

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

**MUNICIPIO DE VILLALBA
AUDITORÍA 2007-2008
30 DE JUNIO DE 2008**

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION
SINGLE AUDIT

FISCAL YEAR ENDED JUNE 30, 2008

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO
BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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INDEPENDENT AUDITOR'S REPORT

TO THE HONORABLE MAYOR AND
MEMBERS OF THE MUNICIPAL LEGISLATURE
MUNICIPALITY OF VILLALBA, PUERTO RICO

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of VILLALBA, Puerto Rico (Municipality), as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

As discussed in Note 5 to the financial statements, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, based on our audit and the report of other auditors, because of the effects of the matter discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Municipality of Villalba, Puerto Rico, as of June 30, 2008, and the changes in financial position, thereof for the year then ended.

In our 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, as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and budgetary comparison information on pages 3 through 11 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We 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, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 27, 2009, on our consideration of the Municipality's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The accompanying Financial Data Schedule is presented for purposes of additional analysis required by U.S. Department of Housing and Urban Development and is not required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Mendoza & Ramos CPA's
MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
December 20, 2008, except for Financial Data Schedule which is dated on March 27, 2009.

Stamp number 2395322 was
affixed to the original of this
report



COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The management of the Autonomous Municipality of Villalba in order to comply with the requirements of the Governmental Accounting Standards Board Statement Number 34, "**BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS FOR STATE AND LOCAL GOVERNMENTS**", present an overview and analysis of the financial activities sustained by the municipality for the fiscal year ended on June 30, 2008.

This Management's Discussion and Analysis (**MD&A**) is focused on the current year activities, resulting changes and currently known facts; therefore it should be read in conjunction with the Municipality's Basic Financial Statements. This (**MD&A**) will provide comparable information to the readers with prior year's financial statements. Also, it can assist readers to get a more specific understanding of the financial activities that have taken place during the fiscal year ended on June 30, 2008.

FINANCIAL HIGHLIGHTS

- The Municipality's Net Assets for the fiscal year ended on June 30, 2008 were **\$15,720,292** in comparison with fiscal year 2007 which were **\$12,716,175** a **\$3,004,117** increase.
- The Municipality's Fund Financial Statements show that Governmental Activities Revenues were **\$14,805,011** for the fiscal year ended on June 30, 2007. In comparison with current fiscal year that was **\$11,998,419** a **\$2,806,592** Governmental Activities Revenues decreased.
- The General fund showed a Deficiency of Revenues over Expenditures of **(\$1,209,091)** during the course of 2007 fiscal year. In comparison with fiscal year 2008, that showed an excess of Revenue over Expenditures of **\$1,139,248**.
- The Governmental Activities Expenditures for the fiscal year 2007 were **\$17,194,356** in comparison with this fiscal year ended on June 30, 2008, which balance was **\$17,542,401** a **\$348,045** increase over last fiscal year.
- The General Fund total expenditures for the current fiscal year showed a decrease of **\$1,439,093** with last year's General Fund total expenditure balance.
- The Municipality's Governmental Funds reported an ending Fund Balance for the current fiscal year, amounting to **\$21,072**.
- In the current fiscal year the Administration started the construction of very important projects that will help boost an impact over the economy of the city as well as to improve the intern tourism. Such projects are:
 - "**Bolera Municipal**", a ten lane bowling alley with conference and activities room, sport bar and game room, among other facilities.
 - "**Area Recreativa de Villalba** ", a sport complex that includes a basketball court, a volleyball concrete and sand courts, two public pools with a splash pad for the kids, an extreme sports skating park, a jogging track, a little league baseball park, two tennis courts and a lot other family interesting things.

- **Dos Lagos Hotel**, is actually in the design and planning process and it will began construction during 2008 and it will consist of 200 accommodating rooms plus 200 luxury villas with a casino and an equestrian park with other entertainment facilities.
- **Villalba Movie theaters**, this is another important project which is in the design and planning process and it will consists of three movie rooms and one game room for the entertainment of the kids.
- **Multi space parking lot**, this is another project that will have a direct impact to the economy, because it will make more accessible the services provided to the citizens from our downtown.

USING THIS FINANCIAL REPORT AND BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This Report will present relevant information capable of being the basis for comparison, between more than one fiscal year. Also, this **MD&A** will enhance the Municipality's accountability by providing both, *Government – Wide and Fund – Type* overview, of the Municipality's Financial Structure.

The Basic Financial Statements of the Municipality consist of *Government- Wide Financial Statements and Fund- Type Financial Statements*, as well as *Notes to the Financial Statements*. The Municipality's Basic Financial Statements includes two new Government- Wide Financial Statements: *The Statement of Net Assets and the Statement of Activities*. This report also contains other supplementary information in addition to the Basic Financial Statements. The Municipality's Government- Wide Financial Statements are composed of only Governmental Activities, because no Business- Type Activities were made during the Fiscal year ended on June 30, 2008.

A – GOVERNMENT WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements are designed to provide users with an overview of the Municipality's finances, much like to a private-sector business.

The Statement of Net Assets, one of the two new Government- Wide Financial Statements, presents the information on all of the Municipality's assets and liabilities with the difference between both, reported as *Net Assets*. Over time any increase or decrease in the amount reported as *Net Assets* may serve as an indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities, presents information on how the Municipality's *Net Assets* changed during the course of the fiscal year. In this statement, all revenues and expenses are included regardless of when cash was paid or received. All changes in *Net Assets* are reported as the event which gives rise to the change occurs. This Statement is focused on the gross and net costs of various activities and is intended to summarize and simplify the user's analysis of cost of the multiple governmental services.

The Government- Wide Financial Statements of the Municipality are principally supported by *Intergovernmental Revenues*. The Government- Wide Financial Statements of the Municipality are fully presented on pages **15** to **16**.

B – FUND -TYPE FINANCIAL STATEMENTS

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

The Fund- Type Financial Statements will focus on the Municipality's Major Funds, which will be reported separately from all of the other funds. *The Fund- Type Financial Statements* provide detailed information

about the Municipality's most significant Funds, not the Municipality as a whole. Unlike *The Government-Wide Financial Statements*, *Fund-Type Financial Statements*, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. The Government funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Because the focus of Governmental Funds is narrower than that of the *Government-Wide Financial Statements*, it is recommended to compare the information presented for Governmental Funds, with comparable information presented, for Governmental Activities in the *Government-Wide Financial Statements*.

The *Fund-Type Financial Statements* are composed of both, the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances. These Statements will provide the user of this information a better comparison between Governmental Funds and Governmental Activities.

The Municipality's *Fund-Type Financial Statements* are presented on pages 17 to 20.

C – NOTES TO THE FINANCIAL STATEMENTS

The Basic Financial Statements of the Municipality also includes *Notes to the Financial Statements*. These Notes accompanied the Basic Financial Statements and they'll help to get a full understanding of the data provided in the *Government-Wide and Fund-Type Financial Statements*.

The *Notes to the Financial Statements* are presented on pages 21 to 43.

D – OTHER SUPPLEMENTARY INFORMATION

In addition to the Basic Financial Statements and accompanying Notes, this report also presents certain required supplementary information containing budget to actual comparisons for the General and Major funds.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

The Municipality implemented this financial reporting model in the fiscal year ended on June 30, 2004 and for last fiscal year it presented the Financial Statements using this financial model. For this current year, new financial information has been accumulated which has caused a change in *Net Assets* that must be observed and used, to discuss or compare the changing Financial Position of the Municipality as a whole.

GOVERNMENT – WIDE FINANCIAL ANALYSIS

A – GOVERNMENTAL NET ASSETS

The *Net Assets* are the excess of assets over liabilities. The *Net Assets* may serve as an indicator of the Municipality's financial position. The Municipality's *Net Assets* at fiscal year end were **\$15,720,292**. The following table provides a summary of the Municipality's *Net Assets*:

MUNICIPALITY OF VILLALBA
SUMMARY OF NET ASSETS
JUNE 30, 2007 and 2008

	<u>Governmental Activities</u>	
	2007	2008
Assets:		
Current Assets and Other Assets	\$ 9,236,682	\$ 8,246,148
Capital Assets	<u>7,546,268</u>	<u>20,595,933</u>
Total Assets	\$ 26,782,950	\$28,742,181
Liabilities:		
Current liabilities	\$ 4,866,019	\$ 2,521,596
Non current liabilities	1,245,292	1,026,640
Long- Term liabilities	<u>7,955,464</u>	<u>9,473,653</u>
Total liabilities	\$ 14,066,775	\$13,021,889
Net Assets:		
Invested in Capital Assets, Net of Debt	\$13,095,270	\$13,786,733
Restricted	4,532,784	6,046,972
Unrestricted	<u>(4,911,879)</u>	<u>(4,113,413)</u>
Total of Net Assets	<u>\$ 12,716,175</u>	<u>\$ 15,720,292</u>

Our analysis on the *SUMMARY OF NET ASSETS* reflects that the largest portion of the Municipality's *Net Assets* for 2008 consisted of Capital Assets, 72% of the Governmental Activities' Total Assets, and for 2007 it was approximately, 65%. These Capital Assets are used to provide services to citizens; consequently these assets are not available for future spending. Also, it should be noted that the resources required to repay the related debt must be provided from other sources, since, the Capital Assets themselves cannot be used to liquidate these liabilities.

CURRENT RATIO

- Current Assets / Current Liabilities:
\$8,246,148 / \$2,521,596

The Current Ratio for the Municipality is 3.27 percent for the fiscal year 2008, 1.37 percent more than fiscal year 2007, 1.90 percent; this ratio indicates the ability of the Municipality to pay current fiscal year obligations.

B – CHANGES IN NET ASSETS

This Municipality is strongly supported by the Intergovernmental Revenues for its operations. In the other hand, the Municipality's *Expenses* covered a range of activities, from which the largest expensed activity was General Administration, followed by Public Works, Mayor and Municipal Legislature, Urban Development, Capital Outlays, Public Safety and so on. The following table will show a summary of the Municipality's *Changes in Net Assets*:

MUNICIPALITY OF VILLALBA

SUMMARY OF CHANGES IN NET ASSETS

JUNE 30, 2007 and 2008

Governmental Activities

	2007	2008
Revenues:		
Program Revenues		
Property Taxes	\$1,473,214	\$ 1,377,991
Volume of Business Tax	1,689,606	2,266,960
Sales Tax	---	515,598
Federal Financial Assistance	1,496,407	1,915,969
Other local taxes	921,880	902,598
Intergovernmental Revenues	9,616,356	13,312,920
Rent of Property	62,608	39,303
Interest	198,106	84,875
Miscellaneous	<u>463,636</u>	<u>169,607</u>
Total Revenues	\$ 15,921,813	\$ 20,546,518
Expenses:		
Program Expenses:		
Mayor and Municipal Legislature	\$ 1,893,420	\$ 2,291,372
General Administration	7,413,202	5,997,650
Public Safety	1,109,636	1,330,200
Public Works	4,511,761	3,243,636
Culture and Recreation	1,227,634	760,505
Health and Sanitation	330,055	352,037
Human Services and Welfare	1,764,407	2,477,989

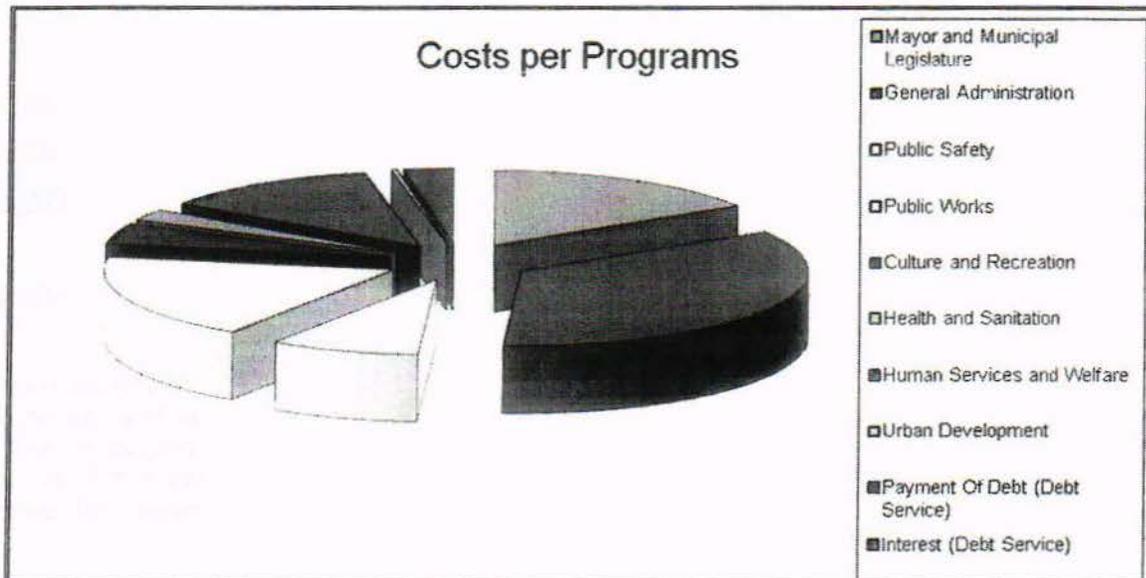
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Urban Development	1,001,276	694,118
Payment of Principal (<i>Debt Service</i>)	397,093	----
Interest (<i>Debt Service</i>)	<u>132,117</u>	<u>394,894</u>
Total Expenses	\$ 19,780,601	\$ 17,542,401
Change in Net Assets	(3,858,788)	3,004,117
Ending Net Assets	<u>\$ 12,716,175</u>	<u>\$ 15,720,292</u>

Our analysis of the *SUMMARY OF CHANGES IN NET ASSETS* reflects that the largest portion of the Municipality's Total Revenues for 2008 consisted of Intergovernmental Revenues, 55.6% and for fiscal year 2007, was 65% approximately. The Governmental Activities' Expenditures, decrease from \$19,780,601 to \$17,542,401 for fiscal year 2008. The major expenditure category for both fiscal years was General Administration, which comprises 37.5% and 34.20% for 2007 and 2008, respectively. Public Work program showed a decrease of \$1,268,125 for 2008.

To illustrate graphically the allocation of revenues due to the definition of the proper revenue recognition and to illustrate the distribution of costs among the adequate programs, exhibit I and exhibit II are shown below:

Exhibit I



FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

A – GOVERNMENTAL FUNDS

The Municipality's *Governmental Funds* information is useful in assessing the Municipality's financial requirements. At the end of the fiscal year any resource available for spending should be measured by the unreserved fund balance. In the current fiscal year, the Municipality's *Governmental funds* reported an ending Fund Balance of \$5,592,451 a \$1,887,922 increase. There are reservations of Fund Balance up to \$6,651,579 an increase of \$2,200,264 over last fiscal year. This reserved Fund Balance is committed to cover balances shown as follows:

- \$270,870 is reserved to cover purchase orders of prior fiscal years.
- \$489,968 is to pay Debt Service.
- \$5,800,541 is reserved for HUD Programs, for State Assignments and for other Governmental purposes.

The Municipality's *Governmental Funds* includes the General Fund, which is the Major Operating Fund of the Municipality and as of June 30, 2008, it showed a Fund Balance of \$21,072

BUDGETARY HIGHLIGHTS

The Budgetary Comparison schedules for budgeted and actual amounts from General Fund are presented in the Municipality's *Basic Financial Statements*. These Schedules will show the original adopted budget, the final revised budget, actual results, and variance between final and actual budgeted amounts for the General Fund. An Original Budget is presented by the Mayor and approved by the Municipality's Legislature in an ordinary session, but it may be revised for various reasons and circumstances, or due to unanticipated budget issues that rose during the course of the fiscal year.

For fiscal year 2008, the summary of the minor differences between the Original and Final 2008 budgeted amounts of the General Fund are presented below:

- Resources decreased primarily from Sales tax totaling \$186,597.
- The Original Budget was not amended to increase expenditures between expenditures accounts meanwhile, the total expenditures budgeted exceeded the actual expenditures incurred during fiscal 2008.
- A Decrease of \$467,973 was shown to total charges for appropriations.

- The final budget amount showed a excess of Resources under Appropriations of \$148,818.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's *investment in Capital Assets* as of June 30, 2008 is \$27,277,789, net of Accumulated Depreciation of \$6,681,856, leaving a Net Book Value of \$20,595,933. The investment in capital assets includes land, buildings improvement, equipment, infrastructure, motor vehicles, recreation facilities and construction in progress.

The total increased in the Municipality's *investment in Capital Assets* as of June 30, 2008 was \$3,049,665 in terms of Net Book Value in comparison with fiscal year 2007. Depreciation charges also decrease for the fiscal year by \$54,843 in comparison with fiscal 2007.

The Municipality finances a significant portion of its construction activities through Bond Issuances and Grants. The proceeds from Bond Issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. A summary of the Capital Assets is presented as follows:

MUNICIPALITY OF VILLALBA
 CAPITAL ASSETS

	<u>2007</u>	<u>2008</u>
Capital Assets:		
Land	\$ 1,003,026	\$ 1,284,597
Construction in progress	1,552,614	1,878,334
Buildings	7,415,885	8,079,085
Infrastructure	3,995,001	4,969,685
Recreation Facilities	5,380,252	6,951,306
Machinery and Equipment	799,186	865,495
Motor Vehicles	<u>3,053,245</u>	<u>3,249,287</u>
 Total Capital Assets	 <u>\$ 20,643,569</u>	 <u>\$ 24,114,858</u>

DEBT ADMINISTRATION

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each Municipality may be pledged.

The Law requires that in order for a Municipality to be able to issue additional general obligations bonds and notes, such Municipality must have sufficient "Payment Capacity". The "Payment Capacity" is determine with the moneys deposits in the Redemption Fund of the Municipality and the amounts collected with respect to the Municipality's Special Additional Tax, as projected by the *Government Development Bank (GDB)* be enough to fulfill the general and the proposed, additional general obligation. For a Municipality to incur additional general obligation debt it must be sufficient to service to maturity, the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of an interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's *Basic Tax revenues*. Accordingly, the Municipality's *Basic Tax revenues* would be available to make Debt Service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, are not sufficient to cover such Debt Service. It has never been necessary to apply Basic Taxes to pay Debt Service on general obligation debt for the Municipality.

MUNICIPALITY OF VILLALBA
LONG TERM AND OTHER DEBTS

	<u>2007</u>	<u>2008</u>
General Obligations Bonds	\$ 4,862,000	\$ 4,901,000
Special Notes Payable	1,100,000	855,000
Convertible line of Credit	-	1,550,000
Property Taxes (CRIM, PRTD)	1,905,276	1,945,664
Water Company	25,727	-
Compensated Absences	<u>1,307,753</u>	<u>1,248,629</u>
Total Long-Term and Other Debts	<u>\$ 9,177,556</u>	<u>\$ 10,500,293</u>

The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs. A more specific and detailed information regarding the Long - Term Debt of the Municipality is presented in the *Notes to the Financial Statements* of the Municipality's *Basic Financial Statements*.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on Intergovernmental Revenues as well as Federal Financial Assistance to carry out the Governmental Activities. Historically, these amounts have been predictable for every fiscal year, providing the Municipality with increases of approximately, five percent (5%). Federal Financial Assistance may vary if new grants are available, but the revenue is also predictable.

Local, national and international economic factors may influence the Municipality's revenues, positively or negatively. Positive economic growth is correlated with increased revenues from Property Taxes, Volume of Business Taxes, Charges for Services as well as State and Federal Grants. In a local economy the growth may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors are considered when preparing the Municipality's Budget for the fiscal year ended on June 30, 2009.

