

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VILLALBA**

**BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2009**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VILLALBA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2009

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

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

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

INDEPENDENT AUDITOR'S REPORT

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, as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

The Municipality does not maintain adequate records for capital assets, accumulated depreciation and the related depreciation expense and we were unable to satisfy ourselves about such balances through alternate procedures. Therefore, we were not able to obtain sufficient evidence to satisfy ourselves on the amounts reported as capital assets and accumulated depreciation stated at \$27,472,091 and \$7,819,716, respectively as of June 30, 2009, and the amount of depreciation expense stated at \$1,137,860 for the year then ended.

The Municipality does not maintain complete and accurate records of all interfund transactions in the due from and due to accounts balance for the fiscal year 2008-2009. Therefore, we do not express an opinion on such amount presented on the financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to satisfy ourselves on the amounts reported as capital assets and related accumulated depreciation, the interfund transactions in the due from and due to accounts balance, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Municipality of Villalba as of June 30, 2009 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of each major fund of the Municipality of Villalba as of June 30, 2009 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2010, 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 agreements and other matters. 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 management's discussion and analysis and budgetary comparison schedule presented on pages 3 through 10 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. 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.

The management's discussion and analysis and budgetary comparison schedule presented on pages 3 through 10 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. 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.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Municipality. Such information has been subjected to the auditing procedures applied in the audit of the 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* CPAs  
MENDOZA & RAMOS  
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico  
March 30, 2010

Stamp number 2395384 was  
affixed to the original of this  
report



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009

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The management of the Autonomous Municipality of Villaalba 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, 2009.

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, 2009.

**FINANCIAL HIGHLIGHTS**

- The Municipality's Net Assets for the fiscal year ended on June 30, 2009 were **\$9,075,739** in comparison with fiscal year 2008 which were **\$15,069,393** a **\$5,993,654** decrease.
- The Municipality's Fund Financial Statements show that Governmental Activities Revenues were **\$11,998,419** for the fiscal year ended on June 30, 2008. In comparison with current fiscal year that was **\$11,409,766** a **\$588,653** Governmental Activities Revenues increased.
- The General fund showed a Deficiency of Revenues over Expenditures of **(\$1,139,248)** during the course of 2008 fiscal year. In comparison with fiscal year 2009, that showed a deficiency of Revenue over Expenditures of **\$738,409**.
- The Governmental Activities Expenditures for the fiscal year 2008 were **\$17,542,401** in comparison with this fiscal year ended on June 30, 2009, which balance was **\$25,068,249** a **\$7,525,848** increase over last fiscal year.
- The General Fund total expenditures for the current fiscal year showed an increase of **\$1,369,400** 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 **\$(1,947,758)**.
- 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 consist 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, 2009.

### **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*.

### **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.

**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*.

**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 \$9,075,739. The following table provides a summary of the Municipality's *Net Assets*:

MUNICIPALITY OF VILLALBA  
*SUMMARY OF NET ASSETS*  
JUNE 30, 2008 and 2009

**Governmental Activities**

	2008	2009
<b>Assets:</b>		
Current Assets and Other Assets	\$ 7,495,349	\$ 7,616,748
Capital Assets	<u>20,595,933</u>	<u>19,652,375</u>
Total Assets	<b>\$ 28,091,282</b>	<b>\$27,269,123</b>

**Liabilities:**

Current liabilities	\$ 2,521,596	\$ 4,266,084
Non current liabilities	1,026,640	1,223,856
Long- Term liabilities	<u>9,473,653</u>	<u>12,703,444</u>
Total liabilities	<b>\$13,021,889</b>	<b>\$18,193,384</b>

**Net Assets:**

Invested in Capital Assets, Net of Debt	\$13,786,733	\$9,969,668
Restricted	6,046,972	7,716,129
Unrestricted	<u>(4,764,312)</u>	<u>(8,610,058)</u>
Total of Net Assets	<b><u>\$ 15,069,393</u></b>	<b><u>\$ 9,075,739</u></b>

Our analysis on the *SUMMARY OF NET ASSETS* reflects that the largest portion of the Municipality's *Net Assets* for 2009 consisted of Capital Assets, 72% of the Governmental Activities' Total Assets, and for 2008 it was approximately, 73%. 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: ***\$7,616,749 / \$4,266,085***

