

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

**MUNICIPIO DE UTUADO**  
**AUDITORÍA 2008-2009**  
30 DE JUNIO DE 2009

**MUNICIPALITY OF UTUADO, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2009  
(INDEPENDENT AUDITOR'S REPORT)**

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UNIDAD REFORMADA  
MAY 12

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**SINGLE AUDIT REPORT**  
**JUNE 30, 2009**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the Municipality of Utuado, provides this Management's Discussion and Analysis for the reader of the Municipality's basic financial statements. This narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2009, and is intended to provide an easily readable explanation of the information provided in the attached basic financial statement. We encourage readers to consider this information with the Municipality's basic financial statements that follow.

The Commonwealth of Puerto Rico during the last five years presents a stagflation, together with an increasing in the unemployment rate and stagnant in business activity. Continuous increase in the price of good and cost living affects all cities of Puerto Rico.

Fiscal year 2008-2009 operations sustain the Municipality's had an stable economic condition do to decrease of revenues in Intergovernmental revenues from the commonwealth of Puerto Rico. The Governmental Wide financial statements also supports our statement. This condition is achieved in a time of economy constrains and low revenues growth rates.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Municipality Primary Government exceeded its liabilities at the close of the current fiscal year by \$43,899,779 (net assets). Net assets may be used to meet the Municipality's current operations.
- The adjusted actual of the General Fund operations resulted in a unfavorable variance of \$1,959,886 as compared to the revised budget.
- As June 30, 2009 the Municipality's General Fund (the primary operating fund) reported a fund balance of \$(1,636,841) and decrease of \$662,205 in comparison with the prior year.
- Loans principal payments were \$507,250 during fiscal year 2008-09. Loan proceeds from new debt issued amounted to \$700,000 during the same fiscal year.
- During the current fiscal year infrastructure capital assets increased by approximately, \$1,430,988. We have ongoing construction projects for more than \$4.7 millions. The projects will benefits several sectors of our Municipality. However, these projects are not enough to improve the infrastructure of our municipal roads since our town has vast territorial extension and accordingly we need millions of dollars to work with infrastructure needs. At present the ongoing construction projects been mostly financed by federal awards received from the Federal Emergency Management Agency (FEMA) and from the U.S. Department of Housing Urban Development and Central Government.

### **New Requirements for the Financial Reporting**

The new approach on the preparation of the Municipality's financial statements emphasizes on a government wide (consolidated) view of its financial operations. Nevertheless major individual funds are presented and evaluated in all of its details. Simultaneous implementation of both of these perspectives allows user to address relevant questions about municipality's performance and provides a basis for comparisons and evaluation of services quality.

## **MUNICIPALITY OF UTUADO MANAGEMENT'S DISCUSSION AND ANALYSIS**

Because of the implementation of these new reporting standards, much of the information will not be easily comparable with prior year data. However, in future years, comparisons will be more meaningful and will provide a better understanding of the municipality's financial position and results of its operations.

### **Financial Statements Components**

The basic financial statements consist of government wide financial statements, the major individual funds financial statement, and notes to the financial statements that provides more details.

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of Activities is focused on both the gross and net cost of various activities, which are supported by the Municipality's property tax, municipal licenses tax and other revenues. It is intended to summarize and simplify the user's analysis of the costs of governmental services. The governmental activities reflect basic services, including police, public works, solid waste disposal, community services, and general administration. Property tax, municipal license tax, state and federal appropriations finance most of the services.

The Statement of Net Assets and the statement of activities, on page 10-11, report the Municipality net assets and changes in them. One can analyze of the Municipality's net assets, as the difference between assets and liabilities, as one way to measure the Municipality's financial position. Over time increase decreases in the Municipality's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered, such as changes in the Municipality's property tax base, and the condition of roads, to assess the overall health of the Municipality's of Utuado.

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 Major Governmental Funds presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental funds statement provides a detailed short-term view of the Municipality general governmental operations and the basic services it provides.

**MUNICIPALITY OF UTUADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Governmental funds information help you determine whether there are more or fewer financial resources that can be spend in the near future to finance Municipality's programs. We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statement.

**Infrastructure Assets**

The Municipality implemented the major model portions of GASB statement 34 during the prior years. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statement. The new statement required that this asset be valued and reported within the Governmental column of the Governmental Wide Statement. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets management system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

**Government-Wide and fund financial Statements**

***Statement of Net Assets***

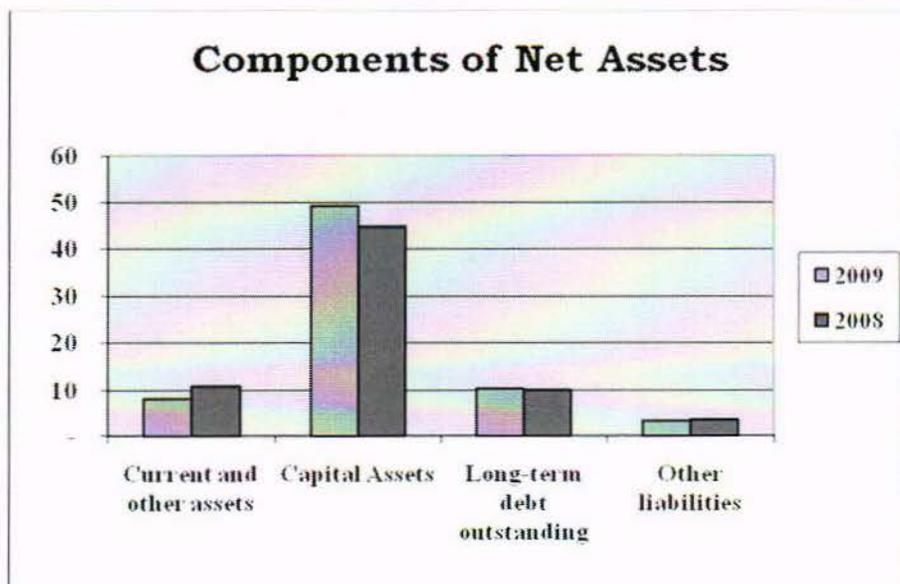
The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by \$43,899,779 at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets of the Primary Government.

**MUNICIPALITY OF UTUADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Net Assets  
As of June 30, 2009 and 2008**

	2009	2008
Current and other assets	\$ 8,300,857	\$ 10,884,682
Capital assets	49,289,845	45,031,413
<b>Total assets</b>	<b>57,590,702</b>	<b>55,916,095</b>
Current and other liabilities	3,260,213	3,645,586
Long-term liabilities	10,430,710	10,167,581
<b>Total liabilities</b>	<b>13,690,923</b>	<b>13,813,167</b>
Net assets:		
Invested in capital assets, net of related debt	40,069,100	38,648,439
Restricted	7,040,600	9,145,755
Unrestricted	(3,209,921)	(5,691,266)
<b>Total net assets</b>	<b>\$ 43,899,779</b>	<b>\$ 42,102,928</b>

The principal increase of the net assets was due mainly to the inclusion of the capital assets of the municipality. The Capital Asset's amount will increase as the infrastructure assets are identified and included in the financial statements.



**MUNICIPALITY OF UTUADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Activities**

The following reflects the condensed Statement of Activities of the Primary Government:

**For the year ended June 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
General Revenue	\$ 14,665,825	\$ 14,910,417
Program Revenue	9,582,676	8,827,747
<b>Total Revenue</b>	<b>24,248,501</b>	<b>23,738,164</b>
Expenses		
Governmental activities	(22,223,384)	(20,173,990)
<b>Total Expenses</b>	<b>(22,223,384)</b>	<b>(20,173,990)</b>
Changes in net assets	<b>\$ 2,025,117</b>	<b>\$ 3,564,174</b>

The following reflects the condensed Balance Sheet of the Governmental Funds:

**Governmental Funds  
Balance Sheets  
June 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Assets:</b>		
Cash	\$ 7,071,710	\$ 3,762,612
Restricted Cash	1,089,166	5,429,762
Accounts Receivable	1,842,385	3,288,687
<b>Total Assets</b>	<b>\$ 10,003,261</b>	<b>\$ 12,481,061</b>
Liabilities and Fund Balance		
<b>Liabilities:</b>		
Accounts payable and due to other	\$ 4,150,669	\$ 3,833,859
Deferred Revenue	447,833	476,083
<b>Total Liabilities</b>	<b>4,598,502</b>	<b>4,309,942</b>
Funds Balances	5,404,759	8,171,119
<b>Total liabilities and Fund Balances</b>	<b>\$ 10,003,261</b>	<b>\$ 12,481,061</b>

The most significant changes in this statement were as follows:

- Noticeably, the fund balances are mostly in cash and cash restricted.
- The decrease in assets and liabilities is due mainly to the cash restricted decrease of \$4.4 millions.