FINANCIAL CONTACT

The Municipality's *Basic Financial Statements* are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability.

If you have any questions about the report or need some additional financial information concerning the Municipality's *Basic Financial Statements*, contact the Municipality's Finance Department at (787) 847-9154.

BASIC FINANCIAL STATEMENTS:

Governmental-Wide Statement

- Statement of Net Assets
- Statement of Activities

Governmental Funds Statements

- Balance Sheet
- Reconciliation of the Governmental Funds Balance Sheet
- Statement of Revenues Expenditure and Change in Fund Balance
- Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund Balance of Governmental Funds to the Statements of Activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO**

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Governmental Activities</u>
ASSETS:	
Cash and Cash Equivalents	\$ 909,609
Cash with Fiscal Agent	2,718,873
Accounts Receivable (net):	
Property Taxes	793,092
Proceed of Bond	-
Federal Grants	271,517
Other	<u>3,453,157</u>
Capital Assets (Note 5):	
Land, Improvements, and Construction in Progress	3,162,931
Other Capital Assets, (Net of Depreciation)	<u>17,433,002</u>
Total Capital Assets	<u>20,595,933</u>
TOTAL ASSETS	<u>\$ 28,742,181</u>
LIABILITIES:	
Accounts Payable and Accrued Expense	869,064
Claims and Judgments Debt	-
Accrued Interest	79,768
Deferred Revenues	1,572,764
Long-Term Liabilities (Note6):	
Due within One Year	1,026,640
Due in More than One Year	<u>9,473,653</u>
Total Liabilities	<u>13,021,889</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	13,786,733
Restricted for:	
Community Development Projects	89,169
Special Revenue	2,001,343
State Assignment Funds	1,388,292
Construction Activities	2,078,200
Debt Service	489,968
Unrestricted (Deficit)	<u>(4,113,413)</u>
TOTAL NET ASSETS	<u>\$ 15,720,292</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO**

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Charges For Services	Program Revenue		Net (Expenses) Revenues and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 2,291,372	\$ -	\$ -	\$ -	\$ (2,291,372)
General Administration	5,997,650	-	1,027,176	-	(4,970,474)
Public Safety	1,330,200	-	157,034	-	(1,173,166)
Public Works	3,243,636	-	4,197,404	1,670,000	2,623,768
Culture and Recreation	760,505	-	115,015	-	(645,490)
Health and Sanitation	352,037	-	-	-	(352,037)
Solid Waste Disposal	-	-	-	-	-
Human Services and Welfare	2,477,989	-	727,490	-	(1,750,499)
Urban Development	694,118	-	653,980	-	(40,138)
Capital Outlay	-	-	-	-	-
Education	-	-	-	-	-
Interest on Long-Term Debt	394,894	-	-	-	(394,894)
Total Governmental Activities	\$ 17,542,401	\$ -	\$ 6,878,099	\$ 1,670,000	\$ (8,994,302)

General revenues:

Taxes:

Property tax, levied for General Purposes	1,129,298
Property tax, levied for Debt Service	243,693
Volume of Business Tax	2,266,960
Sales Tax	515,598
Other local taxes	902,598
Intergovernmental Revenues	6,680,790
Interest	84,875
Miscellaneous	169,607
Total General Revenues and Special Items	11,998,419
Change in the Net Assets	3,004,117
Net Assets - Beginning of Year	12,716,175
Net Assets - Ending of Year	<u>\$ 15,720,292</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	<u>General Fund</u>	<u>HUD Fund</u>	<u>State Assignment Fund</u>	<u>Other Governmental Funds</u>	<u>Total Funds</u>
ASSETS:					
Cash and cash equivalents (Note 2)	\$ 30,520	\$ 79,000	\$ 17,995	\$ 782,094	\$ 909,609
Cash with Fiscal Agent	551,295	-	-	2,167,578	2,718,873
Accounts receivable:	-	-	-	-	-
Property Tax	681,123	-	-	-	681,123
Procced of Bond	-	-	-	-	-
Federal Grant	-	271,517	-	-	271,517
Due from Other Funds	5,600,299	-	1,476,946	3,371,327	10,448,572
Others	100,781	10,450	164,010	3,177,916	3,453,157
TOTAL ASSETS	<u>\$ 6,964,018</u>	<u>\$ 360,967</u>	<u>\$ 1,658,951</u>	<u>\$ 9,498,915</u>	<u>\$ 18,482,851</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable and Accrued Expense Liabilities	587,172	-	271	106,657	694,100
Claims and Judgments Debt	-	-	-	-	-
Due to Governmental Units	174,964	-	-	-	174,964
Due to Other Funds	4,848,273	113,746	270,388	5,216,165	10,448,572
Deferred Revenues:	-	-	-	-	-
Volume of Business Tax	1,332,537	-	-	-	1,332,537
Property Taxes	-	-	-	-	-
Federal Grants	-	158,052	-	82,175	240,227
Total Liabilities	<u>6,942,946</u>	<u>271,798</u>	<u>270,659</u>	<u>5,404,997</u>	<u>12,890,400</u>
Fund Balances:					
Reserve For:					
Encumbrances	270,870	-	-	-	270,870
Debt Service	-	-	-	489,968	489,968
Other Purposes	719,130	89,169	1,388,292	3,603,950	5,800,541
Unreserved (Deficit)	(968,928)	-	-	-	(968,928)
Total Fund Balances	<u>21,072</u>	<u>89,169</u>	<u>1,388,292</u>	<u>4,093,918</u>	<u>5,592,451</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,964,018</u>	<u>\$ 360,967</u>	<u>\$ 1,658,951</u>	<u>\$ 9,498,915</u>	<u>\$ 18,482,851</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO**

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2008

Total Fund Balances- Governmental Funds \$ 5,592,451

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

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

Non Depreciable Capital Assets	\$ 3,162,931	
Depreciable Capital Assets	19,145,173	
Infrastructure Assets	<u>4,969,685</u>	
Accumulated Depreciation	<u>(6,681,856)</u>	
Total Capital Assets		20,595,933

Some of the Municipality's revenues will be collected after year-end but are not available soon enough to pay the current period's expenditures and therefore are deferred in the fund:

CDBG	-	
Municipal Revenue Collection Center	<u>111,969</u>	
Total Deferred Revenues		111,969

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

Interest Payable	(79,768)	
General Bonds and Notes Payable	(7,306,000)	
Compensated Absences	(1,248,629)	
Municipal Revenue Collection Center	(1,899,362)	
Other	<u>(46,302)</u>	
Total Long-Term Liabilities		(10,580,061)

Total Net Assets of Governmental Activities \$ 15,720,292

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	HUD Fund	State Assignment Fund	Other Governmental Funds	Total Funds
REVENUES					
Property Tax	\$ 1,034,860	\$ -	\$ -	\$ 248,693	\$ 1,283,553
Volume of Business Tax	2,266,960	-	-	-	2,266,960
Federal Assistance	-	1,915,969	-	-	1,915,969
Intergovernmental Revenues	6,680,790	-	318,994	6,914,741	13,914,525
Sales Tax	279,659	-	-	235,939	515,598
Licenses and Permits	902,598	-	-	-	902,598
Rent	39,303	-	-	-	39,303
Interest	84,875	-	-	-	84,875
Miscellaneous	198,561	-	-	67,104	265,665
TOTAL REVENUES	11,487,606	1,915,969	318,994	7,466,477	21,189,046
EXPENDITURES					
Mayor and Municipal Legislature	2,291,372	-	-	-	2,291,372
General Administration	3,964,761	224,602	-	2,525,322	6,714,685
Public Safety	919,219	-	-	359,834	1,279,053
Public Works	1,629,931	-	297,197	2,559,669	4,486,797
Culture and Recreation	720,560	-	561,070	63,048	1,344,678
Health and Sanitation	399,859	-	-	18,487	418,346
Human Services and Welfare	422,656	407,520	5,556	1,626,022	2,461,754
Urban Development	-	1,244,950	-	-	1,244,950
Education	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service:	-	-	-	-	-
Principal	-	-	-	421,000	421,000
Interest and Other Charges	-	-	-	353,489	353,489
TOTAL EXPENDITURES	10,348,358	1,877,072	863,823	7,926,871	21,016,124
Excess (deficiency) of revenue over expenditures	<u>1,139,248</u>	<u>38,897</u>	<u>(544,829)</u>	<u>(460,394)</u>	<u>172,922</u>
OTHER FINANCIAL SOURCES (USES):					
Bonds Issued	-	-	-	1,715,000	1,715,000
Operating Transfer Out	(1,280,401)	-	-	-	(1,280,401)
Operating Transfer In	-	-	-	1,280,401	1,280,401
Net Other Financing Sources (Uses)	<u>(1,280,401)</u>	<u>-</u>	<u>-</u>	<u>2,995,401.00</u>	<u>1,715,000</u>
Net Change in the Fund Balance	(141,153)	38,897	(544,829)	2,535,007	1,887,922
FUND BALANCE - BEGINNING, AS RESTATED	<u>162,225</u>	<u>50,272</u>	<u>1,933,121</u>	<u>1,558,911</u>	<u>3,704,529</u>
FUND BALANCES AT END OF YEAR	<u>\$ 21,072</u>	<u>\$ 89,169</u>	<u>\$ 1,388,292</u>	<u>\$ 4,093,918</u>	<u>\$ 5,592,451</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO**

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURE, AND CHANGE
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

JUNE 30, 2008

Net Change in Fund Balance - Total Governmental Funds **\$ 1,887,922**

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

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

Governmental Activities:	\$ 4,078,580	
Depreciation Expense	<u>(1,028,915)</u>	
Excess of Capital Outlay over Depreciation Expense		3,049,665

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		94,438
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Revenues in the Statement of Revenues that correspond to Prior Year resources are record as Revenue in the Statement of Activities		(736,965)
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Bonds proceeds provide current financial resources to governmental funds, but issuing debt Increases Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds Received was:		(1,715,000)
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Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were:		371,000
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Some expenses reported in the Statements of Activities do not require the use of current financial reources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in Compensated Absences	59,124	
Increase in Crim Debt	(51,964)	
Decrease in Other Debt	<u>37,303</u>	
Total Additional Expenditures		44,463

Accrued interest expense is not reported as expenditures in governmental fund. Change in accrued interest.		8,594
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Change in Net Assets of Governmental Activities **\$ 3,004,117**

MUNICIPALITY OF VILLALBA, PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS

- NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (22-31)
- NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (32-33)
- NOTE 3. INTERFUND TRANSFER AND BALANCES (33-34)
- NOTE 4. DUE TO THE OTHER GOVERNMENTAL UNITS (34)
- NOTE 5. CAPITAL ASSETS (34-35)
- NOTE 6. GENERAL LONG-TERM DEBTS (36-39)
- NOTE 7. DEBT RETIREMENT (39)
- NOTE 8. PROPERTY TAXES (39-40)
- NOTE 9. VOLUME OF BUSINESS TAX (40)
- NOTE 10. INTERGOVERNMENTAL REVENUES (40-41)
- NOTE 11. EMPLOYEE'S RETIREMENT PLAN (41-43)
- NOTE 12. CONTINGENCIES (43)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Villalba, Puerto Rico (Municipality) was founded in the year 1917, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

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

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

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASBS No. 34 as well as other statements referred to below as of July 1, 2004. They require new information and restructure much of the information that governments have presented in the past.

Comparability with reports issued in prior years is affected. With the implementation of GASBS No. 34, the Municipality has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

As previously mentioned, other GASB Statements and Interpretations were required to be implemented in conjunction with GASBS No. 34. Therefore, the Municipality has implemented the following GASB Statements in the current fiscal year 2004-2005: GASBS No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, GASBS No. 38, *Certain Financial Statement Note Disclosures*, GASB No. 41, *Budgetary Comparison Schedules - Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2006, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity

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

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

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

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2006, has been reported only in the government-wide financial statements.

C. Financial Statement Presentation

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

Government-wide Financial Statements

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

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

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

Invested in Capital Assets, Net of Related Debt – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Net Assets – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

Governmental Fund Financial Statements

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

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

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

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

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

Invested in Capital Assets, Net of Related Debt – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted Net Assets – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

Governmental Fund Financial Statements

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primary objectives of this assignment is the development of minor projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

HUD Fund – This is the fund used to account for all the transactions of the HUD Awards. The primary objectives of this program is the development of viable communities by providing decent housing, rent assistance, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

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

D. Budgetary Data

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

Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 8).
3. Interfund transactions of the General and Other Governmental Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

E. Cash, Cash Equivalent and Investment

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

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

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

F. Receivable

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

G. Inventories

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

H. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

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

CAPITAL ASSETS	YEARS
Buildings	30
Improvement Other Than Buildings	30
Equipments	3-10
Vehicles	5
Recreation facilities	15-20
Infrastructure	10-50

I. Compensated Absences

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

The Municipality accrued a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences for \$1, 1248,629, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see Note 6 on page 36-39).

J. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

K. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation.

Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

The Municipality has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

L. Reservations of Fund Balance – Governmental Funds

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former. Reserves for debt service and other specific purposes are examples of the latter.

M. Claims and Judgments

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

N. Use of Estimates

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

NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2008.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2008, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2008, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2008, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2008. Therefore, the Municipality's management has concluded that at June 30, 2008 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2008.

At June 30, 2008 the total deposits are as follows:

	<u>MAJOR GOVERNMENTAL FUNDS</u>				<u>TOTAL GOVERNMENTAL FUNDS</u>
	<u>GENERAL FUND</u>	<u>HUD FUND</u>	<u>STATE ASSIGNMENT FUND</u>	<u>OTHER GOVERNMENTAL FUND</u>	
Unrestricted:					
Cash in commercial banks,					
Total unrestricted deposits	\$ 30,520	\$ 79,000	\$ 17,995	\$ 782,094	\$707,032
Restricted (Note 1):					
Cash in GDB, as fiscal agent	<u>551,295</u>	<u>-</u>	<u>-</u>	<u>2,167,578</u>	<u>2,718,873</u>
Total carrying amount of deposits	<u>\$ 581,815</u>	<u>\$ 79,000</u>	<u>\$ 17,995</u>	<u>\$ 2,949,672</u>	<u>\$3,425,905</u>

NOTE 3 INTERFUND TRANSFER AND BALANCES

A. Interfund Transfers

Transfers are indicative of funding for subsidies of various operations.

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Other Governmental Fund	359,832	Payment Debt
General Fund	Other Governmental Fund	<u>920,569</u>	Various Purpose
		<u>\$ 1,280,401</u>	

B. Interfund Receivable and Payable Balances

Interfund receivables and payables at June 30, 2008 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	HUD Fund	\$ 113,746
General Fund	State Assignment	270,388

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 3 INTERFUND TRANSFER AND BALANCES (CONTINUED)

General Fund	Other Funds	5,216,165
State Assignment	General Fund	1,476,946
Other Fund	General Fund	<u>3,371,327</u>
TOTAL		<u>\$10,448,572</u>

NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2008, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the Water Company of the \$174,964.

NOTE 5 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2008 was as follows:

Description	Balance July 1, 2008	Adjustments	Additions	Retirements	Balance June 30, 2008
Assets:					
Land	\$ 1,003,026	-	281,571	-	\$ 1,284,597
Construction in Progress	<u>1,552,614</u>	<u>-</u>	<u>325,720</u>	<u>-</u>	<u>1,878,334</u>
Capital Assets	<u>1,598,722</u>	<u>-</u>	<u>607,291</u>	<u>-</u>	<u>3,162,931</u>
Assets:					
Buildings	7,415,885	-	663,200	-	8,079,085
Infrastructure	3,995,001	-	974,684	-	4,969,685
Recreation Facilities	5,380,252	-	1,571,054	-	6,951,306
Machinery and Equipment	799,186	-	66,309	-	865,495
Motor Vehicles	<u>3,053,245</u>	<u>-</u>	<u>196,042</u>	<u>-</u>	<u>3,249,287</u>
Assets	<u>20,643,569</u>	<u>-</u>	<u>3,471,289</u>	<u>-</u>	<u>24,114,858</u>
Depreciation:					
Buildings	(1,348,210)	-	(269,078)	-	(1,617,288)
Infrastructure	(315,507)	-	(56,459)	-	(371,966)
Recreation Facilities	(2,086,936)	-	(267,237)	-	(2,354,173)
Machinery and Equipment	(353,319)	-	(108,159)	-	(461,478)
Motor Vehicles	<u>(1,548,969)</u>	<u>-</u>	<u>(327,982)</u>	<u>-</u>	<u>(1,876,951)</u>
Depreciation	<u>(5,652,941)</u>	<u>-</u>	<u>(1,028,915)</u>	<u>-</u>	<u>(6,681,856)</u>
Assets (Net)	<u>14,990,628</u>	<u>-</u>	<u>2,442,374</u>	<u>-</u>	<u>17,433,002</u>
CAPITAL ASSETS, NET	<u>\$ 17,546,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 20,595,933</u>

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

	AMOUNT
General Government	186,670
Public Safety	51,147

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (CONTINUED)

Public Works.....	327,894
Urban Development	56,459
Culture and Recreation.....	390,511
Human Services and Welfare	<u>16,235</u>
Total Depreciation Expenses.....	<u>\$ 1,028,915</u>

NOTE 6 GENERAL LONG-TERM DEBTS

A. General Obligations Bonds and Special Notes Payable

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (see Note 7). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send to the Municipality.

General obligations bonds and notes payable as of June 30, 2008, are comprised of the following individual issues

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$435,000, Series 1991, for construction purposes, payable in annual installments ranging from \$10,000 to \$31,000, excluding interests at 5.0%, through January 1, 2016	\$ 205,000
\$295,000, Series 2001, for construction purposes, payable in annual installments ranging from \$5,000 to \$30,000, excluding interests from 2.89% to 5.6%, through July 1, 2025	255,000
\$1,320,000, Series 2001, for construction purposes, payable in annual installments ranging from \$34,000 to \$94,000, excluding interests at 4.75%, through January 1, 2026	1,171,000
\$100,000, Series 2001, for construction purposes, payable in annual installments \$5,000, excluding interests at 6.50%, through January 1, 2026	85,000
\$85,000, Series 2006, for construction purposes, payable in annual installments ranging from \$5,000 to \$10,000, excluding interests at 6.75%, through January 1, 2020	75,000
\$245,000, Series 2006, for construction purposes, payable in annual installments ranging from \$5,000 to \$20,000, excluding interests at 7.5%, through January 1, 2031	240,000
\$165,000, Series 2008, for construction purposes, payable in annual installments ranging from \$5,000 to \$15,000, excluding interests at 7.5%, through January 1, 2031	160,000
\$2,110,000, Series 2007, for claim and judgment debt purposes, payable in annual installments ranging from \$30,000 to \$175,000, excluding interests at 7.5%, through January 1, 2032..	2,080,000
\$505,000, Series 2006, for construction purposes, payable in annual installments	

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBTS (CONTINUED)

ranging from \$10,000 to \$40,000, excluding interests at 5.0%, through July 1, 2029	465,000
\$165,000, Series 2007, for construction purposes, payable in annual installments ranging from \$5,000 to \$15,000, excluding interests at 7.50 %, through July 1, 2032	<u>165,000</u>
Total Bond Payable	4,901,000

DESCRIPTION	AMOUNT
Notes Payable:	
\$105,000, Series 2006, for construction purposes, payable in annual installments ranging from \$10,000 to \$20,000, excluding interests from 4.23% to 4.73%, through July 1, 2012	\$ 65,000
\$175,000 Series 2006, for construction purposes, payable in annual installments ranging from \$20,000 to \$30,000, excluding interests from 6.62% to 7.5%, through July 1, 20013	155,000
\$105,000 Series 2006, for construction purposes, payable in annual installments ranging from \$5,000 to \$10,000, excluding interests from 6.60% to 7%, through July 1, 2021	100,000
\$230,000 Series 2003, for construction purposes, payable in annual installments ranging from \$25,000 to \$40,000, excluding interests from 5.% to 6.5%, through July 1, 2009	40,000
\$470,000, Series 2006, for purchase of equipment, payable in annual installments ranging from \$55,000 to \$80,000, excluding interests from 5.0% to 6.0%, through July 1, 2011	225,000
\$555,000, Series 2006, for purchase of equipment, payable in annual installments ranging from \$60,000 to \$95,000, excluding interests from 5.0% to 6.0%, through July 1, 2011	<u>270,000</u>
Total Notes Payable.....	<u>855,000</u>
Total General Obligations Bonds and Notes	<u>\$ 5,756,000</u>

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2008 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2009	384,000	357,170	741,170
2010	457,000	345,059	802,059
2011	286,000	318,166	604,166
2012	214,000	290,658	504,658
2013	202,000	283,618	485,618
2014-2018	1,013,000	1,294,828	2,307,828

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBTS (CONTINUED)

2019-2023	1,162,000	908,108	2,070,108
2024-2028	1,198,000	581,174	1,779,174
2029-2033	<u>840,000</u>	<u>252,791</u>	<u>1,092,791</u>
TOTAL	<u>\$ 5,756,000</u>	<u>\$ 4,631,570</u>	<u>\$10,387,570</u>

B. Convertible Line of Credit

Non revolving line of credit of \$1,550,000 for the construction of bowling alley, to be converted in a revenue bond at due date. Interest of 7% will be payable on January 1 and July 1 yearly after finishing construction of the bowling facility.