The Current Ratio for the Municipality is 1.79 percent for the fiscal year 2009, 1.18 percent more than fiscal year 2008, 2.97 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, 2008 and 2009

**Governmental Activities**

	2008	2009
<b>Revenues:</b>		
<b>Program Revenues</b>		
Property Taxes	\$1,377,991	\$1,250,896
Volume of Business Tax	2,266,960	1,521,452
Sales Tax	515,598	909,145

Federal Financial Assistance	1,915,969	2,729,313
Other local taxes	902,598	656,583
Intergovernmental Revenues	12,662,021	11,849,323
Rent of Property	39,303	51,225
Interest	84,875	16,115
Miscellaneous	<u>169,607</u>	<u>90,546</u>
Total Revenues	<b>\$ 19,895,619</b>	<b>\$ 19,074,598</b>

**Expenses:**

**Program Expenses:**

Mayor and Municipal Legislature	\$ 2,291,372	\$ 2,512,782
General Administration	5,997,650	7,217,280
Public Safety	1,330,200	1,331,798
Public Works	3,243,636	7,660,873
Culture and Recreation	760,505	1,457,684
Health and Sanitation	352,037	417,725
Human Services and Welfare	2,477,989	2,557,083
Urban Development	694,118	1,470,580
Interest ( <i>Debt Service</i> )	<u>394,894</u>	<u>442,445</u>
Total Expenses	<b>\$ 17,542,401</b>	<b>\$ 25,068,250</b>
Change in Net Assets	<u>(2,353,218)</u>	<u>(5,993,652)</u>
Ending Net Assets	<b><u>\$ 15,069,393</u></b>	<b><u>\$ 9,075,739</u></b>

Our analysis of the *SUMMARY OF CHANGES IN NET ASSETS* reflects that the largest portion of the Municipality's Total Revenues for 2009 consisted of Intergovernmental Revenues, 62% and for fiscal year 2008, was 64% approximately. The Governmental Activities' Expenditures, increase from \$17,542,401 to \$25,068,250 for fiscal year 2009. The major expenditure category for both fiscal years was General Administration, which compromises 34% and 28% for 2008 and 2009, respectively. Public Work program showed a increase of \$4,417,237 for 2009.

**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 \$3,193,664 a \$2,398,787 decrease. There are reservations of Fund Balance up to \$6,092,078 an decrease of \$559,2501 over last fiscal year. This reserved Fund Balance is committed to cover balances shown as follows:

- \$112,967 is reserved to cover purchase orders of prior fiscal years.
- \$433,741 is to pay Debt Service.
- \$5,545,370 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, 2009, it showed a Fund Balance deficit of \$1,947,758.

### **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.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Municipality's *investment in Capital Assets* as of June 30, 2009 is \$27,472,091, net of Accumulated Depreciation of \$7,819,716, leaving a Net Book Value of \$19,652,375. 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, 2009 was \$3,049,665 in terms of Net Book Value in comparison with fiscal year 2008. Depreciation charges also decrease for the fiscal year by \$54,843 in comparison with fiscal 2008.

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>2008</u>	<u>2009</u>
<b>Capital Assets:</b>		
Land	\$ 1,284,597	\$1,284,597
Construction in progress	1,878,334	1,878,334
Buildings	8,079,085	8,079,085
Infrastructure	4,969,685	4,969,685
Recreation Facilities	6,951,306	6,951,306
Machinery and Equipment	865,495	1,059,797
Motor Vehicles	<u>3,249,287</u>	<u>3,249,287</u>

Total Capital Assets \$ 24,114,858 \$ 24,309,160

**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>2008</u>	<u>2009</u>
General Obligations Bonds	\$ 4,901,000	\$ 4,901,000
Special Notes Payable	855,000	3,931,000
Convertible line of Credit	1,550,000	1,550,000
Property Taxes (CRIM, PRTD)	1,945,664	1,879,755
Compensated Absences	<u>1,248,629</u>	<u>1,344,545</u>
Total Long-Term and Other Debts	<u>\$10,500,293</u>	<u>\$13,927,300</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.