**MUNICIPALITY OF UTUADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2009 and 2008**

	2009	2008
<b>Revenues:</b>		
Property taxes	\$ 2,730,523	\$ 2,760,542
Municipal licence tax	678,664	998,356
Intergovernmental revenue	9,845,427	9,247,623
Federal grants	9,533,327	8,827,747
Sales Tax	704,036	102,941
Other	765,722	1,838,746
<b>Total Revenues</b>	<b>\$ 24,257,699</b>	<b>\$ 23,775,955</b>
Liabilities and Fund Balance		
<b>Expenditures:</b>		
General Government	\$ 8,850,799	\$ 6,748,574
Public safety	1,653,609	1,704,315
Public work	2,894,310	3,456,039
Health	482,479	482,480
Capital outlays	5,094,682	5,950,327
Bonds, principal and interest	950,511	664,687
Education and training	5,128,116	5,173,511
Other expenditures	1,218,877	928,751
<b>Total Expenditures</b>	<b>\$ 26,273,383</b>	<b>\$ 25,108,684</b>
Excess of revenues (expenditures)		
Over expenditures (revenues)	\$ (2,015,684)	\$ (1,332,729)

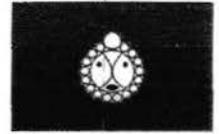
The most significant changes of this statement were as follows:

- The larger increases in revenues were in Federal Grants and Municipal Sales Tax by approximately \$705,580 and \$601,095 respectively.
- The most significant changes in the expenditures were a decrease in capital outlays for approximately \$855,000 thousands related with capital outlays, and a net increase and General Government for \$2.1 millions.



Hon. Alan González Cancel  
Alcalde

*Estado Libre Asociado de Puerto Rico*  
*Municipio de Utuado*  
*Departamento de Finanzas*



Sra. Limarie Vélez González  
Directora

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Economic Factors and Next Year Budget**

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the legislative power by the Municipal Legislature, which has 14 members.

The Municipality provides a full range of services including public works, education Public safety, public housing, health, community development, culture, recreation and other administrative services. The Municipality's principal sources of revenues are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality has easy access to near towns by the highway and some, wholesale, retail stores, financial institutions, restaurants, among other has been established.

The Municipality's Budget for fiscal year 2008-2009 increase \$1,224,097 of the last fiscal year (2007-2008).

### **Contacting the Municipality's Financial Management**

The Municipality's financial statements are designed to present users with general overview of the Municipality's finances. If you have questions about the report or need additional financial information, contact the Municipality's Finance Director.

Limarie Vélez González, Finance Director, PO Box 190, Utuado, Puerto Rico 00641. Telephone (787) 894-3505 Fax: (787) 814-1527

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**INDEPENDENT AUDITOR'S REPORT**

To the Mayor and Municipal Council of  
the Municipality of Utuado  
Utuado, Puerto Rico

I have audited the accompanying financial statements of the Governmental Activities, each major fund and the remaining fund information of the **Municipality of Utuado**, Puerto Rico, as of and for the year ended June 30, 2009, which collectively comprise the **Municipality of Utuado** basic financial statements, as listed in the accompanying 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 have 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 of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the **Municipality of Utuado**, Puerto Rico, as of June 30, 2009, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated December 7, 2009 on my consideration of the **Municipality of Utuado**, Puerto Rico internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result 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 and audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

My audit was performed for the purpose of forming an opinion on the Governmental Activities financial statements of the **Municipality of Utuado**, Puerto Rico taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in my opinion, is fairly stated in all material respects, in relation the by general purpose financial statement a taken as whole.

As described in Note 1, on July 1, 2004, **the Municipality** implemented a new financial reporting model required by GASB Statement No. 34, (GASB No. 34), *Basic Financial Statements – And Management’s Discussion and analysis-for State and Local Governments*. In conjunction with the adoption of GASB No. 34, the Municipality has also adopted the following pronouncements: (1) GASB Statement No. 37-*Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments: Omnibus*, (2) GASB Statement No.38-*Certain Financial Statement Note Disclosures*, and (3) GASB Interpretation No. 6-*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The Management’s Discussion and Analysis and budgetary comparison schedule information on pages 1 through 7 and page 15, are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Arecibo, Puerto Rico  
December 7, 2009

The stamp number 2467834  
was affixed to the  
original of this report.



  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2010

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

	<b>Governmental Activities</b>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 7,071,710
Cash with fiscal agent and other	1,089,166
Accounts receivable (volume business tax)	87,286
Accounts receivable federal government	52,695
Capital assets	49,289,845
<b>Total assets</b>	<b><u>\$ 57,590,702</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 1,169,090
Due to government entity	769,175
Deferred revenue (volume business tax)	447,833
Non-current liabilities:	
Due within one year	874,115
Due in more than one year	10,430,710
<b>Total liabilities</b>	<b><u>13,690,923</u></b>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	40,069,100
Restricted for:	
Reserve for debt service	437,017
Special funds	1,044,804
Capital project fund	5,558,779
Unrestricted (deficit)	(3,209,921)
<b>Total net assets</b>	<b><u>43,899,779</u></b>
<b>Total Liabilities and net Assets</b>	<b><u>\$ 57,590,702</u></b>

See notes to financial statements.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<u>Functions/Programs</u>	Expenses	Program Revenues			Net (expense) revenue and change in Net Assets in Net Assets Governmental Activities
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	
<b><u>EXPENDITURES:</u></b>					
General government	\$ 9,083,589	\$ -	\$ (3,967,277)	\$ (473,228)	\$ 4,643,084
Public safety	1,995,034	-	-	-	1,995,034
Public works	3,670,277	(14,055)	-	-	3,656,222
Health	575,595	-	-	-	575,595
Culture and recreation	789,509	-	-	-	789,509
Education and training	5,128,116	-	-	(5,128,116)	-
Other expenditure	538,003	-	-	-	538,003
Interest and fiscal charges	443,261	-	-	-	443,261
<b>Total governmental activities</b>	<b><u>22,223,384</u></b>	<b><u>(14,055)</u></b>	<b><u>(3,967,277)</u></b>	<b><u>(5,601,344)</u></b>	<b><u>12,640,708</u></b>
<b><u>GENERAL REVENUES:</u></b>					
Property taxes					\$ 2,730,523
Municipal licenses tax					678,664
Licenses, permits and fines					422,684
Intergovernmental revenues					9,845,427
Rent of properties					38,589
Interest income					172,708
Other revenues					108,488
<b>Total general revenues</b>					<b><u>668,742</u></b>
					<b><u>14,665,825</u></b>
Changes in net assets					2,025,117
Net assets at beginning of year					41,938,008
Prior period adjustment					(63,346)
<b>Net assets at end of year</b>					<b><u>\$ 43,899,779</u></b>

See notes to financial statements.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2009**