C. Notes Payable to CRIM

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

In addition, on July 1, 2002, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining \$1,982,632 of excess of property tax advances through prior fiscal year. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB. The outstanding principal balances of the note payable to CRIM amounted \$1,831,469, at June 30, 2008. The principal and interest maturities are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2009	16,442	56,661	146,166
2010	16,930	345,059	146,166
2011	17,454	318,166	146,166
2012	17,994	290,658	146,166
2013	18,550	283,618	146,166
2014-2018	256,422	472,408	730,830
2019-2023	347,763	383,067	730,830
2024-2028	471,638	259,192	730,830
2029-2033	<u>566,482</u>	<u>91,265</u>	<u>657,747</u>
TOTAL	<u>\$ 1,831,469</u>	<u>\$ 1,749,598</u>	<u>\$3,581,067</u>

Financing of delinquent property tax accounts sold – On July 1, 2007, the Municipality entered into a financing agreement with CRIM in the amount of \$70,722 for the payment of delinquent property tax

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBTS (CONTINUED)

account sold to private investors. The financing agreement in the form of a line of credit bearing interests at 6.22% during the first 5 years, and variable interests 125 points over LIBOR rate during the next 25 years. At June 30, 2008, the outstanding principal balances amounted to \$67,893.

The principal and interest maturities are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2009	2,829	4,222	7,051
2010	2,829	4,046	6,875
2011	2,829	3,870	6,699
2012	2,829	3,694	6,523
2013	2,829	3,518	6,347
2014-2018	14,145	14,950	29,095
2019-2023	14,145	10,550	24,695
2024-2028	14,145	6,150	20,295
2029-2033	<u>11,313</u>	<u>7,752</u>	<u>13,065</u>
TOTAL	<u>\$ 67,893</u>	<u>\$ 52,752</u>	<u>\$ 120,645</u>

LIMS – On June 28, 2001, the Municipality entered into a financing agreement with CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by CRIM on behalf of all municipalities, for the management of a digital database of taxpayers properties located in Puerto Rico. The face amount of the loan was \$181,113 and bears no interest. The note is payable in semi annual installments of \$7,425 through December 1, 2011. This note has an imputed interest rate of 5.95%. At June 30, 2008, the balance of this note amounted to \$94,677. The principal and interest maturities are as follows.

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2009	12,274	2,576	14,850
2010	13,016	1,834	14,850
2011	13,802	1,048	14,850
2012	<u>7,210</u>	<u>215</u>	<u>7,425</u>
TOTAL	<u>\$ 46,302</u>	<u>\$ 5,673</u>	<u>\$ 51,975</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBTS (CONTINUED)

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2008:

DESCRIPTION	BALANCE JULY 1, 2007	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2008	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
Bonds and Notes	\$ 5,962,000	\$ 165,000	\$ 371,000	\$ 5,756,000	\$ 394,000	\$ 5,362,000
Convertible line of Credit	-	1,550,000	-	1,550,000	-	1,550,000
Property Taxes – MRCC	1,847,398	-	15,929	1,831,469	16,422	1,815,047
MRCC- LIMS.....	57,878	-	11,576	46,302	12,274	34,028
Property Taxes – MRCC	-	70,722	2,829	67,893	2,829	65,064
Water Company	25,727	-	25,727	-	-	-
Compensated Absences	<u>1,307,753</u>	<u>566,734</u>	<u>625,858</u>	<u>1,248,629</u>	<u>654,115</u>	<u>594,514</u>
TOTAL.....	<u>\$ 9,200,756</u>	<u>\$ 2,352,456</u>	<u>\$ 1,052,919</u>	<u>\$ 10,500,293</u>	<u>\$ 1,026,640</u>	<u>\$ 9,473,653</u>

NOTE 7 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 8).

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

NOTE 8 PROPERTY TAXES

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

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

The tax rate per annum is 8.58% for real property and 6.58% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively, belongs to the Municipality.

From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the Municipality of 1.75% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 7). The

NOTE 8 PROPERTY TAXES (CONTUNUED)

Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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

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

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

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

NOTE 9 VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year.

The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.50% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

NOTE 10 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

NOTE 10 INTERGOVERNMENTAL REVENUES (CONTINUED)

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

NOTE 11 EMPLOYEE'S RETIREMENT PLAN

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico,

Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

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

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$6,600 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives.

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990. The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

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

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

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

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

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

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

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2008 was approximately \$ 320,617. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2008. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42004, Minillas Station, San Juan, P.R. 00940.

NOTE 12 CONTINGENCIES

A. Claims and Judgments

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding.

However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

B. Federal Grants

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION:

- Budgetary Comparison Schedule-General Fund
- Notes to Required Supplementary Information

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amount	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
			(See Note A)	Positive
				(Negative)
Resources (Inflows)				
Property Taxes	1,023,235	1,023,235	1,034,860	11,625
Volume of Buseness Taxes	2,222,389	2,222,389	2,271,698	49,309
Sales Tax	477,000	477,000	290,403	(186,597)
Intergovernmental Revenues	6,258,492	6,258,492	6,121,911	(136,581)
License and Permits	1,008,200	1,008,200	902,598	(105,602)
Rent	28,000	28,000	39,303	11,303
Miscellaneous	223,048	223,048	198,561	(24,487)
Interest	23,000	23,000	84,875	61,875
Prior Year Allocation	-	-	-	-
Total Resources (Inflows)	11,263,364	11,263,364	10,944,209	(330,780)
Charges to Appropriations (Outflows)				
Mayor and Municipal Legislature	1,952,802	2,455,686	2,448,281	7,405
General Government	4,966,862	4,606,186	4,203,084	403,102
Public Safety	1,057,155	922,704	922,697	7
Public Work	1,338,321	1,310,197	1,295,418	14,779
Culture and Recreation	727,734	772,439	732,120	40,319
Health and Sanitation	423,352	403,612	403,225	387
Human Services and Welfare	457,580	432,708	430,734	1,974
Urban Development	-	-	-	-
Transfer to Other Funds	339,558	359,832	359,832	-
Total Charges to Appropriations	11,263,364	\$ 11,263,364	\$ 10,795,391	467,973
Excess (deficiency) of revunues over(under) expenditures, encumbrances and other financing sources(use)	\$ -	\$ -	\$ 148,818	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO**

**BUDGET COMPARISON SCHEDULE- GENERAL FUND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

JUNE 30, 2008

**NOTE A Explanation of Differences between Budgetary Inflows and Outflows and GAAP
Revenues and Expenditures**

	<u>General Fund</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basic) " Available for Appropriation" from the Budgetary Comparison Schedule (See Page 45)	\$ 10,944,209
Difference- Budget to GAAP:	
Non-Budgetary Revenues	<u>543,397</u>
Total Revenue as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 19)	<u>\$ 11,487,606</u>
 Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basic) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 45)	\$ 10,795,391
Difference- Budget to GAAP:	
Prior Year expenditures are not outflows of budgetary resources but are expenditures For Financial reporting purposes	245,229
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(623,095)
Non- Budgetary Expenditures	290,665
Transfer to other funds are outflows of Budgetary Resources but are not Expenditures For Financial Reporting Purpose	<u>920,569</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 19)	<u>\$ 11,628,759</u>

Schedule of Expenditures of Federal Awards and Reports on Compliance and Internal Control in accordance with Government Auditing Standards and the requirements of OMB Circular A-133

- Schedule of Expenditures of Federal Awards
- Notes to Schedule of Expenditures of Federal Awards
- Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based upon the Audit Performed in Accordance with Government Auditing Standards
- Independent Auditor's Report on Compliance and Internal Control over Compliance Applicable to Each Major Federal Award Program and on the Schedule of Expenditures of Federal Awards

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through State – Office of the Governor, Regional Elderly Office:			
Child and Adult Care Food Program.....	10.558	N/AV	\$ <u>27,125</u>
U.S. Department of Housing and Urban Development:			
Pass-Through State – Office of Commissioner Of Municipal Affairs:			
Community Development Block Grant Program	14.228	07-FC-72 07-AB-72 06-FC-72 06-AB-72 05-FC-72 05-AB-72 04-FC-72 04-AB-72 03-FC-72 03-AB-72 02-FC-72 02-AB-72 01-AB-72 00-AB-72	1,390,946
Pass-Through State – P.R. Public Housing Administration:			
Public and Indian Housing	14.850		362,672
Direct Program:			
Section 8 Housing Choice Voucher Program.....	14.871		<u>486,126</u>
Total U.S. Department of Housing and Urban Development.....			<u>2,239,747</u>
U.S. Department of Justice:			
Pass-Through Police Department of P.R.:			
Safety Partnership and Community Police Grants (Cops)	16.710		<u>110,832</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

U.S. Department of Education:

Pass-Through Department of Education of P.R.:

Twenty First Century Community Learning Centers.84.287 N/AV 118,716

U.S. Department of Health and Human Services:

Pass-Through Office of Governor – Elderly Office:

Special Program for Aging, Title III, Part C 93.044 N/AV 29,626

U.S. Department of Homeland Security:

Pass-Through P.R. Police Department:

Homeland Security Grant..... 97.067 N/AV 77,695

TOTAL EXPENDITURES OF FEDERAL AWARDS \$ 2,603,741

See accompanying Notes to Schedule of Expenditures of Federal Awards.

MUNICIPALITY OF VILLALBA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Villalba, Puerto Rico (Municipality) and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
- B. The financial transactions are recorded by the Municipality in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 PASS THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass through entity and identifying number assigned by the pass through entity for federal awards received as a sub-recipient. Numbers identified as N/AV are not available.

NOTE 5 MAJOR PROGRAMS

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

END OF NOTES



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the Municipal Legislature
MUNICIPALITY OF VILLALBA, PUERTO RICO

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Villalba, Puerto Rico (the "Municipality") as of and for the fiscal year ended June 30, 2008, which collectively comprise Municipality of Villalba's basic financial statements and have issued our report thereon dated December 20, 2008. The report on governmental wide financial statement was adverse because not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities. Except as discussed in the preceding sentence, we conducted our 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 our audit, we considered the Municipality's internal control over financial reporting as basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Municipality's financial statements that is more than inconsequential will not be prevented or detected by Municipality's internal control. We consider the deficiencies described in the accompanying schedule of finding and questioned costs to be significant deficiencies in internal control over report. See finding 08-01 and 08-02.

INDEPENDENT AUDITORS' REPORT

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 Municipality's internal control.

Our consideration of 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 internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 08-01 to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 08-01 and 08-02.

Municipality's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

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

Mendoza & Ramos CPA's
MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
February 27, 2009

Stamp number 2395323 was
affixed to the original of this
report.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Mayor and
Members of the Municipal Legislature
MUNICIPALITY OF VILLALBA, PUERTO RICO

Compliance

We have audited the compliance of the Municipality of Villalba, Puerto Rico (the "Municipality") 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 fiscal year ended June 30, 2008. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

In our opinion, the Municipality complied, in all material respects, with requirements referred to above that are applicable to Community Development Block Grant Program for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular and which are described in the accompanying schedule of findings and questioned costs as items 08-03 and 08-04.

As described item 08-05, 08-06, 08-07 and 08-08 in the schedule of findings and questioned costs, the Municipality did not comply with requirements regarding Activities Allowed or Unallowed, Davis Bacon Act, Reporting and Special Test that are applicable to its Public and Indian Housing. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the Fiscal Year Ended June 30, 2008.

Internal Control Over Compliance

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

Our 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, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we 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 Municipality'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 federal program that is more than inconsequential will not be prevented or detected by the Municipality's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of finding and questioned costs as items 08-03 and 08-05 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Municipality's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

INDEPENDENT AUDITORS' REPORT

Municipality's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

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

Mendoza & Ramos CPA's
MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
February 27, 2009

Stamp number 2395324 was
affixed to the original of this
report.



FINDINGS AND QUESTIONED COST:

- **Schedule of Findings and Questioned Costs**
- **Summary Schedule of Prior Audit Findings**

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION I-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Financial Statements

Type of auditors' report issued:

- Unqualified Opinion, except for adverse opinion for government-wide financial statement
 Qualified Opinion
 Adverse Opinion
 Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness (es)? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness (es)? Yes None Reported

Type of auditors' report issued on compliance for Major Programs:

- Unqualified Opinion
 Qualified Opinion
 Adverse Opinion
 Disclaimer

Any audit findings disclosed that are required to be reported in accordance with 510(a) OMB Circular A-133?

- Yes No

The Municipality's major programs were:

CFDA Number	Name of Federal Program
14.871	Section 8 Housing Choice Vouchers
14.228	Community Development Block Grant / Small Cities
14.850	Public and Indian Housing

Dollar threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

- Yes No

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	08-01
CATEGORY	INTERNAL CONTROL
NONCOMPLIANCE	CAPITAL ASSETS
TOPIC SENTENCE	Fixed \ Capital Assets and Expenditures – Subsidiary Ledger.
CONDITION	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
CRITERIA	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the municipality should maintain updated property accounting records. Also the GASB Statements No. 34 requires that all capital assets, including infrastructure, must be presented in the Statements of Net Assets and that these assets must be depreciated during its useful life.
CAUSE	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
EFFECT	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
RECOMMENDATION	We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, to comply with the requirements of the GASB Statement No. 34.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	The Municipality's Finance Department staff in charge of the capital assets subsidiary ledger will update the capital assets records with the support of our financial consultants in order to comply with the GASB No. 34 capital assets requirements for the fiscal year ended on June 30, 2008.

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	08-02
CATEGORY	INTERNAL CONTROLS
TOPIC SENTENCE	ACCOUNTING SYSTEM
CONDITIONS	<ul style="list-style-type: none">- The accounting system and manuals registers used by the Municipality to account and register the financial transactions during the fiscal year does not provide for the summarization of transactions that permit the preparation of Municipality's financial statements in conformity with the General Accepted Accounting Principals of the United States of America (GAAP).- There are no internal controls or records to account for the inter fund receivable and payables balances between Municipality's funds. Monthly program's expenditures financed by the Municipality's general fund are not being register, monitored nor accounted for by the Programs' accountants. In addition, inter fund transactions regarding the reimbursement of money between funds were not supported by an analysis.- Cash bank account reconciliations are not performed on a timely basis.- The Municipality does not count with an account receivable subsidiary ledger.
CRITERIA	<p>According to Article 8.010 (a) and (b) of Law Num. 81 for the Municipalities of Puerto Rico, the computerized system and the procedures of accounting and property will be design so that it allows the Municipality to carry out its functions, at the same time as they serve to maintain an uniform and coordinated accounting, that provide a complete picture of the financial operations of the Municipality and the necessary financial information that assist the Municipality Legislature, the Governor, and the Secretary of the Puerto Rico Treasury Department in the performance of its respective responsibilities. Municipalities accounting will be based on funds, Generally Accepted Accounting Principles and the requirements established by the Governmental Accounting Standard Board. Also the pronouncements of the National Committee on Governmental Accounting and the "Blue Book" will be used to design municipalities' accounting systems and fiscal procedures.</p>

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

CAUSES	Municipality's accounting system and financial reports are subject to State's agencies requirements which does not allow nor provide the Municipality with the necessary tools capable of recapturing the financial information and provide financial statements.
EFFECT	The lack of an adequate accounting system which can captures all the financial information and generates Municipality's financial statements for each fiscal year affect the Municipality ability to measure the financial and nonfinancial performance of programs and activities; adequately safeguard significant assets and properly record various transactions; and hinder the Municipality from having reliable financial information to operate in an economical, efficient, and effective manner. Sound decisions on the current results and future direction of vital programs and policies are made more difficult without timely, reliable and useful financial performance information.
RECOMMENDATION	The Municipality should establish and implement the necessary measures that allow the summarization of the financial transactions in order to prepare the financial statements in conformity with GAAP.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We are going to train and orient our accounting personnel regarding the related federal requirements and accounting practice.

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	08-03
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	INTERNAL CONTROLS / COMPLIANCE
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
TOPIC SENTENCE	Inadequate controls over property and equipment items acquired with Federal Funds
CONDITIONS	<p>The Municipality is not maintaining adequate controls over property and equipment items acquired with Federal Funds. In testing property and equipment we noted the following:</p> <ul style="list-style-type: none">- The Municipality could not provides us with adequate property records which include a description of the property, serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, location, use and condition of the property, and any ultimate disposition data including the date of disposal.- A physical inventory of the property has not been taken for more than two years nor the results reconciled with the property subsidiary ledger.- No records were maintained regarding dispositions of any property and equipment.- We could not ascertained that all property and equipment purchased was properly identified through a numbered plate or any other identification number, nor that it have been used by the Municipality in the program or project for which it was acquired.
CRITERIA	As per OMB Circular A-102 Common Rule (____.32 (d)), procedures for managing equipment, as a minimum, will required that property records include a description of the property, serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

A-102 Common Rule (___20 (b)(3)), establishes that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

According to Chapter VII, Section 3 and 22 of the Basic Rules for the Municipalities the Finance's Director is responsible for the custody, maintenance and use of municipal property against theft, damage or losses. In addition, the Finance's Director will be responsible for the accounting and records which evidence all financial transactions regarding municipal property. An annual physical inventory must be taken and the results reconciled with the property records.

CAUSE

Municipality's Property Division has not enforced the requirement for the departments to both perform a property inventory and to ensure the proper accountability of assets. In addition, the person responsible for the registering and safeguarding of the property and equipment, was not provided with the necessary training to perform their duties according to the applicable Municipalities and Federal laws and regulations.

EFFECT

The Municipality is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and the lack of adequate property and equipment records. This inadequate property controls may expose the Municipality to cost disallowance by the federal government for lost or stolen federal property acquired with federal funds.