It is important to stress that this deficit is due to the unexpected situations that were budgeted and not received due to cancellation of projects and patent income reduction from the Central Government of Puerto Rico. The Commonwealth of Puerto Rico, itself has taken measures to try to help the degenerated economic situation, including but not limited to the termination of employment of more than 16,000 public employees, measure taken pursuant Law Num. 7 of March 9, 2009, "Special Law for the Declaration of a Fiscal Emergency and Establishment of an Integrated Plan for Fiscal Stabilization to Save the Credit of Puerto Rico" – Act No. 7 of March 9, 2009. This has created a domino effect in all municipalities' fiscal situations.

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.

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

**STATEMENT OF NET ASSETS**

JUNE 30, 2009

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Cash (Note 2)	\$ 675,090
Cash with Fiscal Agent (Note 2)	3,729,857
Accounts Receivable, net:	
Property Taxes	104,661
Federal Grants	349,990
Intergovernmental (Note 3)	2,369,529
Other	<u>387,621</u>
Capital Assets (Note 6):	
Land and Construction in Progress	3,162,931
Other Capital Assets, net	<u>16,489,444</u>
Total Capital Assets	<u>19,652,375</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>27,269,123</u></b>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expense	2,603,529
Accrued Interest	84,332
Deferred Revenues	1,578,223
Long-Term Liabilities (Note 7):	
Due within One Year	1,223,856
Due in More than One Year	<u>12,703,444</u>
<b>Total Liabilities</b>	<b><u>18,193,384</u></b>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	9,969,668
Restricted for:	
Community Development Projects	85,473
Special Funds	3,270,738
State Assignment Fund	1,351,470
Construction Activities	2,574,707
Debt Service	433,741
Unrestricted (Deficit)	<u>(8,610,058)</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>9,075,739</u></b>

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

**STATEMENT OF ACTIVITIES**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Program Revenue</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature	\$ 2,512,782	\$ -	\$ -	\$ -	\$ (2,512,782)
General Administration	7,217,280	51,225	558,776	-	(6,607,279)
Public Safety	1,331,798	-	209,305	-	(1,122,493)
Public Works	7,660,873	-	1,024,474	1,383,738	(5,252,661)
Culture and Recreation	1,457,684	-	227,959	-	(1,229,725)
Health and Sanitation	417,725	-	-	-	(417,725)
Human Services and Welfare	2,557,083	-	2,913,838	-	356,755
Urban Development	1,470,580	-	1,295,514	-	(175,066)
Interest on Long-Term Debt	442,445	-	-	-	(442,445)
<b>Total Governmental Activities</b>	<b>\$ 25,068,250</b>	<b>\$ 51,225</b>	<b>\$ 6,229,866</b>	<b>\$ 1,383,738</b>	<b>\$ (17,403,421)</b>

General revenues:

Taxes:

Property tax, levied for General Purposes	980,526
Property tax, levied for Debt Service	270,370
Volume of Business Tax	1,521,452
Sales Tax	909,145
Other local taxes	656,583
Intergovernmental Revenues	6,965,032
Interest	16,115
Miscellaneous	90,546
<b>Total General Revenues and Special Items</b>	<b>11,409,769</b>
<b>Change in the Net Assets</b>	<b>(5,993,652)</b>
Net Assets - Beginning of Year, As Restated	15,069,391
<b>Net Assets - Ending of Year</b>	<b>\$ 9,075,739</b>

See accompanying Notes to Basic Financial Statements.

