block Grant

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 MAUNABO

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's accounting records are maintained in the cash and budgetary basis and at the end of year; personnel of the finance department and external consultants summarized in electronic worksheets the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long term-debts. These worksheets are used for the preparation of the financial statements.</p> <p>Also, I noted the following conditions during my evaluation of the accounting cycle for the fiscal year 2008-2009:</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. Both accounting systems does not help management to distinguish between expenditures incurred and encumbrances and does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payables and long-term debts;c. The accounting personnel do not maintained a Model 4a (the manual accounting system that summarized the cash transactions of the Municipality) for the monthly cash transactions of the General Fund and the special revenue funds of the Municipality;d. No adequate year-end closing entries procedures were made.
CRITERIA	Article 8.010 (b) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) states that the system used must produce reliable reports and financial statements, provide complete information about the results of operations and include the necessary internal controls to account for all funds, capital assets and other assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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 (CONTINUED)
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 Articles 8.010 (b) and (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 maintain a complete accounting system that provides for the preparation of financial statements in accordance with GAAP.
MANAGEMENT RESPONSE	<p>The accounting records maintained by the Municipality are a manual system and a computerized accounting system. The manual system is used to record all the transactions of the Municipality and is used for the preparation of the financial statements at the end of each fiscal year. The computerized system is not used because the real accounts balances maintained significant errors carried forward from prior years.</p> <p>In a short term, we will engage with our external consultant to implement an accounting software in order to maintain monthly reconciled records of all of our transactions by funds, which generate at year end, adequate information for the preparation of the financial statements.</p> <p>Implementation Date: December 1, 2010</p> <p>Responsible Person: Mrs. Justina Garcia Finance Department Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	09-II-02
REQUIREMENT	ACCOUNTING RECORDS- CAPITAL ASSETS
CONDITION	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
CONTEXT	During my examination of the property records, I noted that the Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded certain infrastructure assets, accordingly, has not recorded depreciation expenses for those assets. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality did not performed periodical physical inventories of its capital assets.
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 and reconcile it with the capital assets subsidiary ledger. In addition, the Municipality should implement adequate internal control procedures to improve the accountability of infrastructure assets.
MANAGEMENT RESPONSE	The Municipality's Property division will continue updating the capital assets inventory. In addition, we will continue updating the subsidiary ledger of the capital assets, including the infrastructure, in order to comply with the GASB No. 34.

Implementation Date: June 30, 2010

Responsible Person: Mrs. Justina Garcia
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	09-II-03
REQUIREMENT	ACCOUNTING RECORDS- INTERFUND TRANSACTIONS
CONDITION	The Municipality does not maintain an accurate record over the special revenue funds transactions and the interfund transactions of all the funds of the Municipality.
CONTEXT	During my examination of the accounting records, I noted that the Municipality does not maintain adequate controls over the interfund transactions. This situation caused that various special revenue funds, restricted funds as definition, were used as loan to paid operational costs of the General Fund and other funds. In addition, the Municipality did not maintained proper records of the interfund cash transactions and the corresponding due from and due to accounts balances presented in the Balance Sheet, for the fiscal Years 2008-2009 and previous balances.
CRITERIA	Article 8.004 (c) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991 - August 30, 1991</i> , stated that the restricted funds received by the Municipality should be only used for the purposes established by these resources. In addition, Article 8.010 (C) (2) and (3) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, stated that Municipality should maintain accurate accounting records and funds controls.
CAUSE	The Municipality did not maintain an adequate control of the accountability of the Special Funds transactions and the due from and due to account balances.
EFFECT	The Municipality is not in compliance with Articles 8.004 (c) and 8.010 (c) (2) and (3) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991 - August 30, 1991</i> .
RECOMMENDATION	I recommend management to implement procedures in order to obtain and maintain all the required documentation regards the interfund transactions.
MANAGEMENT RESPONSE	We gave instructions to the Municipality's Finance Director to assure that all the transfers of funds between bank accounts have to be accompanied by adequate supporting documentation.

Implementation Date: June 30, 2010

Responsible Person: Mrs. Justina Garcia
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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- BANK RECONCILIATIONS
CONDITION	The Municipality does not have effective internal control procedures to ensure that the bank reconciliations were prepared accurately and reconciled with the accounting records.
CONTEXT	During my cash test, I noted that the reconciliation process of the current cash account consist only to include the ending bank balance less the outstanding checks of the month. There was no reconciliation with the accounting records.
CRITERIA	Chapter IV, Section 12 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affair (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 the 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	To correct this condition we instructed the assigned Fiscal staff with the responsibilities to prepare the account bank reconciliations to reconcile these bank accounts with the accounting records of all the funds.