RECOMMENDATION

The Property Division must require each office, department and federal program that acquires property and equipment to submit a report including a full description of the assets, location, use, responsible person, cost, and any other pertinent data. Sales or other dispositions must also be registered. In addition, the accounting department should periodically reconcile the property subsidiary ledger with the property general ledger account. A physical inventory of the Municipality's property should be performed as soon as possible for all departments and all differences should be investigated, adjusted and reconciled with the property recorded on the subsidiary ledgers.

QUESTIONED COSTS

None

MANAGEMENT RESPONSE

We gave instructions to the Finance Director to actualize the municipality inventory and make an adequate record of property and equipment.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	08-04
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS PUBLIC AND INDIAN HOUSING (CFDA NO. 14.850)
CATEGORY	COMPLIANCE
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT
TOPIC SENTENCE	Non compliance over suspension and debarments
CONDITIONS	In testing procurement, suspension and debarments, we were not able to find evidence indicating that the Municipality performs procedures to assure that the individuals and entities which are granted with contracts are not suspended or debarred from participation if federal programs.
CRITERIA	As stated in 24 CFR 85.35 grantee and subgrantee must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension".
CAUSE	The Municipality has no policies and procedures for the use of the List of Parties Excluded from federal procurement or non-procurement programs to assure that they do not award assistance to listed parties.
EFFECT	As a result of this deficiency, the Municipality could have procured goods or services from organizations and individuals that are suspended or debarred which could result in cost disallowances by the federal awarding agency.
RECOMMENDATION	The Municipality should amend their procurement procedures and include a step to verify whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and nonprocurement programs. The Municipality should also require the entities or individuals to submit a certification stating that they are not suspended or debarred.
QUESTIONED COSTS	None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MANAGEMENT RESPONSE We gave instructions to verify and amend our procurement procedures in order to include a step to verify whether or not the individuals or entities are on the list of parties excluded from federal participation in procurement and non-procurement programs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	2008-05
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING (CFDA NO. 14.850)
CATEGORY	INTERNAL CONTROL AND COMPLIANCE
NONCOMPLIANCE	ACTIVITIES ALLOWED OR UNALLOWED
TOPIC SENTENCE	Inadequate internal controls over disbursements
CONDITIONS	Internal controls established by the Municipality regarding the disbursement of funds were not followed by the Low Income Public Housing Program. As part of the allowability test we determined that nine payments amounting \$13,178 were made without a payment voucher properly signed and authorized.
CRITERIA	<p>As stated in 24 CFR 85.20(b) The financial management systems of other grantees and subgrantees must meet the following standards: (3) Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes; (6) Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.</p> <p>Chapter IV, sections 8 and 9 of Municipality's Basic Standards, establish that no payment can be made without the corresponding payment voucher properly authorized. The Finance's Director will not issue any payment until the services which originate the payment have been received.</p>
CAUSE	Deficiencies in the internal control procedures over the disbursements and payments process.
EFFECT	The Municipality is exposed to the risk of possible unauthorized use and disposition of funds due to deficiencies in internal controls. This may expose the Municipality to cost disallowances.
RECOMMENDATION	The Municipality should examine the corresponding internal controls to ensure that all transactions and disbursements are properly processed according to the applicable State and Federal regulations. Also, it must guarantee that all disbursements documents are properly supported, signed and safeguarded before the disbursements of funds.

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

QUESTIONED COSTS None.

MANAGEMENT RESPONSE We are going to train and orient our accounting personnel to guarantee the disbursements process.

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	2008-06
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING (CFDA NO. 14.850)
CATEGORY	COMPLIANCE
NONCOMPLIANCE	DAVIS-BACON ACT
TOPIC SENTENCE	Non-compliance with the Davis-Bacon Act
CONDITIONS	<p>As part of the evaluation of contracts granted to the entities from which the Low Income Public Housing Program procured goods and services, we examined two contracts. The two contracts examined (100%) were related to construction projects amounting approximately \$40,000.</p> <p>The Program did not comply with the Davis-Bacon Act applicable regulations. Copies of weekly payrolls reports, statements of compliance, on-site visits reports and other related forms were not requested to the contractors or prepared during the development of the projects in order to determine that all employed laborers were paid according to the wages and salaries established by Federal Department of Labor.</p>
CRITERIA	<p>As stated in 29 CFR 5.5 (a)(3)(ii)(A), the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the Municipality. The payrolls submitted shall set out accurately and completely all of the information required to be maintained. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. Each payroll submitted shall be accompanied by a "Statement of Compliance", signed by the contractor or subcontractor or his or her agent who pays or supervise the payment of the persons employed under the contract and certifying all the information required under 5.5 (a)(3)(ii)(B) (1) to (3).</p> <p>Provisions regarding compliance with such requirement were included as part of the two contracts granted.</p>
CAUSE	The Municipality did not count with personnel to ascertain compliance with such requirement.
EFFECT	As a result of this deficiency, the Municipality could have procured services from an organization that is not complying with the applicable Department of Labor regulations and could result in cost disallowances by the federal awarding agency.

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

RECOMMENDATION The Municipality should appoint an employee to be designated as the person responsible for ascertain that all contractors and the Municipality are complying with the requirements established by the Davis-Bacon Act.

QUESTIONED COSTS None.

MANAGEMENT RESPONSE We designated an employee of our Federal Program Office to be in charge for ascertain that all contractors and the municipality are complying with the requirements of Davis-Bacon Act.

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	2008-07
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING (CFDA NO. 14.850)
CATEGORY	COMPLIANCE
NONCOMPLIANCE	REPORTING
TOPIC SENTENCE	Non-compliance with reporting requirements
CONDITIONS	<p>In testing compliance with the reporting requirements the following deficiencies were determined:</p> <ul style="list-style-type: none">- An Annual Management Plan was not prepared.- Monthly and quarterly reports regarding advances and related expenditures and budget vs. actual analysis were not prepared nor submitted to the Puerto Rico Public Housing Administration (PRPHA).- Monthly reports regarding compliance with the 98% rent collection and charges resulting from completed work were not prepared nor submitted to the PRPHA.
CRITERIA	<p>The following provisions of the Management Agent Agreement between the PRPHA and the Municipality establish:</p> <p>The Municipality will submit, on the 1st of February of each year, an Annual Management Plan in which it delineate its proposed budgets for the year and any work to be performed in the developments. Such plan has to be approved by the PRPHA [Provision 4.1].</p> <p>The Municipality shall submit to the PRPHA a monthly report regarding compliance with the 98% rent collection and charges resulting from completed work orders in a format approved by PRPHA [Provision 7.1 and 7.2].</p> <p>The Municipality shall monthly (within the 15th day of the following month) submit all required documentation to support expenditures incurred against the approved budget [Provision 15.3].</p> <p>The Municipality will submit to the PRPHA a quarterly reconciliation report that will reflect all advances and expenditures made within such quarter [Provision 15.5].</p> <p>The Municipality shall prepare a quarterly report comparing actual and budget figures for receipts and disbursements, and shall submit each report to the PRPHA within 15 calendar days after the end of the quarter cover (Budget v. Actual) [Provision 17.1B].</p>

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

24 CFR 85.20(a)(1) and (b)(1)(2) establish that fiscal control and accounting procedures of the grantees must be sufficient to permit preparation of reports required by the statues authorizing the grant. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant. Grantee must maintain records which adequately identify the source and application of funds provided for financially assisted activities.

CAUSE

Since it was the first year of operation the Program does count with an accountant responsible for preparing such reports and the employee's lack of the knowledge regarding some of the requirements per the Management Agent Agreement.

EFFECT

This situation inhibits the PRPHA from monitoring the programs financial performance. In addition, the Program could be sanctioned by the PRPHA due to the inaccurate filing of financial reports.

RECOMMENDATION

Reports should be provided to the PRPHA on a timely basis including all activity of the reporting period.

QUESTIONED COSTS

None.

MANAGEMENT RESPONSE

The Annual Plan will be prepared immediately. Monthly reports were actualized and have been submitted to Puerto Rico Housing Administration.

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2008-08

FEDERAL PROGRAM PUBLIC AND INDIAN HOUSING (CFDA NO. 14.850)

CATEGORY COMPLIANCE

NONCOMPLIANCE SPECIAL TEST

TOPIC SENTENCE Lack of adequate controls over the inventory of tools, parts and materials

CONDITIONS

In testing controls over the inventory of tools, parts and materials we selected 10 items from the inventory report. In three out of 10 items examined (30%) we determined the following differences between the amounts of parts and material per books and physical observation:

Items Descriptions	Num. of part and materials		Diff.
	Per Inventory Report	Per Physical Observation	
Closet doors	22	16	-6
Doors 36 X 96	7	6	-1
Breaker Stab Lock	8	0	-8

CRITERIA 24 CFR 85.20 (b)(1), (2) and (3) establish that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. Effective controls must be maintained for all grant financed activities.

CAUSE Since it was the first year of operation the Program does count with personnel responsible that can physically observe, register and count such inventory.

EFFECT Due to the lack of adequate internal controls the Municipality is exposed to the risk of possible unauthorized use and disposition of material, tools and parts. This may expose the Municipality to cost disallowance by the federal government for lost or stolen inventory acquired with federal funds.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

RECOMMENDATION	The Program should periodically reconcile the inventory report of tools, parts and materials with manual records. At least a quarterly physical inventory should be performed and all differences should be investigated, adjusted and reconciled with the manual records and inventory reports.
QUESTIONED COSTS	None.
MANAGEMENT RESPONSE	We have no differences between physical inventory and perpetual inventory in books. The differences exist in CAMS program inventory.

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(1) Audit Findings that have been Fully Corrected:

Finding Number	CFDA	Questioned Cost	Comments
07-01 Davis Bacon Act	14.228	None	The procedures are corrected.
07-02 Procurement Standards	14.228	None	The procedures are corrected.
07-04 Reporting	14.871	None	The procedures are corrected.
06-02 Davis Bacon Act	14.228	None	The procedures are corrected.
06-03 Procurement Standards	14.228	None	The procedures are corrected.
05-III-02 Davis Bacon Act	14.228	None	The procedures are corrected.
05-III-04 Procurement Standards	14.228	None	The procedures are corrected.
04-20 Davis Bacon Act	11.300	None	The procedures are corrected.

(2) Audit Findings not corrected or Partially Corrected:

Finding Number	CFDA	Questioned Cost	Comments
07-03 Suspension and Debarment	14.228	None	Situation still prevails.
06-04 Suspension and Debarment	14.228	None	Situation still prevails.

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE

FINANCIAL DATA SCHEDULE
REQUIRED BY THE
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ool

S WITHIN THIS FDS TOOL

RQ049
MUNICIPALITY OF VILLALBA
Puerto Rico

Non-Asset Management
Unaudited/ A-133
June 30, 2008

villalbahuds8@hotmail.com
villalbahuds8@hotmail.com

*Denotes required information



2/31/2008, and 03/31/2009

Welcome to the FDS T

Full Accrual Version 8.0

DO NOT USE THE COPY AND PASTE COMMAND

Selected PHA:

PHA Name:

State/Territory:

***Asset Management Type:**

***Submission Type:**

***Fiscal Year End:**

***Submitter Email:**

***Executive Director Email:**

This Tool is only applicable for PHAs with Fiscal Years ending 06/30/2008, 09/30/2008, 12

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Line Item No.	Description	Total Programs	Housing Choice Vouchers
			14,871
Balance Sheet			
111	Cash-unrestricted	\$ 78,719	\$78,719
112	Cash-restricted-modernization and development	\$ -	
113	Cash-other restricted	\$ -	
114	Cash-tenant security deposits	\$ -	
115	Cash - Restricted for payment of current liability	\$ -	
100	Total Cash	\$ 78,719	\$ 78,719
121	Accounts receivable - PHA projects	\$ 10,450	\$10,450
122-010	Accounts receivable - HUD other projects - Operating Subsidy	\$ -	
122-020	Accounts receivable - HUD other projects - Capital fund	\$ -	
122-030	Accounts receivable - HUD other projects - Other	\$ -	
122	Accounts receivable - HUD other projects	\$ -	
124	Account receivable - other government	\$ -	
125-010	Account receivable - miscellaneous - Not For Profit	\$ -	
125-020	Account receivable - miscellaneous - Partnership	\$ -	
125-030	Account receivable - miscellaneous - Joint Venture	\$ -	
125-040	Account receivable - miscellaneous - Tax Credit	\$ -	
125-050	Account receivable - miscellaneous - Other	\$ -	
125-060	Other - Comment	\$ -	
125	Account receivable - miscellaneous	\$ -	
126	Accounts receivable - tenants	\$ -	
126.1	Allowance for doubtful accounts - tenants	\$ -	
126.2	Allowance for doubtful accounts - other	\$ -	
127	Notes, Loans, & Mortgages Receivable - Current	\$ -	
128	Fraud recovery	\$ -	
128.1	Allowance for doubtful accounts - fraud	\$ -	
129	Accrued interest receivable	\$ -	
120	Total receivables, net of allowance for doubtful accounts	\$ 10,450	\$ 10,450
131	Investments - unrestricted	\$ -	
132	Investments - restricted	\$ -	
135	Investments - Restricted for payment of current liability	\$ -	
142	Prepaid expenses and other assets	\$ -	
143	Inventories	\$ -	
143.1	Allowance for obsolete inventories	\$ -	
144	Inter program - due from	\$ -	
145	Assets held for sale	\$ -	
150	Total Current Assets	\$ 89,169	\$ 89,169
161	Land	\$ -	
162	Buildings	\$ -	
163	Furniture, equipment and machinery - dwellings	\$ -	
164	Furniture, equipment and machinery - administration	\$ 51,630	\$51,630
165	Leasehold improvements	\$ -	
166	Accumulated depreciation	\$ (41,475)	-\$41,475
167	Construction in progress	\$ -	
168	Infrastructure	\$ -	
160	Total capital assets, net of accumulated depreciation	\$ 10,155	\$ 10,155
171-010	Notes, Loans, & mortgages receivable - Non-current - Not For Profit	\$ -	
171-020	Notes, Loans, & mortgages receivable - Non-current - Partnership	\$ -	
171-030	Notes, Loans, & mortgages receivable - Non-current - Joint Venture	\$ -	
171-040	Notes, Loans, & mortgages receivable - Non-current - Tax Credit	\$ -	
171-050	Notes, Loans, & mortgages receivable - Non-current - Other	\$ -	
171-060	Other - Comment	\$ -	
171	Notes, Loans, & mortgages receivable - Non-current	\$ -	
172-010	Notes, Loans, & mortgages receivable - Non-current - past due - Not For Profit	\$ -	
172-020	Notes, Loans, & mortgages receivable - Non-current - Partnership	\$ -	
172-030	Notes, Loans, & mortgages receivable - Non-current - Joint Venture	\$ -	
172-040	Notes, Loans, & mortgages receivable - Non-current - Tax Credit	\$ -	
172-050	Notes, Loans, & mortgages receivable - Non-current - Other	\$ -	
172-060	Other - Comment	\$ -	
172	Notes, Loans, & mortgages receivable - Non-current - past due	\$ -	

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			14.871
Line Item No.	Description	Total Programs	Housing Choice Vouchers
173	Grants receivable – Non-current	\$ -	
174-010	Other assets - Not For Profit	\$ -	
174-020	Other assets - Partnership	\$ -	
174-030	Other assets - Joint Venture	\$ -	
174-040	Other assets - Tax Credit	\$ -	
174-050	Other assets - Other	\$ -	
174-060	Other - Comment	\$ -	
174	Other assets	\$ -	
176-010	Investment in Joint venture - Not For Profit	\$ -	
176-020	Investment in Joint venture - Partnership	\$ -	
176-030	Investment in Joint venture - Joint Venture	\$ -	
176-040	Investment in Joint venture - Tax Credit	\$ -	
176-050	Investment in Joint venture - Other	\$ -	
176-060	Other - Comment	\$ -	
176	Investment in joint venture	\$ -	
180	Total Non-current Assets	\$ 10,155	\$ 10,155
190	Total Assets	\$ 99,324	\$ 99,324
311	Bank overdraft	\$ -	
312	Accounts payable <= 90 days	\$ -	
313	Accounts payable > 90 days past due	\$ -	
321	Accrued wage/payroll taxes payable	\$ -	
322	Accrued compensated absences - current portion	\$ 2,741	\$2,741
324	Accrued contingency liability	\$ -	
325	Accrued interest payable	\$ -	
331-010	Accounts payable - HUD PHA Programs - Operating Subsidy	\$ -	
331-020	Accounts payable - HUD PHA Programs - Capital fund	\$ -	
331-030	Accounts payable - HUD PHA Programs - Other	\$ -	
331	Accounts payable - HUD PHA Programs	\$ -	
332	Accounts payable - PHA Projects	\$ -	
333	Accounts payable - other government	\$ -	
341	Tenant security deposits	\$ -	
342-010	Deferred revenue - Operating Subsidy	\$ -	
342-020	Deferred revenue - Capital fund	\$ -	
342-030	Deferred revenue - Other	\$ -	
342	Deferred revenue	\$ -	
343-010	CFFP	\$ -	
343-020	Capital Projects/ Mortgage Revenue	\$ -	
343	Current portion of long-term debt - capital projects/mortgage revenue bonds	\$ -	
344	Current portion of long-term debt - operating borrowings	\$ -	
345	Other current liabilities	\$ -	
346	Accrued liabilities - other	\$ -	
347	Inter program - due to	\$ -	
348-010	Loan liability - current - Not For Profit	\$ -	
348-020	Loan liability - current - Partnership	\$ -	
348-030	Loan liability - current - Joint Venture	\$ -	
348-040	Loan liability - current - Tax Credit	\$ -	
348-050	Loan liability - current - Other	\$ -	
348-060	Other - Comment	\$ -	
348	Loan liability - current	\$ -	
310	Total Current Liabilities	\$ 2,741	\$ 2,741
351-010	Long-term debt - CFFP	\$ -	
351-020	Long-term - Capital Projects/ Mortgage Revenue	\$ -	
351	Capital Projects/ Mortgage Revenue Bonds	\$ -	
352	Long-term debt, net of current - operating borrowings	\$ -	
353	Non-current liabilities - other	\$ -	
354	Accrued compensated absences- Non-current	\$ 600	\$600
355-010	Loan liability - Non-current - Not For Profit	\$ -	
355-020	Loan liability - Non-current - Partnership	\$ -	
355-030	Loan liability - Non-current - Joint Venture	\$ -	
355-040	Loan liability - Non-current - Tax Credit	\$ -	
355-050	Loan liability - Non-current - Other	\$ -	
355-060	Other - Comment	\$ -	

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Line Item No.	Description	Total Programs	Housing Choice Vouchers
			14,871
355	Loan liability – Non-current	\$ -	
356	FASB 5 Liabilities	\$ -	
357	Accrued Pension and OPEB Liability	\$ -	
350	Total Non-current liabilities	\$ 600	\$ 600
300	Total Liabilities	\$ 3,341	\$ 3,341
508.1	Invested in capital assets, net of related debt	\$ 10,155	\$10,155
511.1	Restricted Net Assets	\$ 58,652	\$58,652
512.1	Unrestricted Net Assets	\$ 27,176	\$27,176
513	Total Equity/Net Assets	\$ 95,983	\$ 95,983
600	Total Liabilities and Equity/Net assets	\$ 99,324	\$ 99,324

Income Statement			
70300	Net tenant rental revenue	\$ -	
70400	Tenant revenue - other	\$ -	
70500	Total Tenant Revenue	\$ -	\$ -