	<b>General Fund</b>	<b>2008 Bond issue Fund</b>	<b>HUD Programs</b>	<b>Head Start Programs</b>	<b>FEMA Programs Fund</b>	<b>Debt Service Fund</b>	<b>Other Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>								
Cash and investments	\$ 757,201	2,930,056	\$ 742,911	\$ 77,642	\$ 366,350	\$ -	\$ 2,197,550	\$ 7,071,710
Cash with fiscal agent and other	-	-	-	-	-	1,089,166	-	1,089,166
Account receivable (volume business tax) and other	87,286	-	-	-	-	-	-	87,286
Accounts receivable federal government	-	-	26,217	-	-	-	26,478	52,695
Due from general fund and other funds	546,115	-	157,492	61,268	49,341	-	888,188	1,702,404
<b>Total assets and other debits</b>	<b>\$ 1,390,602</b>	<b>\$ 2,930,056</b>	<b>\$ 926,620</b>	<b>\$ 138,910</b>	<b>\$ 415,691</b>	<b>\$ 1,089,166</b>	<b>\$ 3,112,216</b>	<b>\$ 10,003,261</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable and accrued liabilities	711,505	\$ -	\$ 11,116	\$ 138,910	\$ 144,391	\$ 651,149	\$ 22,019	\$ 1,679,090
Due to special revenue fund	1,098,930	-	-	-	-	-	503,474	1,602,404
Due to general fund	-	-	-	-	100,000	-	-	100,000
Due to government entity	769,175	-	-	-	-	-	-	769,175
Deferred revenue	447,833	-	-	-	-	-	-	447,833
<b>Total liabilities</b>	<b>3,027,443</b>	<b>-</b>	<b>11,116</b>	<b>138,910</b>	<b>244,391</b>	<b>651,149</b>	<b>525,493</b>	<b>4,598,502</b>
Fund balances:								
Reserve for debt services	-	-	-	-	-	438,017	-	438,017
Encumbrances	235,000	-	-	-	-	-	-	235,000
General Fund	(1,871,841)	-	-	-	-	-	-	(1,871,841)
Special and other funds	-	-	841,012	-	171,300	-	32,492	1,044,804
Capital project fund	-	2,930,056	74,492	-	-	-	2,554,231	5,558,779
<b>Total fund balances</b>	<b>(1,636,841)</b>	<b>2,930,056</b>	<b>915,504</b>	<b>-</b>	<b>171,300</b>	<b>438,017</b>	<b>2,586,723</b>	<b>5,404,759</b>
<b>Total liabilities and fund balance</b>	<b>\$ 1,390,602</b>	<b>\$ 2,930,056</b>	<b>\$ 926,620</b>	<b>\$ 138,910</b>	<b>\$ 415,691</b>	<b>\$ 1,089,166</b>	<b>\$ 3,112,216</b>	<b>\$ 10,003,261</b>

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

**TOTAL FUND BALANCE - GOVERNMENTAL FUNDS**

\$ 5,404,759

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

49,289,845

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued compensated absence

\$ 1,415,147

Bonds payable

9,379,678

10,794,825

(10,794,825)

**TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES**

**\$ 43,899,779**

See notes to financial statements.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	General Fund	2009 Bond issue Fund	HUD Program	Head Start Program	FEMA Program Fund	Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>								
Property taxes	\$ 2,362,803	\$ -	\$ -	\$ -	\$ -	\$ 367,720	\$ -	\$ 2,730,523
Municipal license tax	678,664	-	-	-	-	-	-	678,664
Licenses, permits, fines and sales tax	436,739	-	-	-	-	-	-	436,739
Intergovernmental revenues	6,589,238	-	-	-	-	-	3,256,189	9,845,427
Rent of properties	38,589	-	-	-	-	-	-	38,589
Interest income	172,708	-	-	-	-	9,198	-	181,906
Other revenues	73,194	-	35,294	-	-	-	-	108,488
Municipal sales tax	704,036	-	-	-	-	-	-	704,036
Federal financial award	-	-	2,120,566	5,128,116	1,811,417	-	473,228	9,533,327
<b>Total revenues</b>	<b>11,055,971</b>	<b>-</b>	<b>2,155,860</b>	<b>5,128,116</b>	<b>1,811,417</b>	<b>376,918</b>	<b>3,729,417</b>	<b>24,257,699</b>
<b>EXPENDITURES:</b>								
Current:								
General government	4,945,353	-	1,698,802	-	-	-	2,206,644	8,850,799
Public safety	1,653,609	-	-	-	-	-	-	1,653,609
Public works	2,894,310	-	-	-	-	-	-	2,894,310
Health	482,479	-	-	-	-	-	-	482,479
Capital outlays	-	927,911	726,344	-	1,684,026	-	1,756,401	5,094,682
Culture and recreation	680,874	-	-	-	-	-	-	680,874
Education and training	-	-	-	5,128,116	-	-	-	5,128,116
Other Expenditures	538,003	-	-	-	-	-	-	538,003
Debt service:								
Principal retirement	-	-	-	-	-	507,250	-	507,250
Interest and fiscal charges	-	-	-	-	-	443,261	-	443,261
<b>Total expenditures</b>	<b>11,194,628</b>	<b>927,911</b>	<b>2,425,146</b>	<b>5,128,116</b>	<b>1,684,026</b>	<b>950,511</b>	<b>3,963,045</b>	<b>26,273,383</b>
Excess of revenues over (under) expenditures	(138,657)	(927,911)	(269,286)	-	127,391	(573,593)	(233,628)	(2,015,684)
Other financing source (uses):								
Transfer in (out) to debt service fund	(62,935)	-	-	-	-	62,935	-	-
Transfer in (out) to other fund	(237,850)	-	-	-	-	-	237,850	-
Interest expenditure	-	-	-	-	-	(9,198)	-	(9,198)
Net bond issued debt	-	695,530	-	-	-	-	-	695,530
Bond Expenditure	-	(877,738)	-	-	-	-	-	(877,738)
<b>Total other financing source (uses)</b>	<b>(300,785)</b>	<b>(182,208)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53,737</b>	<b>237,850</b>	<b>(191,406)</b>
Excess of revenues and other sources over (under) expenditures and other uses( deficit)	(439,442)	(1,110,119)	(269,286)	-	127,391	(519,856)	4,222	(2,207,090)
Fund balance June 30, 2008	(974,636)	4,040,175	970,823	-	43,909	723,667	2,701,261	7,505,199
Prior period adjustment (Note 19)	(222,763)	-	213,967	-	-	234,206	(118,760)	106,650
<b>Fund balance June 30, 2009</b>	<b>\$ (1,636,841)</b>	<b>\$ 2,930,056</b>	<b>\$ 915,504</b>	<b>\$ -</b>	<b>\$ 171,300</b>	<b>\$ 438,017</b>	<b>\$ 2,586,723</b>	<b>\$ 5,404,759</b>

See notes to financial statements.

*Handwritten signatures and initials in blue ink.*

**MUNICIPALITY OF UTUADO  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$	<u>(2,207,090)</u>
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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.

Purchase of property	\$	5,094,682	
Less: current year depreciation		<u>(1,551,933)</u>	3,542,749

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. The transaction, however, has any effect on net assets.

Net bond issued debt		(695,530)	
Principal payments		507,250	
		<u>877,738</u>	689,458

**Change in net assets of governmental activities**

	<u>\$</u>	<u>2,025,117</u>
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See notes to financial statements.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**BUDGETARY COMPARISON SCHEDULE (BUDGET BASIS)**  
**GENERAL FUND AND DEBT SERVICE FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Adjusted Actual Note 1	Variance Favorable (Un-favorable)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 490,721	\$ 490,721	\$ 340,721	\$ (150,000)
Local taxes	850,000	850,000	678,664	(171,336)
Intergovernmental revenues	6,563,517	6,563,517	6,589,238	25,721
Licenses, permits and fines	1,065,000	1,065,000	436,739	(628,261)
Interest income	455,000	455,000	172,708	(282,292)
Rent of properties	100,000	100,000	38,589	(61,411)
Municipal sales tax	850,000	850,000	704,036	(145,964)
Other revenues	311,001	313,784	73,194	(240,590)
Other financial sources	1,795,545	1,795,545	2,155,935	360,390
Property tax (debt service)	666,143	666,143	-	(666,143)
<b>Total revenues</b>	<b>\$ 13,146,927</b>	<b>\$ 13,149,710</b>	<b>11,189,824</b>	<b>(1,959,886)</b>
<b>EXPENDITURES:</b>				
Current:				
General government	\$ 5,953,471	\$ 5,801,532	3,993,932	1,807,600
Public work	3,064,528	3,346,189	2,894,310	451,879
Public safety	1,677,893	1,661,724	1,653,609	8,115
Health	482,479	482,479	482,479	-
Culture and recreation	787,548	692,172	680,874	11,298
Other expenditure	319,865	288,003	288,003	-
Transfer-out	195,000	211,468	211,468	-
Principal and interest	666,143	666,143	-	666,143
<b>Total expenditures</b>	<b>\$ 13,146,927</b>	<b>\$ 13,149,710</b>	<b>10,204,675</b>	<b>2,945,035</b>
<b>Excess of revenues over (under) expenditures</b>		<b>\$ -</b>	<b>\$ 985,149</b>	<b>\$ 985,149</b>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 11,189,824
Differences - budget to GAAP:				
Revenues for budgetary purposes only				(133,853)
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances				<u>\$ 11,055,971</u>
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 10,204,675
Differences - budget to GAAP:				
Non budgeted expenditures				989,953
<b>Total expenditures as reported on the statement of revenue, expenditures and change in fund balances</b>				<u>\$ 11,194,628</u>

See notes to budgetary comparison schedule.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**GENERAL ORGANIZATION**

The **Municipality of Utuado (The Municipality)** was founded in 1881. 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 Puerto Rico. The legislative body consists of fourteen assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

The financial statements of the **Municipality** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations,) institute GAAP for governmental units. A summary of **the Municipality's** significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

**The Municipality's** financial statements include the operations of all departments and separate legal entities for which **the Municipality** is financially accountable or for which exclusion would leave the financial statements misleading or incomplete.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, The GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34.