Implementation Date: April 1, 2010

Responsible Person: Mrs. Justina Garcia
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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-05
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE ACTIVITIES
CONDITION	During the fiscal year 2008-2009, the Program disbursed funds without the appropriate supporting documentation established by the Federal Regulation.
CONTEXT	<p>During my Disbursement Test, I examined fourteen (14) non payroll payments vouchers and noted the following conditions:</p> <ul style="list-style-type: none">a. The original constructions certifications (invoices) for checks 38 and 39 of July 18, 2008 in the amount of \$17,071 and \$81,000 were not available for my examination;b. In four (4) vouchers payments, the purchase orders were prepared after the invoices were received by the Program. <p>In addition, during my examination of the accounting records, I noted that during fiscal year 2008-2009 the Program transferred funds to other non federal accounts in the amount of \$141,038. Adequate supporting documentation that approved those transfers of funds was not available for my examination. These transfers were amounts not disbursed from the request of funds number 2003-92, for construction purposes. The General Fund reimbursed to the Program, in October 16, 2009, \$122,848 and then, the Program issued the check number 239 to pay those construction costs.</p>
CRITERIA	24 CFR, Subtitle A, Section 85.20 (b) (6) has established that accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, contracts, sub-grant awards documents, and others.
CAUSE	The Program failed to maintain an adequate control over the maintenance of the documents that justify the disbursement.
EFFECT	The Program is not in compliance with 24 CFR, Subtitle A, Section 85.20 (b) (6).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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-05 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE ACTIVITIES (CONTINUED)
RECOMMENDATION	I recommend management to continue strengthening the internal controls and procedures designed to appropriately review the payments vouchers and all the supporting documentation prior to the issuance of a payment or the transfer funds.
QUESTIONED COSTS	\$141,038
MANAGEMENT RESPONSE	<p>During Fiscal Year 2009-2010 we reimbursed to the CDBG account, part of this funds, for the payment of construction cost. CDBG paid the contractor in October 2009 the amount of \$122,848.</p> <p>Implementation Date: Implemented in October 2009</p> <p>Responsible Person: Jahira Texidor- Federal Program Director Justina Garcia- Finance Department Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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-06
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE ACTIVITIES
CONDITION	The Program transferred funds to other funds without the appropriate supporting documentation established by the Federal Regulation.
CONTEXT	During my examination of the accounting records, I noted that during the fiscal year 2008-2009 the Program transferred funds to the General Fund and other non federal accounts in the amount of \$19,505. Adequate supporting documentation that approved those transfers of funds was not available for my examination.
CRITERIA	24 CFR, Subtitle A, Section 85.20 (b) (6) has established that accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, contracts, sub-grant awards documents, and others.
CAUSE	The Program failed to maintain an adequate control over the maintenance of the documents that justify the disbursement.
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Subtitle A, Section 85.20 (b) (6).
RECOMMENDATION	I recommend management to continue strengthening the internal controls and procedures designed to appropriately review the payments vouchers and all the supporting documentation prior to the issuance of a payment or the transfer funds.
QUESTIONED COSTS	\$19,505
MANAGEMENT RESPONSE	To correct this situation we gave instructions to the Federal Program Director to assure that all the disbursements have to be supported with adequate documentation.