70600-010	Housing assistance payments	\$ 466,172	\$466,172
70600-020	Ongoing administrative fees earned	\$ 51,096	\$51,096
70600-030	Hard to house fee revenue	\$ -	
70600-031	FSS Coordinator	\$ -	
70600-040	Actual independent public accountant audit costs	\$ -	
70600-050	Total preliminary fees earned	\$ -	
70600-060	All other fees	\$ -	\$0
70600-070	Admin fee calculation description	\$ -	
70600	HUD PHA operating grants	\$ 517,268	\$ 517,268

70610	Capital grants	\$ -	
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70710	Management Fee	\$ -	
70720	Asset Management Fee	\$ -	
70730	Book-Keeping Fee	\$ -	
70740	Front Line Service Fee	\$ -	
70750	Other Fees	\$ -	
70700	Total Fee Revenue	\$ -	

70800	Other government grants	\$ -	
71100-010	Housing Assistance Payment	\$ -	
71100-020	Administrative Fee	\$ -	
71100	Investment income - unrestricted	\$ -	\$ -
71200	Mortgage interest income	\$ -	
71300	Proceeds from disposition of assets held for sale	\$ -	
71310	Cost of sale of assets	\$ -	
71400-010	Housing Assistance Payment	\$ -	
71400-020	Administrative Fee	\$ -	
71400	Fraud recovery	\$ -	\$ -
71500	Other revenue	\$ 7,755	\$7,755
71600	Gain or loss on sale of capital assets	\$ -	
72000-010	Housing Assistance Payment	\$ -	
72000-020	Administrative Fee	\$ -	
72000	Investment income - restricted	\$ -	\$ -
70000	Total Revenue	\$ 525,023	\$ 525,023

91100	Administrative salaries	\$ 51,588	\$51,588
91200	Auditing fees	\$ -	
91300	Management Fee	\$ -	
91310	Book-Keeping Fee	\$ -	
91400	Advertising and Marketing	\$ -	
91500	Employee benefit contributions - administrative	\$ 6,437	\$6,437
91600	Office Expenses	\$ 19,237	\$19,237
91700	Legal Expense	\$ -	

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Line Item No.	Description	Total Programs	Housing Choice Vouchers
			14.871
91800	Travel	\$ -	
91810	Allocated Overhead	\$ -	
91900	Other	\$ -	
91000	Total Operating-Administrative	\$ 77,262	\$ 77,262
92000	Asset Management Fee	\$ -	
92100	Tenant services - salaries	\$ -	
92200	Relocation Costs	\$ -	
92300	Employee benefit contributions - tenant services	\$ -	
92400	Tenant services - other	\$ -	
92500	Total Tenant Services	\$ -	\$ -
93100	Water	\$ -	
93200	Electricity	\$ -	
93300	Gas	\$ -	
93400	Fuel	\$ -	
93500	Labor	\$ -	
93600	Sewer	\$ -	
93700	Employee benefit contributions - utilities	\$ -	
93800	Other utilities expense	\$ -	
93000	Total Utilities	\$ -	\$ -
94100	Ordinary maintenance and operations - labor	\$ -	
94200	Ordinary maintenance and operations - materials and other	\$ -	
94300-010	Ordinary Maintenance and Operations Contracts - Garbage and Trash Removal Contracts	\$ -	
94300-020	Ordinary Maintenance and Operations Contracts - Heating & Cooling Contracts	\$ -	
94300-030	Ordinary Maintenance and Operations Contracts - Snow Removal Contracts	\$ -	
94300-040	Ordinary Maintenance and Operations Contracts - Elevator Maintenance Contracts	\$ -	
94300-050	Ordinary Maintenance and Operations Contracts - Landscape & Grounds Contracts	\$ -	
94300-060	Ordinary Maintenance and Operations Contracts - Unit Turnaround Contracts	\$ -	
94300-070	Ordinary Maintenance and Operations Contracts - Electrical Contracts	\$ -	
94300-080	Ordinary Maintenance and Operations Contracts - Plumbing Contracts	\$ -	
94300-090	Ordinary Maintenance and Operations Contracts - Extermination Contracts	\$ -	
94300-100	Ordinary Maintenance and Operations Contracts - Janitorial Contracts	\$ -	
94300-110	Ordinary Maintenance and Operations Contracts - Routine Maintenance Contracts	\$ -	
94300-120	Ordinary Maintenance and Operations Contracts - Misc Contracts	\$ -	
94300	Ordinary Maintenance and Operations Contracts	\$ -	\$ -
94500	Employee benefit contribution - ordinary maintenance	\$ -	
94000	Total Maintenance	\$ -	\$ -
95100	Protective services - labor	\$ -	
95200	Protective services - other contract costs	\$ -	
95300	Protective services - other	\$ -	
95500	Employee benefit contributions - protective services	\$ -	
95000	Total Protective Services	\$ -	\$ -
96110	Property Insurance	\$ -	
96120	Liability Insurance	\$ -	
96130	Workmen's Compensation	\$ -	
96140	All Other Insurance	\$ -	
96100	Total Insurance Premiums	\$ -	\$ -
96200	Other general expenses	\$ -	
96210	Compensated absences	\$ -	
96300	Payments in lieu of taxes	\$ -	
96400	Bad debt - tenant rents	\$ -	
96500	Bad debt - mortgages	\$ -	
96600	Bad debt - other	\$ -	
96800	Severance expense	\$ -	

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Line Item No.	Description	Total Programs	Housing Choice Vouchers
			14.871
96000	Total Other General Expenses	\$ -	\$ -
96710	Interest of Mortgage (or Bonds) Payable	\$ -	
96720	Interest on Notes Payable (Short and Long Term)	\$ -	
96730	Amortization of Bond Issue Costs	\$ -	
96700	Total Interest Expense and Amortization Cost	\$ -	\$ -
96900	Total Operating Expenses	\$ 77,262	\$ 77,262
97000	Excess Revenue Over Operating Expenses	\$ 447,761	\$ 447,761
97100	Extraordinary maintenance	\$ -	
97200	Casualty losses- Non-capitalized	\$ -	
97300-010	Mainstream 1 & 5 year	\$ -	
97300-020	Home-Ownership	\$ 407,520	\$407,520
97300-025	Litigation	\$ -	
97300-030	Hope IV	\$ -	
97300-035	Moving to Work	\$ -	
97300-040	Tenant Protection	\$ -	
97300-050	All Other	\$ -	
97300	Housing assistance payments	\$ 407,520	\$ 407,520
97350	HAP Portability-in	\$ -	
97400	Depreciation expense	\$ 4,632	\$4,632
97500	Fraud losses	\$ -	
97800	Dwelling units rent expense	\$ -	
90000	Total Expenses	\$ 489,414	\$ 489,414
10010	Operating transfer in	\$ -	
10020	Operating transfer out	\$ -	
10030-010	Not For Profit	\$ -	
10030-020	Partnership	\$ -	
10030-030	Joint Venture	\$ -	
10030-040	Tax Credit	\$ -	
10030-050	Other	\$ -	
10030-060	Other Comment		
10030	Operating transfers from / to primary government	\$ -	
10040	Operating transfers from / to component unit	\$ -	
10070	Extraordinary items, net gain/loss	\$ -	
10080	Special items, net gain/loss	\$ -	
10091	Inter Project Excess Cash Transfer In	\$ -	
10092	Inter Project Excess Cash Transfer Out	\$ -	
10093	Transfers between Programs and Projects - in	\$ -	
10094	Transfers between Programs and Projects - out	\$ -	
10100	Total other financing sources (uses)	\$ -	\$ -
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ 35,609	\$ 35,609
11020	Required Annual Debt Principal Payments	\$ -	
11030	Beginning equity	\$ -	
11040-010	Prior period adjustments and correction of errors - Editable	\$ -	
11040-020	Prior period adjustments and correction of errors - Editable	\$ -	
11040-030	Prior period adjustments and correction of errors - Editable	\$ -	
11040-040	Prior period adjustments and correction of errors - Editable	\$ -	
11040-050	Prior period adjustments and correction of errors - Editable	\$ -	
11040-060	Prior period adjustments and correction of errors - Editable	\$ -	
11040-070	Equity Transfers	\$ -	
11040-080	Equity Transfers	\$ -	
11040-090	Equity Transfers	\$ -	
11040-100	Equity Transfers	\$ -	
11040-110	Equity Transfers	\$ -	
11040	Prior period adjustments, equity transfers, and correction of errors	\$ -	\$ -
11170-001	Administrative Fee Equity- Beginning Balance	\$ 60,374	\$60,374

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			14.871
Line Item No.	Description	Total Programs	Housing Choice Vouchers
11170-010	Administrative Fee Revenue	\$ 51,096	\$ 51,096
11170-020	Hard to House Fee Revenue	\$ -	\$ -
11170-021	FSS Coordinator Grant	\$ -	\$ -
11170-030	Audit Costs	\$ -	\$ -
11170-040	Investment Income	\$ -	\$ -
11170-045	Fraud Recovery Revenue	\$ -	\$ -
11170-050	Other Revenue	\$ 7,755	\$ 7,755
11170-051	Comment for Other Revenue	\$ -	\$ -
11170-060	Total Admin Fee Revenues	\$ 58,851	\$ 58,851
11170-080	Total Operating Expenses	\$ 77,262	\$ 77,262
11170-090	Depreciation	\$ 4,632	\$ 4,632
11170-095	Housing Assistance Portability In	\$ -	\$ -
11170-100	Other Expenses	\$ -	\$ -
11170-101	Comment for Other Expense	\$ -	\$ -
11170-110	Total Expenses	\$ 81,894	\$ 81,894
11170-002	Net Administrative Fee	\$ (23,043)	\$ (23,043)
11170-003	Administrative Fee Equity- Ending Balance	\$ 37,331	\$ 37,331
11170	Administrative Fee Equity	\$ 37,331	\$ 37,331
11180-001	Housing Assistance Payments Equity - Begining Balance	\$ -	\$ -
11180-010	Housing Assistance Payment Revenues	\$ 466,172	\$ 466,172
11180-015	Fraud Recovery Revenue	\$ -	\$ -
11180-020	Other Revenue	\$ -	\$ -
11180-021	Comment for Other Revenue	\$ -	\$ -
11180-025	Investment Income	\$ -	\$ -
11180-030	Total HAP Revenues	\$ 466,172	\$ 466,172
11180-080	Housing Assistance Payments	\$ 407,520	\$ 407,520
11180-090	Other Expenses	\$ -	\$ -
11180-091	Comments for Other Expenses	\$ -	\$ -
11180-100	Total Housing Assistance Payments Expenses	\$ 407,520	\$ 407,520
11180-002	Net Housing Assistance Payments	\$ 58,652	\$ 58,652
11180-003	Housing Assistance Payments Equity-Ending Balance	\$ 58,652	\$ 58,652
11180	Housing Assistance Payments Equity	\$ 58,652	\$ 58,652
11190-210	Total ACC HCV Units	0	0
11190-220	Unfunded Units	0	0
11190-230	Other Adjustments	0	0
11190	Unit Months Available	0	0
11210	Unit Months Leased	962	962
11270	Excess Cash	\$ -	\$ -
11610	Land Purchases	\$ -	\$ -
11620	Building Purchases	\$ -	\$ -
11630	Furniture & Equipment-Dwelling Purchases	\$ -	\$ -
11640	Furniture & Equipment-Administrative Purchases	\$ -	\$ -
11650	Leasehold Improvements Purchases	\$ -	\$ -
11660	Infrastructure Purchases	\$ -	\$ -
13510	CFFP Debt Service Payments	\$ -	\$ -
13901	Replacement Housing Factor Funds	\$ -	\$ -

ool

S WITHIN THIS FDS TOOL

RQ049
MUNICIPALITY OF VILLALBA
Puerto Rico

Non-Asset Management
Unaudited/ A-133
June 30, 2008

villalbahuds8@hotmail.com
villalbahuds8@hotmail.com

*Denotes required information



2/31/2008, and 03/31/2009

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Full Accrual Version 8.0

DO NOT USE THE COPY AND PASTE COMMAND

Selected PHA:

PHA Name:

State/Territory:

***Asset Management Type:**

***Submission Type:**

***Fiscal Year End:**

***Submitter Email:**

***Executive Director Email:**

This Tool is only applicable for PHAs with Fiscal Years ending 06/30/2008, 09/30/2008, 12

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Line Item No.	Description	Total Programs	Housing Choice Vouchers
			14.871
Balance Sheet			
111	Cash-unrestricted	\$ 78,719	\$78,719
112	Cash-restricted-modernization and development	\$ -	
113	Cash-other restricted	\$ -	
114	Cash-tenant security deposits	\$ -	
115	Cash - Restricted for payment of current liability	\$ -	
100	Total Cash	\$ 78,719	\$ 78,719
121	Accounts receivable - PHA projects	\$ 10,450	\$10,450
122-010	Accounts receivable - HUD other projects - Operating Subsidy	\$ -	
122-020	Accounts receivable - HUD other projects - Capital fund	\$ -	
122-030	Accounts receivable - HUD other projects - Other	\$ -	
122	Accounts receivable - HUD other projects	\$ -	
124	Account receivable - other government	\$ -	
125-010	Account receivable - miscellaneous - Not For Profit	\$ -	
125-020	Account receivable - miscellaneous - Partnership	\$ -	
125-030	Account receivable - miscellaneous - Joint Venture	\$ -	
125-040	Account receivable - miscellaneous - Tax Credit	\$ -	
125-050	Account receivable - miscellaneous - Other	\$ -	
125-060	Other - Comment	\$ -	
125	Account receivable - miscellaneous	\$ -	
126	Accounts receivable - tenants	\$ -	
126.1	Allowance for doubtful accounts - tenants	\$ -	
126.2	Allowance for doubtful accounts - other	\$ -	
127	Notes, Loans, & Mortgages Receivable - Current	\$ -	
128	Fraud recovery	\$ -	
128.1	Allowance for doubtful accounts - fraud	\$ -	
129	Accrued interest receivable	\$ -	
120	Total receivables, net of allowance for doubtful accounts	\$ 10,450	\$ 10,450
131	Investments - unrestricted	\$ -	
132	Investments - restricted	\$ -	
135	Investments - Restricted for payment of current liability	\$ -	
142	Prepaid expenses and other assets	\$ -	
143	Inventories	\$ -	
143.1	Allowance for obsolete inventories	\$ -	
144	Inter program - due from	\$ -	
145	Assets held for sale	\$ -	
150	Total Current Assets	\$ 89,169	\$ 89,169
161	Land	\$ -	
162	Buildings	\$ -	
163	Furniture, equipment and machinery - dwellings	\$ -	
164	Furniture, equipment and machinery - administration	\$ 51,630	\$51,630
165	Leasehold improvements	\$ -	
166	Accumulated depreciation	\$ (41,475)	-\$41,475
167	Construction in progress	\$ -	
168	Infrastructure	\$ -	
160	Total capital assets, net of accumulated depreciation	\$ 10,155	\$ 10,155
171-010	Notes, Loans, & mortgages receivable - Non-current - Not For Profit	\$ -	
171-020	Notes, Loans, & mortgages receivable - Non-current - Partnership	\$ -	
171-030	Notes, Loans, & mortgages receivable - Non-current - Joint Venture	\$ -	
171-040	Notes, Loans, & mortgages receivable - Non-current - Tax Credit	\$ -	
171-050	Notes, Loans, & mortgages receivable - Non-current - Other	\$ -	
171-060	Other - Comment	\$ -	
171	Notes, Loans, & mortgages receivable - Non-current	\$ -	
172-010	Notes, Loans, & mortgages receivable - Non-current - past due - Not For Profit	\$ -	
172-020	Notes, Loans, & mortgages receivable - Non-current - Partnership	\$ -	
172-030	Notes, Loans, & mortgages receivable - Non-current - Joint Venture	\$ -	
172-040	Notes, Loans, & mortgages receivable - Non-current - Tax Credit	\$ -	
172-050	Notes, Loans, & mortgages receivable - Non-current - Other	\$ -	
172-060	Other - Comment	\$ -	
172	Notes, Loans, & mortgages receivable - Non-current - past due	\$ -	

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			14,871
Line Item No.	Description	Total Programs	Housing Choice Vouchers
173	Grants receivable - Non-current	\$ -	
174-010	Other assets - Not For Profit	\$ -	
174-020	Other assets - Partnership	\$ -	
174-030	Other assets - Joint Venture	\$ -	
174-040	Other assets - Tax Credit	\$ -	
174-050	Other assets - Other	\$ -	
174-060	Other - Comment	\$ -	
174	Other assets	\$ -	
176-010	Investment in Joint venture - Not For Profit	\$ -	
176-020	Investment in Joint venture - Partnership	\$ -	
176-030	Investment in Joint venture - Joint Venture	\$ -	
176-040	Investment in Joint venture - Tax Credit	\$ -	
176-050	Investment in Joint venture - Other	\$ -	
176-060	Other - Comment	\$ -	
176	Investment in joint venture	\$ -	
180	Total Non-current Assets	\$ 10,155	\$ 10,155
190	Total Assets	\$ 99,324	\$ 99,324
311	Bank overdraft	\$ -	
312	Accounts payable <= 90 days	\$ -	
313	Accounts payable > 90 days past due	\$ -	
321	Accrued wage/payroll taxes payable	\$ -	
322	Accrued compensated absences - current portion	\$ 2,741	\$2,741
324	Accrued contingency liability	\$ -	
325	Accrued interest payable	\$ -	
331-010	Accounts payable - HUD PHA Programs - Operating Subsidy	\$ -	
331-020	Accounts payable - HUD PHA Programs - Capital fund	\$ -	
331-030	Accounts payable - HUD PHA Programs - Other	\$ -	
331	Accounts payable - HUD PHA Programs	\$ -	
332	Accounts payable - PHA Projects	\$ -	
333	Accounts payable - other government	\$ -	
341	Tenant security deposits	\$ -	
342-010	Deferred revenue - Operating Subsidy	\$ -	
342-020	Deferred revenue - Capital fund	\$ -	
342-030	Deferred revenue - Other	\$ -	
342	Deferred revenue	\$ -	
343-010	CFFP	\$ -	
343-020	Capital Projects/ Mortgage Revenue	\$ -	
343	Current portion of long-term debt - capital projects/mortgage revenue bonds	\$ -	
344	Current portion of long-term debt - operating borrowings	\$ -	
345	Other current liabilities	\$ -	
346	Accrued liabilities - other	\$ -	
347	Inter program - due to	\$ -	
348-010	Loan liability - current - Not For Profit	\$ -	
348-020	Loan liability - current - Partnership	\$ -	
348-030	Loan liability - current - Joint Venture	\$ -	
348-040	Loan liability - current - Tax Credit	\$ -	
348-050	Loan liability - current - Other	\$ -	
348-060	Other - Comment	\$ -	
348	Loan liability - current	\$ -	
310	Total Current Liabilities	\$ 2,741	\$ 2,741
351-010	Long-term debt - CFFP	\$ -	
351-020	Long-term - Capital Projects/ Mortgage Revenue	\$ -	
351	Capital Projects/ Mortgage Revenue Bonds	\$ -	
352	Long-term debt, net of current - operating borrowings	\$ -	
353	Non-current liabilities - other	\$ -	
354	Accrued compensated absences- Non-current	\$ 600	\$600
355-010	Loan liability - Non-current - Not For Profit	\$ -	
355-020	Loan liability - Non-current - Partnership	\$ -	
355-030	Loan liability - Non-current - Joint Venture	\$ -	
355-040	Loan liability - Non-current - Tax Credit	\$ -	
355-050	Loan liability - Non-current - Other	\$ -	
355-060	Other - Comment	\$ -	