The Municipality implemented this Standard for the fiscal year ended June 30, 2004.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**b. Financial Reporting Entity**

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of **the Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality** may be such that exclusion of their financial statements from those of the Municipality would cause **the Municipality's** basic financial statements to be misleading or incomplete according to GASB Statement No. 14, - *The Financial Reporting Entity (GASB No. 14.)*

**The Municipality's** management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of **the Municipality** as of June 30, 2009 nor for the year then ended.

**c. Basic Financial Statements-GASB Statement No. 34**

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. In the government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The Government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the substantiality of **the Municipality** the change in aggregate economic position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**c. Basic Financial Statements-GASB Statement No. 34 (Continuation)**

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is 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** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund statements into the governmental wide statements.

**d. Basis of Presentation**

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination or major funds. **The Municipality** reports the following major funds on **Fund Financial Statements**:

***Major Funds***

General Fund – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in another funds.

HUD Programs Fund – This fund accounts for revenues sources for the development of viable urban communities, decent housing suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

Special Revenue Fund - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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

Head Start – Program Funds – The special revenue fund of Head Start is a major fund used by **the Municipality** to account for revenues derived from the grant that is legally restricted by outside parties for use on specific purpose. The uses and limitations of this revenue fund are specified by municipal ordinances of federal and state statues.

FEMA Fund – FEMA fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements which are not financed by other funds.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**d. Basis of Presentation (continuation)**

This fund accounts for revenue sources to provide comprehensive health, educational, nutritional, social and other services to economically disadvantaged pre-school children so that the children will attain overall social competence.

However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

*Other Funds (not mayor funds)* – Special revenue funds are used to account for the proceeds of specific revenues sources that are legally restricted to expenditures for specified purposes. Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements, which are not financed by other funds.

**e. Basis of Accounting**

The accounts of **the Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds accounts for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

***Measurement Focus, Basis of Accounting and financial statement presentation***

*Government-wide Financial Statements* – The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non exchange transactions, in which **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**e. Basis of Accounting** (continuation)

*Governmental Funds Financial Statement* – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Available means collectible within the current period or 90 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

*Governmental Fund Types / Governmental Activities* – Governmental funds are those through which most governmental functions of **the Municipality** are financed. The acquisition, use, and balances of **the Municipality's** expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

**f. Encumbrances**

Governmental funds employ encumbrances accounting. Under the encumbrance system, all purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and they constitute neither expenditures, nor liabilities. Encumbrances constitute the equivalent of expenditures for budgetary purposes only, and accordingly, are reported with expenditures in all budgetary basis statements.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**g. Budgetary Control**

**The Municipality** follows these procedures, which are in accordance with the municipal law; in establishing the annual budget as date reflected in the basic financial statements.

- (1) On or prior to may 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to July 1st., the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances, as described below:

The actual results of operations, presented in the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-General Fund, are reflected in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year. During the fiscal year, the Municipality maintain its original budget for the revenues and expenditures.

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences are as follows:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.
- (2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP basis.
- (3) The Municipality receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.
- (4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**g. Budgetary Control (continue)**

Legal Compliance

Article 7.003, Law No. 81 of August 31, 1991, amended require that Mayor provide to Municipal Legislature an annual balanced budget indicating: 1) interest, amortization and retirement public debt, 2) statutory obligations, 3) judicial claims payments, 4) any amount to cover prior years deficit, 5) contract commitments and operational expenditures. For annual interest and principal debt amortization, CRIM provides annual estimated resources that will be obtain of additional special property tax (municipal) collections. **The Municipality's** management shows budgetary financial statements in general and debt service funds in compliance with state law and which are based in annual activity. The legal level of budgetary control is at the individual department level for general fund (Mayor and Legislature funds) expenditures, and annual principal and interest due for debt service fund.

**h. Deposits**

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

**i. Inventories**

The general fund purchases office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as expenditures and the inventory is not recorded in the basis financial statements since amount is insignificant.

**j. Capital Assets**

Fund Financial Statements

The capital assets acquired are recorded as expenditures at cost in the governmental funds.

Government-Wide Financial Statements

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value at the time they are received by **the Municipality** and is capitalized in the Statement of net Assets. Major renewals and betterment are capitalized: replacement, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations.

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**k. Vacation and Sick Leave and Other Compensated Absences**

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 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 or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31 of prior year. Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, are accounted for the Statement of Net Assets.

**l. Insurance**

**The Municipality** has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other losses. Also, principal officials of **the Municipality** are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the designated agency to obtain the necessary insurance coverage for **the Municipality**.

**m. Restricted Assets**

*Investments and Certificates*

Certain proceeds of as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond" maintenance account is used to report those rental proceeds that are restricted for use in maintenance of the properties. The "revenue bond fund account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "Debt Service Account" is used to report resources set aside to make up potential future deficiencies in the "revenue bond fund account".

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**m. Restricted Assets** (continuation)

*Cash with fiscal agent*

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service (See Note 12) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund.

**n. Reservations of Fund Balance**

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

- *Encumbrances* – Represent future expenditures under purchase order, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- *Debt Service* – Represents net assets available to finance future debt service payments.
- *Capital Projects* – Represent net assets available to finance future capital outlays.
- *Special Revenue Fund* – Represent net assets available to finance specified outlays.
- *For other Purposes* – Represent mainly resources set aside for use in federal and state grant programs accounted for in the special revenue funds, and resources available in the general fund for the payment of certain accounts payable and commitments approved by GDB.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**o. Claims and Judgments**

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund and in the Statement of Net Assets.

**p. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of asses and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**q. Totals Column (Memorandum Only) Governmental Funds Statement**

The total data under this column is presented only to facilitate financial analysis. Data in the column do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since Interfund eliminations have been made.

**2. PROPERTY TAXES**

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

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed ad are due in May 15, when the property tax return is required to be filed.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**2. PROPERTY TAXES (continuation)**

The tax rate per annum is 8.68% for real property and 6.08% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.5% of both percents belong to **the Municipality**. From the portion belonging to **the Municipality**, 3% represents **the Municipality's** basic rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to **the Municipality** of 1.3% represents the ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service which is accounted for through the debt service fund (See note 11). **The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

Complete real property tax exemption is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, **the Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer becomes the source of payment in these cases.

Complete exemption from personal taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

The CRIM reports annually to the Municipality the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advanced to **the Municipality** during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded the general fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$89,916 during 2009.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**2. PROPERTY TAXES (continuation)**

The following is a summary of the property tax advances, that resulted in an account receivable, for the year ended June 30, 2009. The resulting receivable is presented as a revenue in the general fund to Fund Financial Statement and as a revenue in the Government Wide Financial Statements.

Accounts Payable:

Amortization through collections of property taxes by the CRIM	
07-01-08 - 06-30-09	\$ 6,922,632
Advance received, 07-01-08 - 06-30-09	(7,056,485)
Due to CRIM - 2009	<b>\$ (133,853)</b>

**3. DEPOSITS**

**The Municipality's** cash and investments at June 30, 2009, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. **The Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, **the Municipality** invested its funds in interest-bearing bank accounts, and short-term certificates of deposit, if due date is not more than 90 days, the certificate considered as cash equivalents.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**4. CONCENTRATION OF CREDIT RISK**

The **Municipality** maintains its cash account in local commercial banks, whose accounts are warranty by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposits in excess of \$250,000 are collateralized by the bank securities to property safeguard such funds. Nevertheless, Management believes that concentration of credit risk is limited because balances are deposited with high standing financial institutions.

**5. MUNICIPAL LICENSE TAXES**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declarations by April 15 of each year.