Implementation Date: April 30, 2010

Responsible Person: Jahira Texidor
Federal Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-07
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE ACTIVITIES HOUSING REHABILITATION AND HOUSEKEEPING SERVICES
CONDITION	The Program failed to maintained appropriate supporting documentation regarding the Housing Rehabilitation and Housekeeping Services participant's files.
CONTEXT	As part of my Grant Disbursement test, I examined nineteen (19) Housing Rehabilitation Participant's files and fifteen (15) Housekeeping Services participant's files and noted that these files are not in accordance with the Federal regulations and the operational guides, provided by the pass-through agency.
CRITERIA	Code of Federal Regulation 24, Section 570.506 (b) (9) established the documentation that the Municipality shall maintain for residential rehabilitation. The Operational Guide of Housing Rehabilitation (the guide) provided by the Office of Commissioner of Municipal Affairs, the pass through entity, stated that the Municipality has to conduct an initial unit inspection to determine if the unit is eligible to be rehabilitating under the criteria of the program. In addition, the guide stated that the Municipality has to conduct an intermediate and a final inspection to determine if the unit is being rehabilitated and that the rehabilitation has been completed, respectively. In addition, Code of Federal Regulations 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low and moderate income persons and retain documentation justifying its certification. Also, the Municipality has an operational guide " <i>Manual Operacional Programa Auxiliares del Hogar</i> " that includes all procedures and program's requirements for housekeeping services.
CAUSE	The Program's internal controls procedures failed to assure that all required information regarding participants were obtained and that the required interviews, visits and inspections to monitor the services were realized in accordance to the pass-through operational guides.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-07 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE ACTIVITIES HOUSING REHABILITATION AND HOUSEKEEPING SERVICES
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Sections 570.506 (b) (9) and 570.484 and with the operational guides of Housing Rehabilitation and Housekeepers Services provided by the pass-through entity.
RECOMMENDATION	I recommend management to implement adequate internal controls and procedures in order to assure that the program staff completes all the required forms and to inspect and monitor the services in accordance with the regulations and the operational guides.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We are going to instruct the Program's staff with the responsibilities to maintain the participants' files in compliance with the Program regulations, to follow all the procedures and to use all forms specified in the procedures guide. In addition, we are going to strengthen the monitoring visits over the housing rehabilitation and housekeeping services activities. Implementation Date: April 1, 2010 Responsible Person: Jahira Texidor Federal Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-08
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.
CONTEXT	During my Cash Management test, I examined twenty seven (27) request of funds made by the Program to the pass-through agency and found that eight (8) requests took between four (4) and three hundred sixty (360) days from the moment the funds were deposited and the issuance of the checks for the disbursements. In addition, I noted that the Program maintained an average cash balance of approximately \$28,395 in book.
CRITERIA	Code of Federal Regulations 24, Subpart I, Section 570.489 (c) (1) stated that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement made by the grantee.
CAUSE	The Federal Programs and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
EFFECT	The Program is not in compliance with Code of Federal Regulations 24, Subpart I, CFR 570.489 (c) (1).
RECOMMENDATION	I recommend management to strengthen its disbursements procedures to minimize the time between the transfer of funds by the state and disbursement made by the Municipality.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We gave instructions to the Federal Program Department and the Finance Department to issue the checks in approximately three (3) days once the transfers of funds from the State are received.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-08 (CONTINUED)
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
MANAGEMENT RESPONSE	Implementation Date: April 1, 2010 Responsible Person: Jahira Texidor- Federal Program Director Justina Garcia- Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-09
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS- OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT
CONDITION	The Program did not included in the contracts, all the clauses required by the Federal regulations.
CONTEXT	<p>During my contract provisions test, I examined one (1) professional services contract and two (2) construction contracts, formalized during fiscal year 2008-2009, to verify the completeness of its clauses and noted that the following clauses were missing:</p> <ul style="list-style-type: none">a. Two (2) contracts did not include a provision for granting access to GAO or other federal agency, books and other documents;b. Three (3) contracts did not include a provision for retention of all required records for three (3) years;c. One (1) construction contracts did not include a provision for compliance with the Energy Policy and Conservation Act (Pub L. 94-163, 89 Stat 871);d. One (1) construction contract did not include a provision for Compliance with the Executive Order 11246 of Equal Employment Opportunities;e. One (1) construction contract did not include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) (29 CFR Part 5).
CRITERIA	Code of Federal Regulations 24, Subpart C, Section 85.36 (i) (1-13) establishes all the required clauses that contracts should include.
CAUSE	The Program did not maintain appropriate procurement standard procedures to assure that contracts include all the required clauses.
EFFECT	The Program is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.36 (i) (1-13).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	09-III-09 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS/ STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS- OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT
RECOMMENDATION	I recommend management to update the contract model according with the federal requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	To correct this condition, we will modify our master contract to include all the general clauses required by Federal and State laws. Implementation Date: April 1, 2010 Responsible Person: Jahira Texidor- Federal Program Director Damaris Lebrón- Municipal Secretary