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Line Item No.	Description	Total Programs	Housing Choice Vouchers
			14,871
355	Loan liability – Non-current	\$ -	
356	FASB 5 Liabilities	\$ -	
357	Accrued Pension and OPEB Liability	\$ -	
350	Total Non-current liabilities	\$ 600	\$ 600
300	Total Liabilities	\$ 3,341	\$ 3,341
508.1	Invested in capital assets, net of related debt	\$ 10,155	\$10,155
511.1	Restricted Net Assets	\$ 58,652	\$58,652
512.1	Unrestricted Net Assets	\$ 27,176	\$27,176
513	Total Equity/Net Assets	\$ 95,983	\$ 95,983
600	Total Liabilities and Equity/Net assets	\$ 99,324	\$ 99,324

Income Statement			
70300	Net tenant rental revenue	\$ -	
70400	Tenant revenue - other	\$ -	
70500	Total Tenant Revenue	\$ -	\$ -
70600-010	Housing assistance payments	\$ 466,172	\$466,172
70600-020	Ongoing administrative fees earned	\$ 51,096	\$51,096
70600-030	Hard to house fee revenue	\$ -	
70600-031	FSS Coordinator	\$ -	
70600-040	Actual independent public accountant audit costs	\$ -	
70600-050	Total preliminary fees earned	\$ -	
70600-060	All other fees	\$ -	\$0
70600-070	Admin fee calculation description	\$ -	
70600	HUD PHA operating grants	\$ 517,268	\$ 517,268
70610	Capital grants	\$ -	
70710	Management Fee	\$ -	
70720	Asset Management Fee	\$ -	
70730	Book-Keeping Fee	\$ -	
70740	Front Line Service Fee	\$ -	
70750	Other Fees	\$ -	
70700	Total Fee Revenue	\$ -	
70800	Other government grants	\$ -	
71100-010	Housing Assistance Payment	\$ -	
71100-020	Administrative Fee	\$ -	
71100	Investment income - unrestricted	\$ -	\$ -
71200	Mortgage interest income	\$ -	
71300	Proceeds from disposition of assets held for sale	\$ -	
71310	Cost of sale of assets	\$ -	
71400-010	Housing Assistance Payment	\$ -	
71400-020	Administrative Fee	\$ -	
71400	Fraud recovery	\$ -	\$ -
71500	Other revenue	\$ 7,755	\$7,755
71600	Gain or loss on sale of capital assets	\$ -	
72000-010	Housing Assistance Payment	\$ -	
72000-020	Administrative Fee	\$ -	
72000	Investment income - restricted	\$ -	\$ -
70000	Total Revenue	\$ 525,023	\$ 525,023
91100	Administrative salaries	\$ 51,588	\$51,588
91200	Auditing fees	\$ -	
91300	Management Fee	\$ -	
91310	Book-Keeping Fee	\$ -	
91400	Advertising and Marketing	\$ -	
91500	Employee benefit contributions - administrative	\$ 6,437	\$6,437
91600	Office Expenses	\$ 19,237	\$19,237
91700	Legal Expense	\$ -	

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92100	Tenant services - salaries	\$ -	
92200	Relocation Costs	\$ -	
92300	Employee benefit contributions - tenant services	\$ -	
92400	Tenant services - other	\$ -	
92500	Total Tenant Services	\$ -	\$ -
93100	Water	\$ -	
93200	Electricity	\$ -	
93300	Gas	\$ -	
93400	Fuel	\$ -	
93500	Labor	\$ -	
93600	Sewer	\$ -	
93700	Employee benefit contributions - utilities	\$ -	
93800	Other utilities expense	\$ -	
93000	Total Utilities	\$ -	\$ -
94100	Ordinary maintenance and operations - labor	\$ -	
94200	Ordinary maintenance and operations - materials and other	\$ -	
94300-010	Ordinary Maintenance and Operations Contracts - Garbage and Trash Removal Contracts	\$ -	
94300-020	Ordinary Maintenance and Operations Contracts - Heating & Cooling Contracts	\$ -	
94300-030	Ordinary Maintenance and Operations Contracts - Snow Removal Contracts	\$ -	
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94300-050	Ordinary Maintenance and Operations Contracts - Landscape & Grounds Contracts	\$ -	
94300-060	Ordinary Maintenance and Operations Contracts - Unit Turnaround Contracts	\$ -	
94300-070	Ordinary Maintenance and Operations Contracts - Electrical Contracts	\$ -	
94300-080	Ordinary Maintenance and Operations Contracts - Plumbing Contracts	\$ -	
94300-090	Ordinary Maintenance and Operations Contracts - Extermination Contracts	\$ -	
94300-100	Ordinary Maintenance and Operations Contracts - Janitorial Contracts	\$ -	
94300-110	Ordinary Maintenance and Operations Contracts - Routine Maintenance Contracts	\$ -	
94300-120	Ordinary Maintenance and Operations Contracts - Misc Contracts	\$ -	
94300	Ordinary Maintenance and Operations Contracts	\$ -	\$ -
94500	Employee benefit contribution - ordinary maintenance	\$ -	
94000	Total Maintenance	\$ -	\$ -
95100	Protective services - labor	\$ -	
95200	Protective services - other contract costs	\$ -	
95300	Protective services - other	\$ -	
95500	Employee benefit contributions - protective services	\$ -	
95000	Total Protective Services	\$ -	\$ -
96110	Property Insurance	\$ -	
96120	Liability Insurance	\$ -	
96130	Workmen's Compensation	\$ -	
96140	All Other Insurance	\$ -	
96100	Total Insurance Premiums	\$ -	\$ -
96200	Other general expenses	\$ -	
96210	Compensated absences	\$ -	
96300	Payments in lieu of taxes	\$ -	
96400	Bad debt - tenant rents	\$ -	
96500	Bad debt - mortgages	\$ -	
96600	Bad debt - other	\$ -	
96800	Severance expense	\$ -	

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Line Item No.	Description	Total Programs	Housing Choice Vouchers
			14.871
96000	Total Other General Expenses	\$ -	\$ -
96710	Interest of Mortgage (or Bonds) Payable	\$ -	
96720	Interest on Notes Payable (Short and Long Term)	\$ -	
96730	Amortization of Bond Issue Costs	\$ -	
96700	Total Interest Expense and Amortization Cost	\$ -	\$ -
96900	Total Operating Expenses	\$ 77,262	\$ 77,262
97000	Excess Revenue Over Operating Expenses	\$ 447,761	\$ 447,761
97100	Extraordinary maintenance	\$ -	
97200	Casualty losses- Non-capitalized	\$ -	
97300-010	Mainstream 1 & 5 year	\$ -	
97300-020	Home-Ownership	\$ 407,520	\$407,520
97300-025	Litigation	\$ -	
97300-030	Hope IV	\$ -	
97300-035	Moving to Work	\$ -	
97300-040	Tenant Protection	\$ -	
97300-050	All Other	\$ -	
97300	Housing assistance payments	\$ 407,520	\$ 407,520
97350	HAP Portability-in	\$ -	
97400	Depreciation expense	\$ 4,632	\$4,632
97500	Fraud losses	\$ -	
97800	Dwelling units rent expense	\$ -	
90000	Total Expenses	\$ 489,414	\$ 489,414
10010	Operating transfer in	\$ -	
10020	Operating transfer out	\$ -	
10030-010	Not For Profit	\$ -	
10030-020	Partnership	\$ -	
10030-030	Joint Venture	\$ -	
10030-040	Tax Credit	\$ -	
10030-050	Other	\$ -	
10030-060	Other Comment		
10030	Operating transfers from / to primary government	\$ -	
10040	Operating transfers from / to component unit	\$ -	
10070	Extraordinary items, net gain/loss	\$ -	
10080	Special items, net gain/loss	\$ -	
10091	Inter Project Excess Cash Transfer In	\$ -	
10092	Inter Project Excess Cash Transfer Out	\$ -	
10093	Transfers between Programs and Projects - in	\$ -	
10094	Transfers between Programs and Projects - out	\$ -	
10100	Total other financing sources (uses)	\$ -	\$ -
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ 35,609	\$ 35,609
11020	Required Annual Debt Principal Payments	\$ -	
11030	Beginning equity	\$ -	
11040-010	Prior period adjustments and correction of errors - Editable	\$ -	
11040-020	Prior period adjustments and correction of errors - Editable	\$ -	
11040-030	Prior period adjustments and correction of errors - Editable	\$ -	
11040-040	Prior period adjustments and correction of errors - Editable	\$ -	
11040-050	Prior period adjustments and correction of errors - Editable	\$ -	
11040-060	Prior period adjustments and correction of errors - Editable	\$ -	
11040-070	Equity Transfers	\$ -	
11040-080	Equity Transfers	\$ -	
11040-090	Equity Transfers	\$ -	
11040-100	Equity Transfers	\$ -	
11040-110	Equity Transfers	\$ -	
11040	Prior period adjustments, equity transfers, and correction of errors	\$ -	\$ -
11170-001	Administrative Fee Equity- Beginning Balance	\$ 60,374	\$60,374

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Yellow - Colored Cells are Detail Links

Gray - Colored Cells are disallowed entry

Line Item No.	Description	Total Programs	Housing Choice Vouchers
			14.871
11170-010	Administrative Fee Revenue	\$ 51,096	\$ 51,096
11170-020	Hard to House Fee Revenue	\$ -	\$ -
11170-021	FSS Coordinator Grant	\$ -	\$ -
11170-030	Audit Costs	\$ -	\$ -
11170-040	Investment Income	\$ -	\$ -
11170-045	Fraud Recovery Revenue	\$ -	\$ -
11170-050	Other Revenue	\$ 7,755	\$ 7,755
11170-051	Comment for Other Revenue	\$ -	\$ -
11170-060	Total Admin Fee Revenues	\$ 58,851	\$ 58,851
11170-080	Total Operating Expenses	\$ 77,262	\$ 77,262
11170-090	Depreciation	\$ 4,632	\$ 4,632
11170-095	Housing Assistance Portability In	\$ -	\$ -
11170-100	Other Expenses	\$ -	\$ -
11170-101	Comment for Other Expense	\$ -	\$ -
11170-110	Total Expenses	\$ 81,894	\$ 81,894
11170-002	Net Administrative Fee	\$ (23,043)	\$ (23,043)
11170-003	Administrative Fee Equity- Ending Balance	\$ 37,331	\$ 37,331
11170	Administrative Fee Equity	\$ 37,331	\$ 37,331
11180-001	Housing Assistance Payments Equity - Begining Balance	\$ -	\$ -
11180-010	Housing Assistance Payment Revenues	\$ 466,172	\$ 466,172
11180-015	Fraud Recovery Revenue	\$ -	\$ -
11180-020	Other Revenue	\$ -	\$ -
11180-021	Comment for Other Revenue	\$ -	\$ -
11180-025	Investment Income	\$ -	\$ -
11180-030	Total HAP Revenues	\$ 466,172	\$ 466,172
11180-080	Housing Assistance Payments	\$ 407,520	\$ 407,520
11180-090	Other Expenses	\$ -	\$ -
11180-091	Comments for Other Expenses	\$ -	\$ -
11180-100	Total Housing Assistance Payments Expenses	\$ 407,520	\$ 407,520
11180-002	Net Housing Assistance Payments	\$ 58,652	\$ 58,652
11180-003	Housing Assistance Payments Equity-Ending Balance	\$ 58,652	\$ 58,652
11180	Housing Assistance Payments Equity	\$ 58,652	\$ 58,652
11190-210	Total ACC HCV Units	0	
11190-220	Unfunded Units	0	
11190-230	Other Adjustments	0	
11190	Unit Months Available	0	0
11210	Unit Months Leased	962	962
11270	Excess Cash	\$ -	
11610	Land Purchases	\$ -	
11620	Building Purchases	\$ -	
11630	Furniture & Equipment-Dwelling Purchases	\$ -	
11640	Furniture & Equipment-Administrative Purchases	\$ -	
11650	Leasehold Improvements Purchases	\$ -	
11660	Infrastructure Purchases	\$ -	
13510	CFFP Debt Service Payments	\$ -	
13901	Replacement Housing Factor Funds	\$ -	

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA
BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2008

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO
BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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MENDOZA & RAMOS
Contadores Públicos Autorizados, C.S.P.

P.O. Box 35 • Guayama, Puerto Rico 00785

INDEPENDENT AUDITOR'S REPORT

TO THE HONORABLE MAYOR AND
MEMBERS OF THE MUNICIPAL LEGISLATURE
MUNICIPALITY OF VILLALBA, PUERTO RICO

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of VILLALBA, Puerto Rico (Municipality), as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provide a reasonable basis for our opinion.

As discussed in Note 5 to the financial statements, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, based on our audit and the report of other auditors, because of the effects of the matter discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Municipality of Villalba, Puerto Rico, as of June 30, 2008, and the changes in financial position, thereof for the year then ended.

In our 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, as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and budgetary comparison information on pages 3 through 11 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We 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, we did not audit the information and express no opinion on it.

Mendoza & Ramos CPA's
MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
December 20, 2008

**Stamp number 2283153 was
affixed to the original of this
report**



COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The management of the Autonomous Municipality of Villalba in order to comply with the requirements of the Governmental Accounting Standards Board Statement Number 34, "**BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS FOR STATE AND LOCAL GOVERNMENTS**", present an overview and analysis of the financial activities sustained by the municipality for the fiscal year ended on June 30, 2008.

This Management's Discussion and Analysis (**MD&A**) is focused on the current year activities, resulting changes and currently known facts; therefore it should be read in conjunction with the Municipality's Basic Financial Statements. This (**MD&A**) will provide comparable information to the readers with prior year's financial statements. Also, it can assist readers to get a more specific understanding of the financial activities that have taken place during the fiscal year ended on June 30, 2008.

FINANCIAL HIGHLIGHTS

- The Municipality's Net Assets for the fiscal year ended on June 30, 2008 were **\$15,720,292** in comparison with fiscal year 2007 which were **\$12,716,175** a **\$3,004,117** increase.
- The Municipality's Fund Financial Statements show that Governmental Activities Revenues were **\$14,805,011** for the fiscal year ended on June 30, 2007. In comparison with current fiscal year that was **\$11,998,419** a **\$2,806,592** Governmental Activities Revenues decreased.
- The General fund showed a Deficiency of Revenues over Expenditures of **(\$1,209,091)** during the course of 2007 fiscal year. In comparison with fiscal year 2008, that showed an excess of Revenue over Expenditures of **\$1,139,248**.
- The Governmental Activities Expenditures for the fiscal year 2007 were **\$17,194,356** in comparison with this fiscal year ended on June 30, 2008, which balance was **\$17,542,401** a **\$348,045** increase over last fiscal year.
- The General Fund total expenditures for the current fiscal year showed a decrease of **\$1,439,093** with last year's General Fund total expenditure balance.
- The Municipality's Governmental Funds reported an ending Fund Balance for the current fiscal year, amounting to **\$21,072**.
- In the current fiscal year the Administration started the construction of very important projects that will help boost an impact over the economy of the city as well as to improve the intern tourism. Such projects are:
 - "**Bolera Municipal**", a ten lane bowling alley with conference and activities room, sport bar and game room, among other facilities.
 - "**Area Recreativa de Villalba** ", a sport complex that includes a basketball court, a volleyball concrete and sand courts, two public pools with a splash pad for the kids, an extreme sports skating park, a jogging track, a little league baseball park, two tennis courts and a lot other family interesting things.

- **Dos Lagos Hotel**, is actually in the design and planning process and it will began construction during 2008 and it will consist of 200 accommodating rooms plus 200 luxury villas with a casino and an equestrian park with other entertainment facilities.
- **Villalba Movie theaters**, this is another important project which is in the design and planning process and it will consists of three movie rooms and one game room for the entertainment of the kids.
- **Multi space parking lot**, this is another project that will have a direct impact to the economy, because it will make more accessible the services provided to the citizens from our downtown.

USING THIS FINANCIAL REPORT AND BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This Report will present relevant information capable of being the basis for comparison, between more than one fiscal year. Also, this **MD&A** will enhance the Municipality's accountability by providing both, *Government – Wide and Fund – Type* overview, of the Municipality's Financial Structure.

The Basic Financial Statements of the Municipality consist of *Government- Wide Financial Statements and Fund- Type Financial Statements*, as well as *Notes to the Financial Statements*. The Municipality's Basic Financial Statements includes two new Government- Wide Financial Statements: *The Statement of Net Assets and the Statement of Activities*. This report also contains other supplementary information in addition to the Basic Financial Statements. The Municipality's Government- Wide Financial Statements are composed of only Governmental Activities, because no Business- Type Activities were made during the Fiscal year ended on June 30, 2008.

A – GOVERNMENT WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements are designed to provide users with an overview of the Municipality's finances, much like to a private-sector business.

The Statement of Net Assets, one of the two new Government- Wide Financial Statements, presents the information on all of the Municipality's assets and liabilities with the difference between both, reported as *Net Assets*. Over time any increase or decrease in the amount reported as *Net Assets* may serve as an indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities, presents information on how the Municipality's *Net Assets* changed during the course of the fiscal year. In this statement, all revenues and expenses are included regardless of when cash was paid or received. All changes in *Net Assets* are reported as the event which gives rise to the change occurs. This Statement is focused on the gross and net costs of various activities and is intended to summarize and simplify the user's analysis of cost of the multiple governmental services.

The Government- Wide Financial Statements of the Municipality are principally supported by *Intergovernmental Revenues*. The Government- Wide Financial Statements of the Municipality are fully presented on pages **15** to **16**.

B – FUND -TYPE FINANCIAL STATEMENTS

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

The Fund- Type Financial Statements will focus on the Municipality's Major Funds, which will be reported separately from all of the other funds. *The Fund- Type Financial Statements* provide detailed information

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

about the Municipality's most significant Funds, not the Municipality as a whole. Unlike *The Government-Wide Financial Statements*, *Fund-Type Financial Statements*, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. The Government funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Because the focus of Governmental Funds is narrower than that of the *Government-Wide Financial Statements*, it is recommended to compare the information presented for Governmental Funds, with comparable information presented, for Governmental Activities in the *Government-Wide Financial Statements*.

The Fund-Type Financial Statements are composed of both, the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances. These Statements will provide the user of this information a better comparison between Governmental Funds and Governmental Activities.

The Municipality's *Fund-Type Financial Statements* are presented on pages 17 to 20.

C – NOTES TO THE FINANCIAL STATEMENTS

The Basic Financial Statements of the Municipality also includes *Notes to the Financial Statements*. These Notes accompanied the Basic Financial Statements and they'll help to get a full understanding of the data provided in the *Government-Wide and Fund-Type Financial Statements*.

The *Notes to the Financial Statements* are presented on pages 21 to 43.

D – OTHER SUPPLEMENTARY INFORMATION

In addition to the Basic Financial Statements and accompanying Notes, this report also presents certain required supplementary information containing budget to actual comparisons for the General and Major funds.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

The Municipality implemented this financial reporting model in the fiscal year ended on June 30, 2004 and for last fiscal year it presented the Financial Statements using this financial model. For this current year, new financial information has been accumulated which has caused a change in *Net Assets* that must be observed and used, to discuss or compare the changing Financial Position of the Municipality as a whole.