The tax rates are as follow:

- 1% for financial institutions
- for all other organizations 0.5%

Taxes are payable in two equal semiannual installments on July 1 and January 1 following the levy date. If they are paid before their maturity, the taxpayer is granted certain discounts.

The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the maximum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a 5% discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The **Municipality** recognized an account receivable for the estimated municipal license taxes to be collected during the first two months of next year, but corresponding to current year. Municipal license taxes collected prior to June 30, but pertaining to the next fiscal year are recorded as deferred revenues.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**6. INTERFUND TRANSACTIONS**

Due From/To Other Funds (Fund Financial Statement)

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balance are as follows:

Funds	Due From	Due To
General	\$ 594,115	\$ 1,098,930
Other Funds	1,100,271	595,456
<b>TOTAL</b>	<b>\$ 1,694,386</b>	<b>\$ 1,694,386</b>

The Inter-fund receivables and payables on Fund Financial Statement are eliminated on Statement of Net Assets (Government Wide Financial Statements).

**7. INTERGOVERNMENTAL REVENUES**

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and in lieu of tax” payments from certain “quasipublic” corporations, such as the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, along others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

**8. DUE TO GOVERNMENTAL ENTITIES**

As of June 30, 2009 balances due to governmental entities of the general fund consists of the following:

Name	Due to
Puerto Rico Department of Treasury	\$ 48,170
Puerto Rico Water and Sewer Authority	35,760
Puerto Rico Telephone Company	79,335
Puerto Rico Association of Employees	6,268
Puerto Rico Retirement System	465,434
General Administration Services	355
<b>Totals</b>	<b>\$ 635,322</b>

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**9. CAPITAL ASSETS**

**Capital assets activity for the year ended June 30, 2009 was as follows:**

Capital assets, not being depreciated:				
Land	\$ 899,241	\$ -	\$ -	\$ 899,241
Construction in progress	3,715,493	4,484,111	(1,433,488)	6,766,116
Total capital assets not being depreciated	<u>4,614,734</u>	<u>4,484,111</u>	<u>(1,433,488)</u>	<u>7,665,357</u>
Capital assets, being depreciated:				
Buildings and building improvements	3,865,391	2,500	-	3,867,891
Infrastructure	45,508,145	1,430,988	-	46,939,133
Equipment	1,800,266	252,143	(329,262)	1,723,147
Vehicles	3,986,611	358,428	(453,053)	3,891,986
Total capital assets being depreciated	<u>55,160,413</u>	<u>2,044,059</u>	<u>(782,315)</u>	<u>56,422,157</u>
Less: accumulated depreciation for:				
Buildings and building improvements	(1,284,620)		(118,327)	(1,402,947)
Infrastructure	(8,438,633)		(854,921)	(9,293,554)
Equipment	(1,591,557)	491,441	(130,786)	(1,230,902)
Vehicles	(3,428,924)	1,006,557	(447,899)	(2,870,266)
Total accumulated depreciation	<u>(14,743,734)</u>	<u>1,497,998</u>	<u>(1,551,933)</u>	<u>(14,797,669)</u>
Total capital assets being depreciated, net	40,416,679	3,542,057	(2,334,248)	41,624,488
<b>Governmental activities capital assets, net</b>	<b><u>\$ 45,031,413</u></b>	<b><u>\$ 8,026,168</u></b>	<b><u>\$ (3,767,736)</u></b>	<b><u>\$ 49,289,845</u></b>

*Depreciation expense was charged to functions as follows:*

Governmental activities:	
General government	\$ 232,790
Public safety	341,425
Public work	775,967
Culture and recreation	108,635
Health	93,116
<b>Total depreciation expense governmental activities</b>	<b>\$ 1,551,933</b>

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**Government Wide Financial Statements**

Capital assets purchased are carried at historical costs. Contributed assets are recorded at fair value as of the date donated. Additions, Improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

Vehicles, Heavy Equipment	4-10	\$300
Furniture and Fixture	10	\$300
Computer and Electronic Equipment	5	\$300
Buildings	40	\$ 1
Infrastructure	50	\$ 1
Improvements	20-40	\$ 1

In addition, the Municipality assigned a 10% residual value on most Capital Assets.

**Fund Financial Statements**

**The Municipality** charged costs of capital outlays as expenditures categories in the Governmental Fund Financial Statements.

**10. CHANGES IN GENERAL LONG-TERM DEBT**

Description	Payable at July 1, 2008	Additions	Reductios	Ending Balance
General Obligations Bonds	\$ 9,696,928	\$ 700,000	\$ 507,250	\$ 9,889,678

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**11. GENERAL LONG-TERM DEBT (Continuation)**

*General Obligation Bonds:*

<b>Description</b>	<b>Original Amount</b>	<b>Interest Rate</b>	<b>Balance 06-30-09</b>	<b>Due Date</b>	<b>Due within One Year</b>
Bonds Series 2001	1,310,000	5%	\$ 885,000	7/1/2016	\$ 85,000
Bonds Series 1986	165,000	5.70%	25,339	1/1/2011	12,000
Bonds Series 1987	130,000	5.875%	28,000	1/1/2012	9,000
Bonds Series 1995	535,000	4.70 to 7.250%	255,000	7/1/2014	35,000
Bonds Series 1996	330,000	4.70 to 6.630%	215,000	7/1/2019	15,000
<b>SUB-TOTAL</b>	<b>2,470,000</b>		<b>1,408,339</b>		<b>156,000</b>

*Operational loans:*

Bonds Series 1997	400,000	6% to 8%	205,000	7/1/2016	20,000
Bonds Series 1997	235,000	6.00 to 8.0%	125,000	7/1/2016	15,000
Bond Series 2007	610,000	7%	465,000	7/1/2013	80,000
<b>SUB-TOTAL</b>	<b>1,245,000</b>		<b>\$ 795,000</b>		<b>\$ 115,000</b>

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(continued)**

*Special Loans from Lottery Funds:*

Description	Original Amount	Interest Rate	Balance 06-30-09	Due Date	Due within One Year
2002-2004	1,060,000	6.5%	960,000	7/1/2028	25,000
1997-98	165,000	5.00%	137,339	7/1/2028	5,000
1997-98	135,000	5.00%	116,000	7/1/2028	4,000
1997-98	341,000	5.00%	293,000	7/1/2028	10,000
2007-08	1,510,000	3.93% -7.5%	1,455,000	7/1/2022	60,000
2007-08	305,000	3.93% -7.5%	270,000	7/1/2014	35,000
2007-08	3,755,000	3.93% -7.5%	3,755,000	7/1/2015	60,000
2008-09	700,000	4.75%-7.5%	700,000	7/1/2015	80,000
<b>Sub-Total</b>	<b>7,971,000</b>		<b>7,686,339</b>		<b>279,000</b>
<b>TOTAL</b>	<b>\$ 11,686,000</b>		<b>\$ 9,889,678</b>		<b>\$ 550,000</b>

*The annual debt service requirements for the bonded debt outstanding as June 30, 2009 follows are as follows:*

Year Ending	Principal	Interest	Total
2010	550,000	433,803	983,803
2011	586,000	609,906	1,195,906
2012	615,000	571,111	1,186,111
2013	650,000	530,046	1,180,046
2014	718,000	477,938	1,195,938
Subsequent years	6,770,678	4,015,947	10,786,625
<b>TOTAL</b>	<b>\$ 9,889,678</b>	<b>\$ 6,638,751</b>	<b>\$ 16,528,429</b>

**The Municipality** is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the **Municipality**, for bonds to be repaid with the proceeds of property tax restricted for debt services. Other obligations include compensated absences, LIMS refinance debt, claims and judgments.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**12. DEBT SERVICE FUND**

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and informed by the CRIM (See Note 2). The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality. Interest income is for the payment of interest or special obligations notes and property taxes are for the debt service requirements of the genera obligations bonds and notes.