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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-10
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM COMMUNITY DEVELOPMENT BLOCK GRANTS- SECTION 108 LOAN GUARANTEES (CFDA NO. 14.248) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS- OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	The Programs did not maintain accurate accounting records of the transaction and did not reconcile monthly the cash account with the bank reconciliations.
CONTEXT	During my reporting test, I noted that the disbursements reported in the quarterly reports for CDBG, submitted to the pass-through entity (OCAM), have differences with the accounting records of \$102,557. In addition, the cash account at June 30, 2009 in the general ledger of the Program, does not agree with the bank reconciliation by \$54,428. Also, I did not found evidence of the submission of the quarterly reports, of the Section 108 Guarantees Loan, to the pass-through agency (OCAM).
CRITERIA	Code of Federal Regulations 24, Subpart C, Section 85.20(a) (1) (OMB Common Rule) requires that fiscal control and accounting procedures must be sufficient to permit preparation of reports. Code of Federal Regulations 24, Subpart C, Section 85.20(b) (2) (OMB Common Rule) requires that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
CAUSE	The Programs are not reconciling the general ledger account balances with the pass-through entity quarterly reports in order to adjust the differences. In addition, the Programs are not reconciling on a monthly basis the differences in the accounting records and the bank reconciliations.
EFFECT	The Programs did not submit accurate quarterly reports to the pass-through entity in order to comply with the federal regulation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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-10 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM COMMUNITY DEVELOPMENT BLOCK GRANTS- SECTION 108 LOAN GUARANTEES (CFDA NO. 14.248) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS- OCAM
NONCOMPLIANCE	REPORTING (CONTINUED)
RECOMMENDATION	The Programs should implement adequate procedures to ensure that financial information submitted to the pass-through entity in its quarterly report agrees with the accounting records maintain by the Municipality.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We will instruct the Programs Accountant to reconcile on a monthly basis, the accounting records with the bank reconciliation. Also, the Programs Accountant is in the process to identify the differences between the accounting records and the quarterly reports. Implementation Date: April 1, 2010 Responsible Person: Jahira Texidor Federal Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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-11
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	The Program did not maintained adequate internal controls of the accounting transactions of the Program.
CONTEXT	During my Reporting test, I noted that the Program does not maintained adequate accounting records and does not summarized the information of all the transactions related to assets, liabilities, revenues and expenditures of the Program, in a formal general ledger. The expenditures reported in the Monthly Financial Reports for the fiscal year 2008-2009 were not traceable to the accounting records of the Municipality. In addition, evidence of the submission of the Monthly Reports for the fiscal year 2008-2009 was not available for my examination.
CRITERIA	Code of Federal Regulations 24, Subpart C, Section 85.20(a) (1) (OMB Common Rule) requires that fiscal control and accounting procedures must be sufficient to permit preparation of reports. Code of Federal Regulations 24, Subpart C, Section 85.20(b) (2) (OMB Common Rule) requires that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
CAUSE	The Program failed to establish adequate internal controls over the transactions recorded on its accounting records and the accurate submission of the monthly reports to the pass through agency.
EFFECT	The Program did not submit accurate monthly reports to the pass-through entity in order to comply with the federal regulation.
RECOMMENDATION	The Program should implement adequate procedures to ensure that financial information submitted to the pass-through entity in its monthly reports agrees with the accounting records maintain by the Program.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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-11 (CONTINUED)
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING (CONTINUED)
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We will gave instructions to the Federal Program Director to maintain on a monthly basis, a general ledger that includes all the transactions related to assets, liabilities, revenues and expenditures of the Program. Implementation Date: April 1, 2010 Responsible Person: Jahira Texidor Federal Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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-12
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST
CONDITION	The Program disbursed funds before the necessary environmental reviews were made.
CONTEXT	During the fiscal year 2008-2009, the Program disbursed funds for housing rehabilitation amounting to \$72,029 before the necessary environmental reviews were made. The Program was in the process of receiving the certifications of Fish & Wildlife and the State Historic Preservation Office (SHPO).
CRITERIA	As stated in 24 CFR 58.22, neither a recipient nor any participant in the development process, including public or private nonprofit or for profit entities, or any of their contractors, may commit HUD assistance under a program listed in 58.1 (b) on an activity or project until HUD or the State has approved the recipient's RROF and the related certification from the responsible entity. In addition, until the RROF and the related certification have been approved neither a recipient nor any participant in the development process may commit non HUD funds on or undertake an activity or project under a program listed in 58.1 (b) if the activity or project would have an adverse environmental impact or limit the choice of reasonable alternatives.
CAUSE	The Program incurred in such disbursements without the necessary environmental reviews and the required RROF authorized by the pass-through agency.
EFFECT	The Program is not in compliance with 24 CFR 58.22.
RECOMMENDATION	No funds should be encumbered or expended on an activity or project until the environmental reviews are made and the RROF are authorized by the pass-through agency.
QUESTIONED COSTS	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

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-12 (CONTINUED)
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST
MANAGEMENT RESPONSE	We gave instructions to the Federal Program Director in order to assure that all disbursements should be made after the required environmental reviews are made. Implementation Date: April 1, 2010 Responsible Person: Jahira Texidor Federal Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
08-III-01	Reporting- Accounting System	All Federal Programs	None	No corrective action has been taken. Finding Reference 09-III-12 and 09-III-13.
08-III-02	Equipment and Real Property Management	All Federal Programs	None	Full corrective action was taken.
08-III-03	Procurement, Suspension and Debarment- Bidding Process	14.228	None	Full corrective action was taken.
08-III-04	Reporting- Bank Reconciliations	All Federal Programs	None	No corrective action has been taken. Finding Reference 09-III-12.
07-III-01	Procurement, Suspension and Debarment- Bidding Process	14.228	None	Full corrective action was taken.