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

**BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2009

	General Fund	HUD Fund	State Assignment Fund	Other Governmental Funds	Total Funds
<b>ASSETS:</b>					
Cash	\$ 82,283	\$ 73,533	\$ 14,048	\$ 505,226	\$ 675,090
Cash with Fiscal Agent (Note 2)	526,902	-	-	3,202,955	3,729,857
Accounts receivable:					
Property Tax	-	-	-	104,661	104,661
Proceed of Bond	-	-	-	-	-
Federal Grant	-	349,990	-	-	349,990
Intergovernmental (Note 3)	-	-	111,524	2,258,005	2,369,529
Due from Other Funds (Note 4)	3,303,682	-	1,226,169	1,767,098	6,296,949
Others	375,402	12,219	-	-	387,621
<b>TOTAL ASSETS</b>	<b>\$ 4,288,269</b>	<b>\$ 435,742</b>	<b>\$ 1,351,741</b>	<b>\$ 7,837,945</b>	<b>\$ 13,913,697</b>
<b>LIABILITIES AND FUND BALANCE:</b>					
<b>Liabilities:</b>					
Accounts Payable and Accrued Expense Liabilities	1,114,504	300,587	271	501,273	1,916,635
Due to Governmental Units (Note 5)	686,893	-	-	-	686,893
Due to Other Funds	2,993,267	49,682	-	3,254,000	6,296,949
Deferred Revenues:	-	-	-	-	-
Volume of Business Tax	1,441,363	-	-	-	1,441,363
Federal Grants	-	-	-	136,860	136,860
Mature bonds due and payable	-	-	-	157,000	157,000
Interest Payable	-	-	-	84,332	84,332
<b>Total Liabilities</b>	<b>6,236,027</b>	<b>350,269</b>	<b>271</b>	<b>4,133,466</b>	<b>10,720,033</b>
<b>Fund Balances:</b>					
Reserve For:					
Encumbrances	112,967	-	-	-	112,967
Debt Service	-	-	-	433,741	433,741
Other Purposes	837,689	85,473	1,351,470	3,270,738	5,545,370
Unreserved (Deficit)	(2,898,414)	-	-	-	(2,898,414)
<b>Total Fund Balances</b>	<b>(1,947,758)</b>	<b>85,473</b>	<b>1,351,470</b>	<b>3,704,479</b>	<b>3,193,664</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,288,269</b>	<b>\$ 435,742</b>	<b>\$ 1,351,741</b>	<b>\$ 7,837,945</b>	<b>\$ 13,913,697</b>

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

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

JUNE 30, 2009

**Total Fund Balances- Governmental Funds** \$ 3,193,664

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	19,339,475	
Infrastructure Assets	<u>4,969,685</u>	
Accumulated Depreciation	<u>(7,819,716)</u>	
Total Capital Assets		19,652,375

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	-	
General Bonds and Notes Payable	(10,546,000)	
Compensated Absences	(1,344,545)	
Municipal Revenue Collection Center	(1,845,727)	
Other	<u>(34,028)</u>	
Total Long-Term Liabilities		(13,770,300)

**Total Net Assets of Governmental Activities** \$ 9,075,739

**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, 2009

	General Fund	HUD Fund	State Assignment Fund	Other Governmental Funds	Total Funds
<b>REVENUES</b>					
Property Tax	\$ 1,092,495	\$ -	\$ -	\$ 270,370	\$ 1,362,865
Volume of Business Tax	1,521,452	-	-	-	1,521,452
Federal Assistance	-	1,805,358	-	593,836	2,399,194
Intergovernmental Revenues	6,965,032	-	316,332	4,846,198	12,127,562
Sales Tax	585,901	-	-	323,244	909,145
Licenses and Permits	656,583	-	-	-	656,583
Rent	51,225	-	-	-	51,225
Interest	16,115	-	-	-	16,115
Miscellaneous	90,546	-	-	51,880	142,426
<b>TOTAL REVENUES</b>	<b>10,979,349</b>	<b>1,805,358</b>	<b>316,332</b>	<b>6,085,528</b>	<b>19,186,567</b>
<b>EXPENDITURES</b>					
Mayor and Municipal Legislature	2,512,782	-	-	-	2,512,782
General Administration	4,791,435	-	3,000	2,403,290	7,197,725
Public Safety	993,123	-	-	288,595	1,281,718
Public Works	1,780,641	-	-	5,570,165	7,350,806
Culture and Recreation	763,294	-	-	298,993	1,062,287
Health and Sanitation	417,725	-	-	-	417,725
Human Services and Welfare	458,758	513,540	350,154	1,217,998	2,540,450
Urban Development	-	1,295,514	-	-	1,295,514
Education	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service:	-	-	-	-	-
Principal	-	-	-	551,000	551,000
Interest and Other Charges	-	-	-	442,445	442,445
<b>TOTAL EXPENDITURES</b>	<b>11,717,758</b>	<b>1,809,054</b>	<b>353,154</b>	<b>10,772,486</b>	<b>24,652,452</b>
Excess (deficiency) of revenue over expenditures	(738,409)	(3,696)	(36,822)	(4,686,958)	(5,465,885)
<b>OTHER FINANCIAL SOURCES (USES):</b>					
Bonds Issued	-	-	-	3,718,000	3,718,000
Operating Transfer Out	(1,230,421)	-	-	-	(1,230,421)
Operating Transfer In	-	-	-	1,230,421	1,230,421
Net Other Financing Sources (Uses)	(1,230,421)	-	-	4,948,421	3,718,000
Net Change in the Fund Balance	(1,968,830)	(3,696)	(36,822)	261,463	(1,747,885)
FUND BALANCE - BEGINNING, AS RESTATED	21,072	89,169	1,388,292	3,443,017	4,941,550
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ (1,947,758)</b>	<b>\$ 85,473</b>	<b>\$ 1,351,470</b>	<b>\$ 3,704,479</b>	<b>\$ 3,193,664</b>