Principal and interest on these obligations are paid by the Government Development Bank for Puerto Rico from funds obtained from the Following:

Property taxes	\$ 376,918
General fund	62,635
Prior Balance Debt Service	510,958
<b>TOTAL</b>	<b>\$ 950,511</b>

*Expenditures for the year 2008-2009 was as follows:*

Principal	\$ 507,250
Interest	443,261
<b>TOTAL</b>	<b>\$ 950,511</b>

**13. RETIREMENT SYSTEM**

**Plan Description**

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at G.P.O. Box 42004, San Juan Puerto Rico. 00940.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**Plan Description (continuation)**

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

**OLD PLAN**

Eligibility

Pension Benefits

Age 55 and 30 years  
Of service

75% of average highest compensation  
during any years of credited service

Under 55 and 30 ears  
Of service

65% of average highest compensation  
during any 3 years of credit service

Participant in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

**Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940.**

**NEW PLAN**

Eligibility

Pension Benefits

Age 65 with 10 years  
of service

1.5% of average compensation during  
the final 5 years of credited services  
multiples by the numbers of years  
credited service

For both plants, the employees are vested when attaining ten years of credited services. Disability and death are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**Funding Policy**

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known. The Municipality's total payroll for the fiscal year 2009 amounted to \$10,105,530 approximately respectively. The annual employer and employees contribution for the year ended June 30, 2009 amounted approximately \$347,386. Members' requires contributions are 5.775% of gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600. The Municipality is required to contribute 9.275% of gross salary annually during the year **2009**, the Municipality's required actual contribution under Act 447 and Reforma 2000 were \$209,292 and \$211,561 respectively.

**Actuarial Valuation**

The actuarial determined present value of benefits accrued as of June 30 , 2007 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to \$11.2 billion. The net assets available for benefits at such date were \$2.0 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of \$9.2 billion. This information is not available by each participant government agencies or municipalities.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**Actuarial Valuation** (continuation)

Net assets of the system consist principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

- |  |   |
|--|---|
| a) Interest rate                                   | 8.5% a year   |
| b) Salary increases                                | 5.0% year   |
| c) Mortality                                       | GAM'83 Mortality Table set forward two years  |
| d) Termination                                     | Medium Turnover Table commensurate with anticipated experience.                                       |
| e) Disability                                      | 65% of Third Railroad Retirement Table Rates.   |
| f) Retirement age                                  | Graded scale of retirement ages commensurate with anticipated experience.                             |
| g) Proportion of participants with spouses         | 80% of participants assumed to be married, with wives assumed to be four years younger than husbands. |
| h) Number of employees electing high contributions | 15% of retiring employees assumed to pay retroactive contributions at retirement.                     |
| i) Cost-of-living adjustments                      | 3% every third year   |

**14. LONG TERM LIABILITIES**

**Compensated Absences**

Account for vacation and sick leave absences to be financed with governmental funds. The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method. In which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The changes in Compensated absences for the year ended June 30, 2009 are as follows:

Governmental activity	June 30, 2008	Net Increase	June 30, 2009	Due within One year
Compensated Absences	<b>\$ 1,341,108</b>	<b>\$ 74,039</b>	<b>\$ 1,415,147</b>	<b>\$ 364,515</b>

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**15. LEASES**

*Operating Leases*

**The Municipality** has several short-term operating lease agreements covering some of **the Municipality's** premises and equipment. Most of the agreements are renewed annually. Total rental charges for the year ended June 30, 2009, were approximately \$512,395 included in all funds.

**16. CLAIMS AND CONTINGENCIES**

*Contingencies*

As per Act No. 72 of September 7, 1993, Act of the Health Insurance of PR Administration", (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform.

On July 1, 1997, there was a amendment to Act No. 72 in which it was established that the balance due to HIA from October 1994 to June 30, 1997 will be earned on the additional lottery games. During the year the Municipality pay to Health Insurance of Puerto Rico Administration \$482,480.

*Federal Programs*

The Municipality participates in a number of federal financial assistance programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant program requirements, **the Municipality** may be required to reimburse the grantor agency. Accordingly, the Administration's compliance with applicable grant requirements will be established at some future date. Nevertheless, **the Municipality's** management expects the amount of expenditures, which may be disallowed by the granting agencies from such audits, to be immaterial

*Comptroller's Office Audits*

The Municipality of Utuado Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office has issued a final report related to the financial operations of the Municipality before the period of the single audit. These audit report do not cover any findings subsequently disclosed to Municipality operation by the Comptroller's Office.

**17. MUNICIPAL SALES TAX**

Pursuant to the provisions of the Law number 80 of July 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contribution of 1.5% in the following activities.

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**17. MUNICIPAL SALES TAX (continuation)**

The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by Treasury Department. The Act provides and optional surtax on the un-process food. This surtax must be approved by the Municipal Legislature. The Treasury Department is responsible to create the Municipal Development Fund (.02%), the Municipal Redemption Fund (.02%) and the Municipal Improvements Fund (.01%) with the remaining 0.5%. The Municipality collected \$704,036 during the year ended June 30, 2009.

**18. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS AND OTHER**

Contingencies and claims and judgments against the Municipality

The **Municipality** is a defendant in a number of lawsuits arising principally from claims against the **Municipality** for alleged improper actions. It is management's opinion, based on the advise of the legal counsel, that the probable claims against the **Municipality** not covered by insurance are not determine.

**19. RESTATEMENT OF 2008 FINANCIAL STATEMENTS**

During the fiscal year ended June 30, 2009 **the Municipality** notes that certain liabilities had been overstated or understated as well as other differences related with adjustments to capital assets and reclassification of certain fund balances. As a result the net assets at June 30, 2008, as previously reported, had been decreased by \$222,763 and the fund balance of various funds at June 30, 2008, as previously reported, had been increased by \$213,967 the debt service fund decreased by \$234,206 and the other funds decrease by \$118,760.

	<u>General Fund</u>	<u>HUD Program</u>	<u>Debt Service</u>	<u>Other Funds</u>
Beginning balance at June 30, 2008	\$ (439,442)	\$ 970,823	\$ 723,667	\$ 2,701,261
Accounts payable from prior year cancelled	-	213,967	234,206	-
Accounts payable from prior year	(222,763)	-	-	(118,760)
Beginning balance, as restated June 30, 2008	<u>\$ (662,205)</u>	<u>\$ 1,184,790</u>	<u>\$ 957,873</u>	<u>\$ 2,582,501</u>

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

To the Mayor and Municipal Council  
Municipality of Utuado, Puerto Rico

I have audited the financial statements of the governmental activities of Municipality of Utuado, Puerto Rico as of and for the year ended June 30, 2009 and have issued my report thereon dated December 7, 2009 which was unqualified. 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 Municipality of Utuado, 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 of Utuado internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Municipality of Utuado, Puerto Rico's internal control over financial reporting.

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 effects the Municipality of Utuado Puerto Rico'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 the of the Municipality of Utuado, Puerto Rico's financial statements that is more than inconsequential will not be prevented or detected by the Municipality of Utuado, Puerto Rico's internal control. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item 2009-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality of Utuado, Puerto Rico'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, I believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Utuado, Puerto Rico's financial statements are free of material misstatement, I performed test 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 Municipality of Utuado Puerto Rico in a separate letter dated December 7, 2009.

The report is intended solely for the information and use of management, Municipal Council 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.

Arecibo, Puerto Rico  
December 7, 2009

The stamp number 2467835  
was affixed to the  
original of this report



  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2010

**JUAN A. FELICIANO CHARNECO**  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB-CIRCULAR A-133**

To the Mayor and Municipal Council of the  
Municipality of Utuado  
Utuado, Puerto Rico

Compliance

I have audited the compliance of the Municipality of Utuado, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Municipality of Utuado 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 Municipality of Utuado Management. My responsibility is to express an opinion on of Municipality of Utuado 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 and Local Governments". Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 Municipality of Utuado 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 Municipality of Utuado compliance with those requirements.

As described in the finding 2009-05, the accompanying schedule of findings and questioned costs, Municipality of Utuado, did not comply with the requirements regarding

that area applicable to its Section 8 Housing Choice Voucher. Compliance with such requirements is necessary in my opinion, for the Municipality of Utuado, to comply with the requirements applicable to that program.

In my opinion, except for the noncompliance in the preceding paragraph, Municipality of Utuado, Puerto Rico, complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of my auditing procedures disclosed instances of non compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2009-2, 2009-3 and 2009-4.

#### Internal Control Over Compliance

The management of Municipality of Utuado 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 Municipality of Utuado 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 Municipality of Utuado internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of Utuado, Puerto Rico'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 2009-02, 2009-03 and 2009-04.

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 questions costs, I consider item 2009-04 to be material weaknesses.

My consideration of internal control over compliance was for the limited purpose described in first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as define above.

Municipality of Utuado response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit Municipality of Utuado Puerto Rico's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, Municipal Council, others within the entity, 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.