GOVERNMENT – WIDE FINANCIAL ANALYSIS

A – GOVERNMENTAL NET ASSETS

The *Net Assets* are the excess of assets over liabilities. The *Net Assets* may serve as an indicator of the Municipality's financial position. The Municipality's *Net Assets* at fiscal year end were **\$15,720,292**. The following table provides a summary of the Municipality's *Net Assets*:

MUNICIPALITY OF VILLALBA
SUMMARY OF NET ASSETS
 JUNE 30, 2007 and 2008

	<u>Governmental Activities</u>	
	2007	2008
Assets:		
Current Assets and Other Assets	\$ 9,236,682	\$ 8,246,148
Capital Assets	<u>7,546,268</u>	<u>20,595,933</u>
Total Assets	\$ 26,782,950	\$28,742,181
Liabilities:		
Current liabilities	\$ 4,866,019	\$ 2,521,596
Non current liabilities	1,245,292	1,026,640
Long- Term liabilities	<u>7,955,464</u>	<u>9,473,653</u>
Total liabilities	\$ 14,066,775	\$13,021,889
Net Assets:		
Invested in Capital Assets, Net of Debt	\$13,095,270	\$13,786,733
Restricted	4,532,784	6,046,972
Unrestricted	<u>(4,911,879)</u>	<u>(4,113,413)</u>
Total of Net Assets	<u>\$ 12,716,175</u>	<u>\$ 15,720,292</u>

Our analysis on the *SUMMARY OF NET ASSETS* reflects that the largest portion of the Municipality's *Net Assets* for 2008 consisted of Capital Assets, 72% of the Governmental Activities' Total Assets, and for 2007 it was approximately, 65%. These Capital Assets are used to provide services to citizens; consequently these assets are not available for future spending. Also, it should be noted that the resources required to repay the related debt must be provided from other sources, since, the Capital Assets themselves cannot be used to liquidate these liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

CURRENT RATIO

- Current Assets / Current Liabilities:
\$8,246,148 / \$2,521,596

The Current Ratio for the Municipality is 3.27 percent for the fiscal year 2008, 1.37 percent more than fiscal year 2007, 1.90 percent; this ratio indicates the ability of the Municipality to pay current fiscal year obligations.

B – CHANGES IN NET ASSETS

This Municipality is strongly supported by the Intergovernmental Revenues for its operations. In the other hand, the Municipality's *Expenses* covered a range of activities, from which the largest expensed activity was General Administration, followed by Public Works, Mayor and Municipal Legislature, Urban Development, Capital Outlays, Public Safety and so on. The following table will show a summary of the Municipality's *Changes in Net Assets*:

MUNICIPALITY OF VILLALBA

SUMMARY OF CHANGES IN NET ASSETS

JUNE 30, 2007 and 2008

Governmental Activities

	2007	2008
Revenues:		
Program Revenues		
Property Taxes	\$1,473,214	\$ 1,377,991
Volume of Business Tax	1,689,606	2,266,960
Sales Tax	---	515,598
Federal Financial Assistance	1,496,407	1,915,969
Other local taxes	921,880	902,598
Intergovernmental Revenues	9,616,356	13,312,920
Rent of Property	62,608	39,303
Interest	198,106	84,875
Miscellaneous	<u>463,636</u>	<u>169,607</u>
Total Revenues	\$ 15,921,813	\$ 20,546,518
Expenses:		
Program Expenses:		
Mayor and Municipal Legislature	\$ 1,893,420	\$ 2,291,372
General Administration	7,413,202	5,997,650
Public Safety	1,109,636	1,330,200
Public Works	4,511,761	3,243,636
Culture and Recreation	1,227,634	760,505
Health and Sanitation	330,055	352,037
Human Services and Welfare	1,764,407	2,477,989

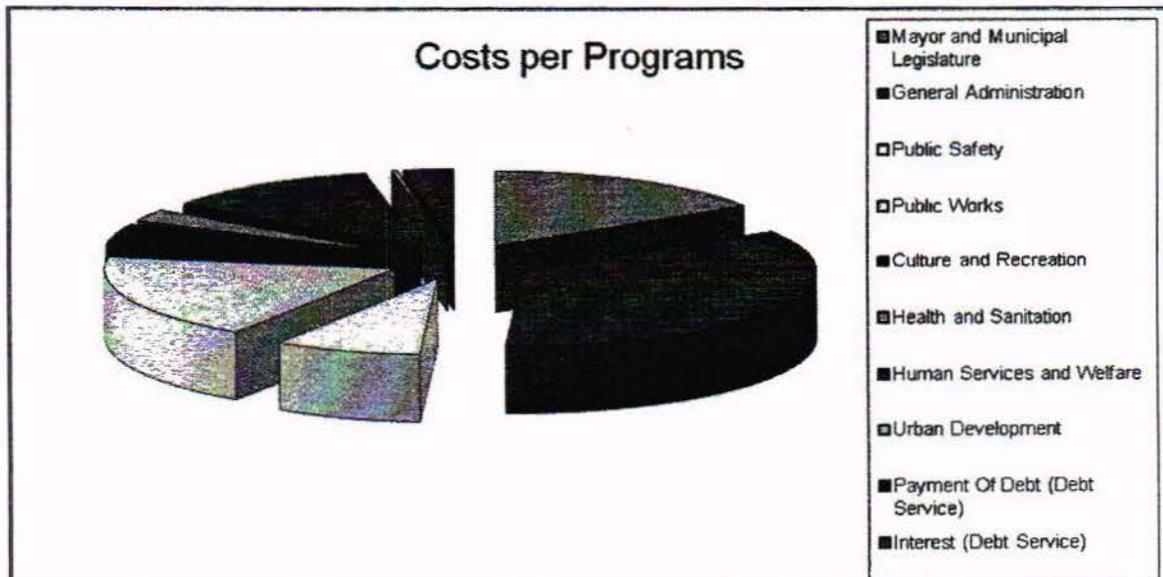
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Urban Development	1,001,276	694,118
Payment of Principal (<i>Debt Service</i>)	397,093	----
Interest (<i>Debt Service</i>)	<u>132,117</u>	<u>394,894</u>
Total Expenses	\$ 19,780,601	\$ 17,542,401
Change in Net Assets	(3,858,788)	3,004,117
Ending Net Assets	<u>\$ 12,716,175</u>	<u>\$ 15,720,292</u>

Our analysis of the *SUMMARY OF CHANGES IN NET ASSETS* reflects that the largest portion of the Municipality's Total Revenues for 2008 consisted of Intergovernmental Revenues, 55.6% and for fiscal year 2007, was 65% approximately. The Governmental Activities' Expenditures, decrease from \$19,780,601 to \$17,542,401 for fiscal year 2008. The major expenditure category for both fiscal years was General Administration, which compromises 37.5% and 34.20% for 2007 and 2008, respectively. Public Work program showed a decrease of \$1,268,125 for 2008.

To illustrate graphically the allocation of revenues due to the definition of the proper revenue recognition and to illustrate the distribution of costs among the adequate programs, exhibit I and exhibit II are shown below:

Exhibit I



FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

A – GOVERNMENTAL FUNDS

The Municipality's *Governmental Funds* information is useful in assessing the Municipality's financial requirements. At the end of the fiscal year any resource available for spending should be measured by the unreserved fund balance. In the current fiscal year, the Municipality's *Governmental funds* reported an ending Fund Balance of \$5,592,451 a \$1,887,922 increase. There are reservations of Fund Balance up to \$6,651,579 an increase of \$2,200,264 over last fiscal year. This reserved Fund Balance is committed to cover balances shown as follows:

- *\$270,870 is reserved to cover purchase orders of prior fiscal years.*
- *\$489,968 is to pay Debt Service.*
- *\$5,800,541 is reserved for HUD Programs, for State Assignments and for other Governmental purposes.*

The Municipality's *Governmental Funds* includes the General Fund, which is the Major Operating Fund of the Municipality and as of June 30, 2008, it showed a Fund Balance of \$21,072

BUDGETARY HIGHLIGHTS

The Budgetary Comparison schedules for budgeted and actual amounts from General Fund are presented in the Municipality's *Basic Financial Statements*. These Schedules will show the original adopted budget, the final revised budget, actual results, and variance between final and actual budgeted amounts for the General Fund. An Original Budget is presented by the Mayor and approved by the Municipality's Legislature in an ordinary session, but it may be revised for various reasons and circumstances, or due to unanticipated budget issues that rose during the course of the fiscal year.

For fiscal year 2008, the summary of the minor differences between the Original and Final 2008 budgeted amounts of the General Fund are presented below:

- *Resources decreased primarily from Sales tax totaling \$186,597.*
- *The Original Budget was not amended to increase expenditures between expenditures accounts meanwhile, the total expenditures budgeted exceeded the actual expenditures incurred during fiscal 2008.*
- *A Decrease of \$467,973 was shown to total charges for appropriations.*

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

- The final budget amount showed a excess of Resources under Appropriations of \$148,818.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in Capital Assets as of June 30, 2008 is \$27,277,789, net of Accumulated Depreciation of \$6,681,856, leaving a Net Book Value of \$20,595,933. The investment in capital assets includes land, buildings improvement, equipment, infrastructure, motor vehicles, recreation facilities and construction in progress.

The total increased in the Municipality's investment in Capital Assets as of June 30, 2008 was \$3,049,665 in terms of Net Book Value in comparison with fiscal year 2007. Depreciation charges also decrease for the fiscal year by \$54,843 in comparison with fiscal 2007.

The Municipality finances a significant portion of its construction activities through Bond Issuances and Grants. The proceeds from Bond Issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. A summary of the Capital Assets is presented as follows:

MUNICIPALITY OF VILLALBA

CAPITAL ASSETS

	<u>2007</u>	<u>2008</u>
Capital Assets:		
Land	\$ 1,003,026	\$ 1,284,597
Construction in progress	1,552,614	1,878,334
Buildings	7,415,885	8,079,085
Infrastructure	3,995,001	4,969,685
Recreation Facilities	5,380,252	6,951,306
Machinery and Equipment	799,186	865,495
Motor Vehicles	<u>3,053,245</u>	<u>3,249,287</u>
Total Capital Assets	<u>\$ 20,643,569</u>	<u>\$ 24,114,858</u>

DEBT ADMINISTRATION

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each Municipality may be pledged.

MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The Law requires that in order for a Municipality to be able to issue additional general obligations bonds and notes, such Municipality must have sufficient "Payment Capacity". The "Payment Capacity" is determined with the moneys deposits in the Redemption Fund of the Municipality and the amounts collected with respect to the Municipality's Special Additional Tax, as projected by the *Government Development Bank (GDB)* be enough to fulfill the general and the proposed, additional general obligation. For a Municipality to incur additional general obligation debt it must be sufficient to service to maturity, the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of an interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's *Basic Tax revenues*. Accordingly, the Municipality's *Basic Tax revenues* would be available to make Debt Service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, are not sufficient to cover such Debt Service. It has never been necessary to apply Basic Taxes to pay Debt Service on general obligation debt for the Municipality.

MUNICIPALITY OF VILLALBA
LONG TERM AND OTHER DEBTS

	<u>2007</u>	<u>2008</u>
General Obligations Bonds	\$ 4,862,000	\$ 4,901,000
Special Notes Payable	1,100,000	855,000
Convertible line of Credit	-	1,550,000
Property Taxes (CRIM, PRTD)	1,905,276	1,945,664
Water Company	25,727	-
Compensated Absences	<u>1,307,753</u>	<u>1,248,629</u>
Total Long-Term and Other Debts	<u>\$ 9,177,556</u>	<u>\$ 10,500,293</u>

The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs. A more specific and detailed information regarding the Long - Term Debt of the Municipality is presented in the *Notes to the Financial Statements* of the Municipality's *Basic Financial Statements*.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on Intergovernmental Revenues as well as Federal Financial Assistance to carry out the Governmental Activities. Historically, these amounts have been predictable for every fiscal year, providing the Municipality with increases of approximately, five percent (5%). Federal Financial Assistance may vary if new grants are available, but the revenue is also predictable.

Local, national and international economic factors may influence the Municipality's revenues, positively or negatively. Positive economic growth is correlated with increased revenues from Property Taxes, Volume of Business Taxes, Charges for Services as well as State and Federal Grants. In a local economy the growth may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors are considered when preparing the Municipality's Budget for the fiscal year ended on June 30, 2009.

FINANCIAL CONTACT

The Municipality's *Basic Financial Statements* are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability.

If you have any questions about the report or need some additional financial information concerning the Municipality's *Basic Financial Statements*, contact the Municipality's Finance Department at (787) 847-9154.

BASIC FINANCIAL STATEMENTS:

Governmental-Wide Statement

- Statement of Net Assets
- Statement of Activities

Governmental Funds Statements

- Balance Sheet
- Reconciliation of the Governmental Funds Balance Sheet
- Statement of Revenues Expenditure and Change in Fund Balance
- Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund Balance of Governmental Funds to the Statements of Activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO**

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Governmental Activities</u>
ASSETS:	
Cash and Cash Equivalents	\$ 909,609
Cash with Fiscal Agent	2,718,873
Accounts Receivable (net):	
Property Taxes	793,092
Proceed of Bond	-
Federal Grants	271,517
Other	<u>3,453,157</u>
Capital Assets (Note 5):	
Land, Improvements, and Construction in Progress	3,162,931
Other Capital Assets, (Net of Depreciation)	<u>17,433,002</u>
Total Capital Assets	<u>20,595,933</u>
TOTAL ASSETS	\$ <u>28,742,181</u>
LIABILITIES:	
Accounts Payable and Accrued Expense	869,064
Claims and Judgments Debt	-
Accrued Interest	79,768
Deferred Revenues	1,572,764
Long-Term Liabilities (Note6):	
Due within One Year	1,026,640
Due in More than One Year	<u>9,473,653</u>
Total Liabilities	<u>13,021,889</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	13,786,733
Restricted for:	
Community Development Projects	89,169
Special Revenue	2,001,343
State Assignment Funds	1,388,292
Construction Activities	2,078,200
Debt Service	489,968
Unrestricted (Deficit)	<u>(4,113,413)</u>
TOTAL NET ASSETS	\$ <u>15,720,292</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO**

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Charges For Services	Program Revenue		Net (Expenses) Revenues and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 2,291,372	\$ -	\$ -	\$ -	\$ (2,291,372)
General Administration	5,997,650	-	1,027,176	-	(4,970,474)
Public Safety	1,330,200	-	157,034	-	(1,173,166)
Public Works	3,243,636	-	4,197,404	1,670,000	2,623,768
Culture and Recreation	760,505	-	115,015	-	(645,490)
Health and Sanitation	352,037	-	-	-	(352,037)
Solid Waste Disposal	-	-	-	-	-
Human Services and Welfare	2,477,989	-	727,490	-	(1,750,499)
Urban Development	694,118	-	653,980	-	(40,138)
Capital Outlay	-	-	-	-	-
Education	-	-	-	-	-
Interest on Long-Term Debt	394,894	-	-	-	(394,894)
Total Governmental Activities	\$ 17,542,401	\$ -	\$ 6,878,099	\$ 1,670,000	\$ (8,994,302)

General revenues:

Taxes:

Property tax, levied for General Purposes	1,129,298
Property tax, levied for Debt Service	248,693
Volume of Business Tax	2,266,960
Sales Tax	515,598
Other local taxes	902,598
Intergovernmental Revenues	6,680,790
Interest	84,875
Miscellaneous	169,607
Total General Revenues and Special Items	11,998,419
Change in the Net Assets	3,004,117
Net Assets - Beginning of Year	12,716,175
Net Assets - Ending of Year	\$ 15,720,292

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO**

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	<u>General Fund</u>	<u>HUD Fund</u>	<u>State Assignment Fund</u>	<u>Other Governmental Funds</u>	<u>Total Funds</u>
ASSETS:					
Cash and cash equivalents (Note 2)	\$ 30,520	\$ 79,000	\$ 17,995	\$ 782,094	\$ 909,609
Cash with Fiscal Agent	551,295	-	-	2,167,578	2,718,873
Accounts receivable:	-	-	-	-	-
Property Tax	681,123	-	-	-	681,123
Procced of Bond	-	-	-	-	-
Federal Grant	-	271,517	-	-	271,517
Due from Other Funds	5,600,299	-	1,476,946	3,371,327	10,448,572
Others	100,781	10,450	164,010	3,177,916	3,453,157
TOTAL ASSETS	<u>\$ 6,964,018</u>	<u>\$ 360,967</u>	<u>\$ 1,658,951</u>	<u>\$ 9,498,915</u>	<u>\$ 18,482,851</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable and Accrued Expense Liabilities	587,172	-	271	106,657	694,100
Claims and Judgments Debt	-	-	-	-	-
Due to Governmental Units	174,964	-	-	-	174,964
Due to Other Funds	4,848,273	113,746	270,388	5,216,165	10,448,572
Deferred Revenues:	-	-	-	-	-
Volume of Business Tax	1,332,537	-	-	-	1,332,537
Property Taxes	-	-	-	-	-
Federal Grants	-	158,052	-	82,175	240,227
Total Liabilities	<u>6,942,946</u>	<u>271,798</u>	<u>270,659</u>	<u>5,404,997</u>	<u>12,890,400</u>
Fund Balances:					
Reserve For:					
Encumbrances	270,870	-	-	-	270,870
Debt Service	-	-	-	489,968	489,968
Other Purposes	719,130	89,169	1,388,292	3,603,950	5,800,541
Unreserved (Deficit)	(968,928)	-	-	-	(968,928)
Total Fund Balances	<u>21,072</u>	<u>89,169</u>	<u>1,388,292</u>	<u>4,093,918</u>	<u>5,592,451</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,964,018</u>	<u>\$ 360,967</u>	<u>\$ 1,658,951</u>	<u>\$ 9,498,915</u>	<u>\$ 18,482,851</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO**

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2008

Total Fund Balances- Governmental Funds \$ 5,592,451

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

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

Non Depreciable Capital Assets	\$ 3,162,931	
Depreciable Capital Assets	19,145,173	
Infrastructure Assets	<u>4,969,685</u>	
Accumulated Depreciation	<u>(6,681,856)</u>	
Total Capital Assets		20,595,933

Some of the Municipality's revenues will be collected after year-end but are not available soon enough to pay the current period's expenditures and therefore are deferred in the fund:

CDBG	-	
Municipal Revenue Collection Center	<u>111,969</u>	
Total Deferred Revenues		111,969

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

Interest Payable	(79,768)	
General Bonds and Notes Payable	(7,306,000)	
Compensated Absences	(1,248,629)	
Municipal Revenue Collection Center	(1,899,362)	
Other	<u>(46,302)</u>	
Total Long-Term Liabilities		(10,580,061)