Arecibo, Puerto Rico  
December 7, 2009

The stamp number 2467836  
was affixed to the  
original of this report



*Juan A. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2010

**MUNICIPALITY OF UTUADO, PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Program:			
Department of Housing and Urban Development Public and Indian Housing			
Section 8-Housing Choice Voucher Program	14.871	RQ46-VO-54-001	\$ 1,090,416
Pass-through State- Commissioner Office of Municipal Affairs			
Community Development Block Grant			
Small Cities Program - SBGP	14.228	B-08-MC-72-0016	313,606
	14.229	B-07-MC-72-0016	393,489
	14.228	B-06-MC-72-0016	156,497
	14.228	B-05-MC-72-0016	346,214
	14.228	B-04-MC-72-0016	10,071
	14.228	B-03-MC-72-0016	65,091
	14.228	B-02-MC-72-0016	44,369
	14.228	B-97-MC-72-0016	5,393
<b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<b>2,425,146</b>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)</u>			
Administration for Children and families			
Passed-through The Commonwealth of P.R. Governors office for the Care and Integral Development of Children:			
Department of Education			
Head Start	93.600	02-CH-0483-36	5,128,116
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)</b>			<b>5,128,116</b>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through The Commonwealth of P.R. Governorns office for:			
Department of Education			
Child and Adult Care Food Program	10.558		309,626
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>309,626</b>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Public Assistance Grant			
Passed through Commonwealth of P.R. Governors Office			
Authorized Representative to FEMA (GAR)			
Disaster Grant Public Assistance - George 1247	97.036	1247	1,177,691
Disaster Grant Public Assistance - Lluvia 1501	97.036	1501	5,313
Disaster Grant Public Assitance - Jeanne 1552	97.036	1552	24,887
Disaster Grant Public Assistance - Lluvia 1613	97.036	1613	263,427
Disaster Grant Public Assistance - Lluvia Septiembre 2008	97.036	N/A	205,386
Hazard Mitigation Grant	97.039	N/A	7,322
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<b>1,684,026</b>

**MUNICIPALITY OF UTUADO, PUERTO RICO  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. DEPARTMENT OF TRANSPORTATION - FEDERAL TRANSIT ADMINISTRATION</u>			
Passed through Department of Transportation of Puerto Rico			
Federal Transit - Capital Investment Grants	20.500	N/A	153,152
Passed-through the Commonwealth of P.R. Governors Office of P.R. Traffic Safety Commission			
State and Community Highway Safety	20.600	N/A	5,905
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION- FEDERAL TRANSIT ADMINISTRATION</b>			<u>159,057</u>
<b>TOTAL FEDERAL ASSISTANCE</b>			<u><u>\$ 9,705,971</u></u>

See notes to the schedule of expenditures of federal awards.

**MUNICIPALITY OF UTUADO, PUERTO RICO  
 NOTES TO THE SCHEDULE  
 OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS  
 FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2009**

(1) GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Utuado, Puerto Rico and is presented on the modified accrual basis of accounting. The reporting entity is defined in Note 1 to the financial statements of the Municipality. 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.

(2) MAJOR FEDERAL AWARDS

The Community Development Block grants, Housing Assistance Payments Programs, Health and Human Services Programs Federal Emergency Management Agency and the major federal financial awards of the Municipality. Major federal awards represent 97% of total expenditures.

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name review of grant contract information and the office of management and budget catalog of Federal Domestic Assistance.

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the Municipality of Utuado, Puerto Rico Combined Statement of Revenues, Expenditures and Change in Fund Balances - All Governmental and Types as follow:

<u>Description</u>	<u>Hud Programs</u>	<u>Head Start Programs</u>	<u>FEMA Program</u>	<u>Other funds</u>	<u>Total</u>
Federal Programs Expenditures	\$ 2,425,146	\$ 5,128,116	\$ 1,684,026	\$ 468,683	\$ 9,705,971
State & Municipal Expenditures	-	-	-	3,494,362	\$ 3,494,362
<b>TOTAL</b>	<b>\$ 2,425,146</b>	<b>\$ 5,128,116</b>	<b>\$ 1,684,026</b>	<b>\$ 3,963,045</b>	<b>\$ 13,200,333</b>

**MUNICIPALITY OF UTUADO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

A. Summary of Audit results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness (es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiency (s) identified not considered  
to be material weaknesses?   X   Yes \_\_\_\_\_ No  
None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

Federal Awards

Internal control over mayor programs:

Material weakness(es) identified?   X   Yes \_\_\_\_\_ No

Significant deficiency (s) identified not  
Considered being material weaknesses?   X   Yes \_\_\_\_\_ No

Type of auditor's report issued on compliance considered  
For major programs Qualified

Any audit findings disclosed that are required to be  
Reported in accordance with Circular A-133,  
Section .510(a) are reported on part C, of this schedule   X   Yes \_\_\_\_\_ No

**MUNICIPALITY OF UTUADO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
14.871	Section 8 – The Housing Choice Voucher Program
93.600	Head Start
14.228	Community Development Block Grant
97.036	Representative to FEMA (GAR) 1247, 1501, 1552 and 1613

Dollar threshold used to distinguish  
Between type A and type B Programs

300,000

Auditee qualified as low-risk auditee

\_\_\_\_\_ Yes   X   No

**B - Financial Statements Findings**

No matters were reported regarding reportable conditions, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with paragraph 5.18 through 5.20 of Governmental Auditing Standards.

**C - Federal Award Findings and Questioned Cost**

Federal Program Information

**MUNICIPALITY OF UTUADO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**  
**(continued)**

**Program: Accounting and Finance Department**  
**General Fund – Deficit**  
**Year ended June 30, 2009**

Ref. No.	Finding / Noncompliance	Questioned Cost
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2009-01	<u>Statement of Condition and Criteria</u> It was noted in my test of balance of accounts that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems for CFR; and with GASB codifications 1700, with requirements stated in OMB Circular A-133.	-0-
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Cause

The Municipality has significant deficiencies in its accounting and financial management systems, and financial reporting practices as related to budgets for the General Fund.

Effect

The lack of budget results does not permit the Municipality:

- a) To provide services to citizens without affecting them.
- b) To determine compliance with finance – related legal and contractual provisions.

Auditors Recommendation

The Municipality should revised and evaluate in a monthly basis revenues and disbursements to adjust disbursements to the revenues receipt to comply with Budget requirements of Municipal Law number 81 of August 30, 1991 as amended. Implement measure to reduce the Municipal deficit. Evaluate the impact in the revenues of the change in construction tax and the increase of the real and personal taxes. Evaluate the impact in the disbursement to reduce hours of services of employees, evaluate and revised transitory contracts with employees, approve only necessary professional services, reduce confidence employees salary and consolidate services.

Municipality Response

We concur with auditor’s recommendations. The Municipality will evaluate the actual administrative procedures being followed. The Municipality management took serious and radical measure to minimize the impact of this condition and expect to correct in the near future.

**MUNICIPALITY OF UTUADO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009  
(continued)**

**Department of Housing and Urban Development Public  
And Indian Housing  
CFDA No. 14.871  
Grant No. Section 8 – Housing Choice Voucher  
Year ended June 30, 2009**

Ref. No.	Finding / Noncompliance	Questioned Cost
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2009-02	<p><u>Statement of Condition and Criteria</u> <u>Cash Management</u> It was noted in my test of compliance that the established procedures for the cash management requirements do not minimize the time elapsing between the transfer of funds From HUD and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.</p> <p><u>Cause</u> The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States as per Title 24 of CFR, part 84, Cc) (7).</p> <p><u>Effect</u> The Municipality revise the procedures for the Administration of cash to determine properly their use needs.</p> <p><u>Auditor's Recommendation</u> The Municipality should revise the procedures in established order to control in a more effective manner the need and use of the federal funds to minimize the time elapsed to disburse the funds receive.</p> <p><u>Municipality Response:</u> The Municipality accept the auditor recommendation and the Mayor grave instructions to implement immediately.</p>	-0-

**MUNICIPALITY OF UTUADO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**  
**(continued)**

**U.S. Department of Health Human Services**  
**Administration for Children and Families**  
**CFDA No. 93.600**  
**Grant No. Head Start Program**  
**Year ended June 30, 2009**

Ref. No.	Finding / Noncompliance	Questioned Cost
-----	-----	-----
2009-03	<u>Statement of Condition and Criteria</u> <u>Cash Management</u>	-0-

It was noted in my test of compliance that the Municipality's procedures to minimize the time elapsing between the transfer of funds from the Office of the Administration for Integrated Care and Development of Child (ACUDEN) and the disbursements by the Municipality was not properly followed. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 20 days.

Cause

The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States as per Title 45 of CFR, part 92, (c) (7). The procedures established by ACUDEN in the delegation of funds agreement do not provide a clause to comply with this requirement.

Effect

The Municipality should modify procedures for the Administration of cash to determine properly their cash needs.

Auditor's Recommendation

The Municipality should revise the procedures order to control in a more effective manner the need and use of the federal funds to minimize the time elapsed to disburse the funds receive.

Municipality Response:

The Municipality accept the auditor recommendation and the Mayor grave instructions to implement immediately.

**MUNICIPALITY OF UTUADO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**  
**(continued)**

**U. S. Department of Housing and Urban Development**  
**CFDA No. 14.228**  
**Grant No. Community Development Block Grant**  
**Small Cities Program - SBGP**  
**Year ended June 30, 2009**

Ref. No. Finding / Noncompliance	Questioned Cost
2009-4 <u>Statement of Condition and Criteria</u> <u>Accounting and Cash Management</u>	-0-

It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial management Systems, in 24CFR Part 84, Sub-Part C, Section 84.21, Uniform Administrative Requirements, were is established that management system shall provide for the following:

1. Accurate, current and complete disclosure of the financial results of each federally sponsored project or program in accordance with the reporting requirements.
2. Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interes.
3. Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks should be prepare.

To established procedures to comply with Financial and Program Management Standards of funds of the SBGP Program. It was noted during my audit that Municipality does not maintain proper segregated accounting records general ledger, check register, Trial balance, Budget comparison by program years.

Cause

The Municipality does not comply with the Financial and Program Management System Standards. The municipality does not maintained a General Ledger by year grant to properly segregate fund by grant, do not prepare accurate trial balance in a monthly basis. The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality does not maintain adequate accounting procedure that segregates accounting rewards by program year for the Administration of funds from SBGP Program by grant funds. Also the Municipality should modify procedures for the Administration of cash to determine properly their cash needs.

**MUNICIPALITY OF UTUADO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**  
**(continued)**

Auditors Recommendation

The Municipality must establish adequate procedures in order to control in a more effective manner the financial and Program Management System Standards. The Municipality should revise the procedures order to control in a more effective manner the need and use of the federal funds to minimize the time elapsed to disburse the funds receive.

Municipality Response:

The Municipality accept the auditor recommendation and the Mayor grave instructions to implement immediately.

**MUNICIPALITY OF UTUADO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2009  
 (continued)**

**Department of Housing and Urban Development  
 Public and Indian Housing (HUD)  
 CFDA No. 14-871  
 Grant No. Section 8 Housing Choice Voucher  
 Year ended June 30, 2009**

Ref. No.	Finding / Noncompliance	Questioned Cost
-----	-----	-----
2009-5	<p><u>Statement of Condition and Criteria</u>            Effective control and accountability must be maintained for the grant. Administrative personnel must verify all program transactions must assure that are solely for authorized purpose, necessary and reasonable and allocate to federal awards in accordance to OMB Circular A-87.</p> <p><u>Cause</u>            The Section 8 Housing Choice Voucher program made unauthorized loan to other funds during the year. Cash balance not available for the program.</p> <p><u>Effect</u>            The disbursement is not allowable for the grant requirements because is not an authorized and permitted disbursement of the program.</p> <p><u>Auditor's Recommendation</u>            We recommend revising, improving and modifying the internal control procedures relative to disbursement to comply with program regulations and the Municipality must return the amount to the program.</p> <p><u>Municipality Response:</u>            The balance due was on returned on August 2009 to the program and improvement appropriate control procedure to comply with programs regulations will be implemented.</p>	-0-

**MUNICIPALITY OF UTUADO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

2007 – Finding No. 1: U.S. Department of Housing and Urban Development  
Section 8 – Voucher  
CFDA No. 14.871  
Year ended June 30, 2007  
**Finding reported again.**

2007 – Finding No. 2: U.S. Federal Emergency Management Agency  
FEMA 1247, 1396, 1501, 1552 and 1613  
CFDA No. 14.871  
Year ended June 30, 2007  
**Finding was corrected.**

2007 – Finding No. 3: U.S. Department of Housing and Urban Development  
Pass-through State-Commissioners Office of Municipal Affairs  
Grant Community Development Block Grant  
CFDA No. 14.228  
Year ended June 30, 2007  
**Finding was corrected.**

Condition

It was noted in my test of compliance that is not complying with the criteria established by United States Treasury, Cash Management Requirements the municipalities financial management system.

**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2009  
(CONTINUE)**

Ref. No.	<u>Finding /Corrective Action</u> <u>Planned/Person Responsible:</u>	<u>Anticipated</u> <u>Completion Date</u>
2009-01	<p><u>Statement of Condition:</u> The General Fund is not complying with budget balances and criteria established by the Standards of Financial Management System for CFR, with GASB codification 1700, with requirements stated in OMB Circular A-133 and with Budget requirements of Municipal Law number 81 of August 30, 1991 as amended.</p> <p><u>Corrective Action Planned:</u> The Finance Director will establish adequate procedure to permit the preparation of reliable budget and comply with all standards, requirements and laws that apply.</p> <p><u>Person Responsible:</u> Mrs. Limarie Vélez González Finance Director</p>	<p>On or before end of 2009-10 fiscal year</p>
2009-02	<p><u>Statement of Condition:</u> The Section 8 – Voucher Program, cash balance over \$5,000 for periods longer than 3 days.</p> <p><u>Corrective Action Planned:</u> The Section 8 Voucher Program Administration will evaluate and Implement adequate procedures to control, use and invest in effective manner, federal funds.</p> <p><u>Person Responsible:</u> Mrs. Limarie Vélez González Finance Director</p>	<p>Anticipated <u>Completion Date</u></p> <p>On or before end of 2009-10 fiscal year</p>

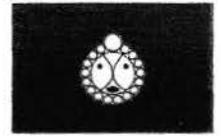
**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2009  
(CONTINUE)**

Ref. No.	<u>Finding /Corrective Action</u>	<u>Anticipated Completion Date</u>
2009-03	<u>Planned/Person Responsible:</u>  <u>Statement of Condition:</u> The Head Start Program, cash balance over \$5,000 for periods longer than 20 days.  <u>Corrective Action Planned:</u> The Head Start Program Administration will evaluate and Implement adequate procedures to control, use and invest in effective manner, federal funds.  <u>Person Responsible:</u> Mrs. Limarie Vélez González Finance Director	On or before end of 2009-10 fiscal year
2009-04	<u>Planned/Person Responsible:</u>  <u>Statement of Condition:</u> The financial accounting for each federally sponsored project or program will be in accordance with the reporting requirements. Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks should be prepare.  <u>Corrective Action Planned:</u> The Finance Director will establish adequate procedure to permit the preparation of reliable budget and comply with all standards, requirements and laws that apply. The mayor gave instructions to implement the financial reporting requirements as soon as possible.  <u>Person Responsible:</u> Mrs. Limarie Vélez González Finance Director	Anticipated <u>Completion Date</u>  On or before end of 2009-10 fiscal year



Hon. Alan González Cancel  
Alcalde

*Estado Libre Asociado de Puerto Rico*  
*Municipio de Utuado*  
*Departamento de Finanzas*



Sra. Limarie Vélez González  
Directora

**CORRECTIVE ACTION PLAN**  
**YEAR ENDED JUNE 30, 2009**  
**(CONTINUE)**

Ref. No.	<u>Finding /Corrective Action</u>	<u>Anticipated</u>
2009-05	<u>Planned/Person Responsible:</u>	<u>Completion Date</u>
	<u>Statement of Condition:</u> Effective control and accountability must be maintained for the grant. Administrative personnel must verify all program transactions and must assure that are solely for authorized purpose, necessary and reasonable and allocate to federal awards.	On or before end of 2009-10 Fiscal year
	<u>Corrective Action Planned:</u> The mayor order to returned the amounts on January 2010 to the program and implement control procedures as soon as possible.	
	<u>Person Responsible:</u> Mrs. Limarie Vélez González Finance Director	