Total Net Assets of Governmental Activities \$ 15,720,292

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	HUD Fund	State Assignment Fund	Other Governmental Funds	Total Funds
REVENUES					
Property Tax	\$ 1,034,860	\$ -	\$ -	\$ 248,693	\$ 1,283,553
Volume of Business Tax	2,266,960	-	-	-	2,266,960
Federal Assistance	-	1,915,969	-	-	1,915,969
Intergovernmental Revenues	6,680,790	-	318,994	6,914,741	13,914,525
Sales Tax	279,659	-	-	235,939	515,598
Licenses and Permits	902,598	-	-	-	902,598
Rent	39,303	-	-	-	39,303
Interest	84,875	-	-	-	84,875
Miscellaneous	198,561	-	-	67,104	265,665
TOTAL REVENUES	11,487,606	1,915,969	318,994	7,466,477	21,189,046
EXPENDITURES					
Mayor and Municipal Legislature	2,291,372	-	-	-	2,291,372
General Administration	3,964,761	224,602	-	2,525,322	6,714,685
Public Safety	919,219	-	-	359,834	1,279,053
Public Works	1,629,931	-	297,197	2,559,669	4,486,797
Culture and Recreation	720,560	-	561,070	63,048	1,344,678
Health and Sanitation	399,859	-	-	18,487	418,346
Human Services and Welfare	422,656	407,520	5,556	1,626,022	2,461,754
Urban Development	-	1,244,950	-	-	1,244,950
Education	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service:	-	-	-	-	-
Principal	-	-	-	421,000	421,000
Interest and Other Charges	-	-	-	353,489	353,489
TOTAL EXPENDITURES	10,348,358	1,877,072	863,823	7,926,871	21,016,124
Excess (deficiency) of revenue over expenditures	1,139,248	38,897	(544,829)	(460,394)	172,922
OTHER FINANCIAL SOURCES (USES):					
Bonds Issued	-	-	-	1,715,000	1,715,000
Operating Transfer Out	(1,280,401)	-	-	-	(1,280,401)
Operating Transfer In	-	-	-	1,280,401	1,280,401
Net Other Financing Sources (Uses)	(1,280,401)	-	-	2,995,401.00	1,715,000
Net Change in the Fund Balance	(141,153)	38,897	(544,829)	2,535,007	1,887,922
FUND BALANCE - BEGINNING, AS RESTATED	162,225	50,272	1,933,121	1,558,911	3,704,529
FUND BALANCES AT END OF YEAR	\$ 21,072	\$ 89,169	\$ 1,388,292	\$ 4,093,918	\$ 5,592,451

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURE, AND CHANGE
 IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

JUNE 30, 2008

Net Change in Fund Balance - Total Governmental Funds **\$ 1,887,922**

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

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

Governmental Activities:	\$ 4,078,580	
Depreciation Expense	<u>(1,028,915)</u>	
Excess of Capital Outlay over Depreciation Expense		3,049,665

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	94,438
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Revenues in the Statement of Revenues that correspond to Prior Year resources are record as Revenue in the Statement of Activities	(736,965)
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Bonds proceeds provide current financial resources to governmental funds, but issuing debt Increases Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds Received was:	(1,715,000)
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Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were:	371,000
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Some expenses reported in the Statements of Activities do not require the use of current financial reurces and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decerase in Compensated Absences	59,124	
Increase in Crim Debt	(51,964)	
Decrease in Other Debt	<u>37,303</u>	
Total Additional Expenditures		44,463

Accrued interest expense is not reported as expenditures in governmental fund. Change in accrued interest.	8,594
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Change in Net Assets of Governmental Activities **\$ 3,004,117**

MUNICIPALITY OF VILLALBA, PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS

- NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (22-31)
- NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (32-33)
- NOTE 3. INTERFUND TRANSFER AND BALANCES (33-34)
- NOTE 4. DUE TO THE OTHER GOVERNMENTAL UNITS (34)
- NOTE 5. CAPITAL ASSETS (34-35)
- NOTE 6. GENERAL LONG-TERM DEBTS (36-39)
- NOTE 7. DEBT RETIREMENT (39)
- NOTE 8. PROPERTY TAXES (39-40)
- NOTE 9. VOLUME OF BUSINESS TAX (40)
- NOTE 10. INTERGOVERNMENTAL REVENUES (40-41)
- NOTE 11. EMPLOYEE'S RETIREMENT PLAN (41-43)
- NOTE 12. CONTINGENCIES (43)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Villalba, Puerto Rico (Municipality) was founded in the year 1917, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

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

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

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASBS No. 34 as well as other statements referred to below as of July 1, 2004. They require new information and restructure much of the information that governments have presented in the past.

Comparability with reports issued in prior years is affected. With the implementation of GASBS No. 34, the Municipality has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

As previously mentioned, other GASB Statements and Interpretations were required to be implemented in conjunction with GASBS No. 34. Therefore, the Municipality has implemented the following GASB Statements in the current fiscal year 2004-2005: GASBS No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, GASBS No. 38, *Certain Financial Statement Note Disclosures*, GASB No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2006, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity

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

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

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

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2006, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Employee’s vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2006, has been reported only in the government-wide financial statements.

C. Financial Statement Presentation

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

Government-wide Financial Statements

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

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

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

Invested in Capital Assets, Net of Related Debt – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Net Assets – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

Governmental Fund Financial Statements

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

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

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

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

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

Invested in Capital Assets, Net of Related Debt – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted Net Assets – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primary objectives of this assignment is to development of minor projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

HUD Fund – This is the fund used to account for all the transactions of the HUD Awards. The primary objectives of this program is the development of viable communities by providing decent housing, rent assistance, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

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

D. Budgetary Data

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

Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 8).
3. Interfund transactions of the General and Other Governmental Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

MUNICIPALITY OF VILLALBA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

E. Cash, Cash Equivalent and Investment

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

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

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

F. Receivable

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

G. Inventories

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

H. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

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

CAPITAL ASSETS	YEARS
Buildings	30
Improvement Other Than Buildings	30
Equipments	3-10
Vehicles	5
Recreation facilities	15-20
Infrastructure	10-50

I. Compensated Absences

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

The Municipality accrued a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences for \$1, 1248,629, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see Note 6 on page 36-39).

J. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

K. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation.

Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

The Municipality has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

L. Reservations of Fund Balance – Governmental Funds

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former. Reserves for debt service and other specific purposes are examples of the latter.

M. Claims and Judgments

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

N. Use of Estimates

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

NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2008.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2008, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2008, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2008, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2008. Therefore, the Municipality's management has concluded that at June 30, 2008 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2008.

At June 30, 2008 the total deposits are as follows:

	<u>MAJOR GOVERNMENTAL FUNDS</u>				<u>TOTAL GOVERNMENTAL FUNDS</u>
	<u>GENERAL FUND</u>	<u>HUD FUND</u>	<u>STATE ASSIGNMENT FUND</u>	<u>OTHER GOVERNMENTAL FUND</u>	
Unrestricted:					
Cash in commercial banks,					
Total unrestricted deposits	\$ 30,520	\$ 79,000	\$ 17,995	\$ 782,094	\$ 707,032
Restricted (Note 1):					
Cash in GDB, as fiscal agent	<u>551,295</u>	-	-	<u>2,167,578</u>	<u>2,718,873</u>
Total carrying amount of deposits	<u>\$ 581,815</u>	<u>\$ 79,000</u>	<u>\$ 17,995</u>	<u>\$ 2,949,672</u>	<u>\$ 3,425,905</u>

NOTE 3 INTERFUND TRANSFER AND BALANCES

A. Interfund Transfers

Transfers are indicative of funding for subsidies of various operations.

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Other Governmental Fund	359,832	Payment Debt
General Fund	Other Governmental Fund	<u>920,569</u>	Various Purpose
		<u>\$ 1,280,401</u>	

B. Interfund Receivable and Payable Balances

Interfund receivables and payables at June 30, 2008 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	HUD Fund	\$ 113,746
General Fund	State Assignment	270,388

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 3 INTERFUND TRANSFER AND BALANCES (CONTINUED)

General Fund	Other Funds	5,216,165
State Assignment	General Fund	1,476,946
Other Fund	General Fund	<u>3,371,327</u>
TOTAL		<u>\$10,448,572</u>

NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2008, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the Water Company of the \$174,964.

NOTE 5 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2008 was as follows:

Description	Balance July 1, 2008	Adjustments	Additions	Retirements	Balance June 30, 2008
Assets:					
Land	\$ 1,003,026	-	281,571	-	\$ 1,284,597
Construction in Progress	<u>1,552,614</u>	<u>-</u>	<u>325,720</u>	<u>-</u>	<u>1,878,334</u>
Capital Assets	<u>1,598,722</u>	<u>-</u>	<u>607,291</u>	<u>-</u>	<u>3,162,931</u>
Assets:					
Buildings	7,415,885	-	663,200	-	8,079,085
Infrastructure	3,995,001	-	974,684	-	4,969,685
Recreation Facilities	5,380,252	-	1,571,054	-	6,951,306
Machinery and Equipment	799,186	-	66,309	-	865,495
Motor Vehicles	<u>3,053,245</u>	<u>-</u>	<u>196,042</u>	<u>-</u>	<u>3,249,287</u>
Assets	<u>20,643,569</u>	<u>-</u>	<u>3,471,289</u>	<u>-</u>	<u>24,114,858</u>
Depreciation:					
Buildings	(1,348,210)	-	(269,078)	-	(1,617,288)
Infrastructure	(315,507)	-	(56,459)	-	(371,966)
Recreation Facilities	(2,086,936)	-	(267,237)	-	(2,354,173)
Machinery and Equipment	(353,319)	-	(108,159)	-	(461,478)
Motor Vehicles	<u>(1,548,969)</u>	<u>-</u>	<u>(327,982)</u>	<u>-</u>	<u>(1,876,951)</u>
Depreciation	<u>(5,652,941)</u>	<u>-</u>	<u>(1,028,915)</u>	<u>-</u>	<u>(6,681,856)</u>
Assets (Net)	<u>14,990,628</u>	<u>-</u>	<u>2,442,374</u>	<u>-</u>	<u>17,433,002</u>
CAPITAL ASSETS, NET	<u>\$ 17,546,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 20,595,933</u>

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

	AMOUNT
General Government	186,670
Public Safety	51,147

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (CONTINUED)

Public Works.....	327,894
Urban Development	56,459
Culture and Recreation.....	390,511
Human Services and Welfare.....	<u>16,235</u>
Total Depreciation Expenses.....	<u>\$ 1,028,915</u>

NOTE 6 GENERAL LONG-TERM DEBTS

A. General Obligations Bonds and Special Notes Payable

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (see Note 7). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send to the Municipality.

General obligations bonds and notes payable as of June 30, 2008, are comprised of the following individual issues

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$435,000, Series 1991, for construction purposes, payable in annual installments ranging from \$10,000 to \$31,000, excluding interests at 5.0%, through January 1, 2016	\$ 205,000
\$295,000, Series 2001, for construction purposes, payable in annual installments ranging from \$5,000 to \$30,000, excluding interests from 2.89% to 5.6%, through July 1, 2025.....	255,000
\$1,320,000, Series 2001, for construction purposes, payable in annual installments ranging from \$34,000 to \$94,000, excluding interests at 4.75%, through January 1, 2026	1,171,000
\$100,000, Series 2001, for construction purposes, payable in annual installments \$5,000, excluding interests at 6.50%, through January 1, 2026	85,000
\$85,000, Series 2006, for construction purposes, payable in annual installments ranging from \$5,000 to \$10,000, excluding interests at 6.75%, through January 1, 2020	75,000
\$245,000, Series 2006, for construction purposes, payable in annual installments ranging from \$5,000 to \$20,000, excluding interests at 7.5%, through January 1, 2031	240,000
\$165,000, Series 2008, for construction purposes, payable in annual installments ranging from \$5,000 to \$15,000, excluding interests at 7.5%, through January 1, 2031	160,000
\$2,110,000, Series 2007, for claim and judgment debt purposes, payable in annual installments ranging from \$30,000 to \$175,000, excluding interests at 7.5%, through January 1, 2032 .	2,080,000
\$505,000, Series 2006, for construction purposes, payable in annual installments	

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBTS (CONTINUED)

ranging from \$10,000 to \$40,000, excluding interests at 5.0%, through July 1, 2029	465,000
\$165,000, Series 2007, for construction purposes, payable in annual installments ranging from \$5,000 to \$15,000, excluding interests at 7.50 %, through July 1, 2032	<u>165,000</u>
Total Bond Payable	4,901,000

DESCRIPTION	AMOUNT
Notes Payable:	
\$105,000, Series 2006, for construction purposes, payable in annual installments ranging from \$10,000 to \$20,000, excluding interests from 4.23% to 4.73%, through July 1, 2012	\$ 65,000
\$175,000 Series 2006, for construction purposes, payable in annual installments ranging from \$20,000 to \$30,000, excluding interests from 6.62% to 7.5%, through July 1, 20013	155,000
\$105,000 Series 2006, for construction purposes, payable in annual installments ranging from \$5,000 to \$10,000, excluding interests from 6.60% to 7%, through July 1, 2021	100,000
\$230,000 Series 2003, for construction purposes, payable in annual installments ranging from \$25,000 to \$40,000, excluding interests from 5. % to 6.5%, through July 1, 2009	40,000
\$470,000, Series 2006, for purchase of equipment, payable in annual installments ranging from \$55,000 to \$80,000, excluding interests from 5.0% to 6.0%, through July 1, 2011	225,000
\$555,000, Series 2006, for purchase of equipment, payable in annual installments ranging from \$60,000 to \$95,000, excluding interests from 5.0% to 6.0%, through July 1, 2011	<u>270,000</u>
Total Notes Payable.....	<u>855,000</u>
Total General Obligations Bonds and Notes	<u>\$ 5,756,000</u>

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2008 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2009	384,000	357,170	741,170
2010	457,000	345,059	802,059
2011	286,000	318,166	604,166
2012	214,000	290,658	504,658
2013	202,000	283,618	485,618
2014-2018	1,013,000	1,294,828	2,307,828

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBTS (CONTINUED)

2019-2023	1,162,000	908,108	2,070,108
2024-2028	1,198,000	581,174	1,779,174
2029-2033	<u>840,000</u>	<u>252,791</u>	<u>1,092,791</u>
TOTAL	<u>\$ 5,756,000</u>	<u>\$ 4,631,570</u>	<u>\$10,387,570</u>

B. Convertible Line of Credit

Non revolving line of credit of \$1,550,000 for the construction of bowling alley, to be converted in a revenue bond at due date. Interest of 7% will be payable on January 1 and July 1 yearly after finishing construction of the bowling facility.

C. Notes Payable to CRIM

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

In addition, on July 1, 2002, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining \$1,982,632 of excess of property tax advances through prior fiscal year. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB. The outstanding principal balances of the note payable to CRIM amounted \$1,831,469, at June 30, 2008. The principal and interest maturities are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2009	16,442	56,661	146,166
2010	16,930	345,059	146,166
2011	17,454	318,166	146,166
2012	17,994	290,658	146,166
2013	18,550	283,618	146,166
2014-2018	256,422	472,408	730,830
2019-2023	347,763	383,067	730,830
2024-2028	471,638	259,192	730,830
2029-2033	<u>566,482</u>	<u>91,265</u>	<u>657,747</u>
TOTAL	<u>\$ 1,831,469</u>	<u>\$ 1,749,598</u>	<u>\$3,581,067</u>

Financing of delinquent property tax accounts sold – On July 1, 2007, the Municipality entered into a financing agreement with CRIM in the amount of \$70,722 for the payment of delinquent property tax

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBTS (CONTINUED)

account sold to private investors. The financing agreement in the form of a line of credit bearing interests at 6.22% during the first 5 years, and variable interests 125 points over LIBOR rate during the next 25 years. At June 30, 2008, the outstanding principal balances amounted to \$67,893.

The principal and interest maturities are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2009	2,829	4,222	7,051
2010	2,829	4,046	6,875
2011	2,829	3,870	6,699
2012	2,829	3,694	6,523
2013	2,829	3,518	6,347
2014-2018	14,145	14,950	29,095
2019-2023	14,145	10,550	24,695
2024-2028	14,145	6,150	20,295
2029-2033	<u>11,313</u>	<u>7,752</u>	<u>13,065</u>
TOTAL	<u>\$ 67,893</u>	<u>\$ 52,752</u>	<u>\$ 120,645</u>

LIMS – On June 28, 2001, the Municipality entered into a financing agreement with CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by CRIM on behalf of all municipalities, for the management of a digital database of taxpayers properties located in Puerto Rico. The face amount of the loan was \$181,113 and bears no interest. The note is payable in semi annual installments of \$7,425 through December 1, 2011. This note has an imputed interest rate of 5.95%. At June 30, 2008, the balance of this note amounted to \$94,677. The principal and interest maturities are as follows.

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2009	12,274	2,576	14,850
2010	13,016	1,834	14,850
2011	13,802	1,048	14,850
2012	<u>7,210</u>	<u>215</u>	<u>7,425</u>
TOTAL	<u>\$ 46,302</u>	<u>\$ 5,673</u>	<u>\$ 51,975</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBTS (CONTINUED)

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2008:

DESCRIPTION	BALANCE JULY 1, 2007	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2008	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
Bonds and Notes	\$ 5,962,000	\$ 165,000	\$ 371,000	\$ 5,756,000	\$ 394,000	\$ 5,362,000
Convertible line of Credit	-	1,550,000	-	1,550,000	-	1,550,000
Property Taxes – MRCC	1,847,398	-	15,929	1,831,469	16,422	1,815,047
MRCC- LIMS.....	57,878	-	11,576	46,302	12,274	34,028
Property Taxes – MRCC	-	70,722	2,829	67,893	2,829	65,064
Water Company	25,727	-	25,727	-	-	-
Compensated Absences	<u>1,307,753</u>	<u>566,734</u>	<u>625,858</u>	<u>1,248,629</u>	<u>654,115</u>	<u>594,514</u>
TOTAL.....	<u>\$ 9,200,756</u>	<u>\$ 2,352,456</u>	<u>\$ 1,052,919</u>	<u>\$ 10,500,293</u>	<u>\$ 1,026,640</u>	<u>\$ 9,473,653</u>

NOTE 7 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 8).

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

NOTE 8 PROPERTY TAXES

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

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

The tax rate per annum is 8.58% for real property and 6.58% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively, belongs to the Municipality.

From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the Municipality of 1.75% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 7). The

MUNICIPALITY OF VILLALBA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 8 PROPERTY TAXES (CONTUNUED)

Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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

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

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

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

NOTE 9 VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year.

The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.50% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

NOTE 10 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

NOTE 10 INTERGOVERNMENTAL REVENUES (CONTINUED)

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

NOTE 11 EMPLOYEE'S RETIREMENT PLAN

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico,

Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

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

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$6,600 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives.

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990. The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

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

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

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

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

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

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

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2008 was approximately \$ 320,617. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2008. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42004, Minillas Station, San Juan, P.R. 00940.

NOTE 12 CONTINGENCIES

A. Claims and Judgments

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding.

However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

B. Federal Grants

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION:

- Budgetary Comparison Schedule-General Fund
- Notes to Required Supplementary Information

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amount	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
			(See Note A)	Positive
				(Negative)
Resources (Inflows)				
Property Taxes	1,023,235	1,023,235	1,034,860	11,625
Volume of Buseness Taxes	2,222,389	2,222,389	2,271,698	49,309
Sales Tax	477,000	477,000	290,403	(186,597)
Intergovernmental Revenues	6,258,492	6,258,492	6,121,911	(136,581)
License and Permits	1,008,200	1,008,200	902,598	(105,602)
Rent	28,000	28,000	39,303	11,303
Miscellaneous	223,048	223,048	198,561	(24,487)
Interest	23,000	23,000	84,875	61,875
Prior Year Allocation	-	-	-	-
Total Resources (Inflows)	11,263,364	11,263,364	10,944,209	(330,780)
Charges to Appropriations (Outflows)				
Mayor and Municipal Legislature	1,952,802	2,455,686	2,448,281	7,405
General Government	4,966,862	4,606,186	4,203,084	403,102
Public Safety	1,057,155	922,704	922,697	7
Public Work	1,338,321	1,310,197	1,295,418	14,779
Culture and Recreation	727,734	772,439	732,120	40,319
Health and Sanitation	423,352	403,612	403,225	387
Human Services and Welfare	457,580	432,708	430,734	1,974
Urban Development	-	-	-	-
Transfer to Other Funds	339,558	359,832	359,832	-
Total Charges to Appropriations	11,263,364	\$ 11,263,364	\$ 10,795,391	467,973
Excess (deficiency) of revenues over(under) expenditures, encumbrances and other financing sources(use)				
	\$	- \$	- \$	148,818