**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, 2009

**Net Change in Fund Balance - Total Governmental Funds** **\$ (1,747,885)**

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:		
Capital Outlay	\$ 194,302	
Depreciation Expense	<u>(1,137,860)</u>	
Excess of Capital Outlay over Depreciation Expense		(943,558)

Revenues in the Statement of Revenues that correspond to Prior Year resources are record as Revenue in the Statement of Activities (105,202)

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: (3,718,000)

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: 551,000

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

Increase in Compensated Absences	(95,916)	
Decrease in Crim Debt	50,806	
Decrease in Other Debt	<u>15,103</u>	
Total Additional Expenditures		(30,007)

Accrued interest expense is not reported as expenditures in governmental fund. Change in accrued interest. -

**Change in Net Assets of Governmental Activities** **\$ (5,993,652)**

NOTE 1: ORGANIZATION AND 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 Municipality's governmental system consists of an executive and legislative body. 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.

The Municipality provides a full range of services for its citizens such as: public safety, public works, culture and recreation, health and sanitation, human services and welfare, housing and urban development, aids and services to low-income and elderly citizens, 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 (GAAP) as applicable to governmental units. The following is a summary of the more significant of such policies.

A. Financial Statement Presentation

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.

The Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

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.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the Statement of Net Assets is designed to be similar to bottom line results for the Municipality and its governmental activities. This Statement 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 entity's 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.

**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.

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

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

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes and construction excise taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues.

Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

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

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

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

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

The Municipality classifies the most significant portion of its activities as governmental activities in the accompanying Government-Wide Financial Statements. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the Fund Financial Statements.

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

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Governmental Fund Financial Statements

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 model defined in GASBS No. 34 established a 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.

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 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.

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.

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 assignments is to development of minor projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

Other Governmental Funds – is the accounting entity in which revenues derived from local funds, state grants, federal grants or other restricted revenue source, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or state and federal statutes.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Measurement focus and basis of accounting

Except for budgetary purposes, 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.

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

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

There are essentially two types of revenue. For 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

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

vacation and sick leave unpaid at June 30, 2009, has been reported only in the government-wide financial statements.

C. Budgetary Data

As part of this report required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB was presented.

D. Cash

Municipality's cash balance consists of cash on hand and demand deposits.

Cash in the State Assignment Fund, HUD Fund, and Other Governmental 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 undischursed 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. From the total cash with fiscal agent recognized in the Other Governmental Fund \$570,412 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.

E. Receivables

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

F. 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 statement of net assets.

G. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Donated capital assets are recorded at estimated fair market value at the date of donation. Other costs incurred for repairs and maintenance is expensed as incurred.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

<u>Capital Assets</u>	<u>Years</u>
Buildings	30
Improvement Other Than Buildings	30
Equipments	3-10
Vehicles	5
Recreation facilities	15-20
Infrastructure	10-50

Review of Carrying Value of Capital Assets for Impairment - The Municipality reviews the carrying value of capital assets for impairment whenever a significant and unexpected decline in service utility of a capital assets occurs.

H. Long-term obligations

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

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

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.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences for \$1,344,545, 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.

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.

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. 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.

M. 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.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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.

O. Risk financing

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2009 amounted to approximately \$103,133. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$424,030 for workers compensation insurance covering all municipal employees.

P. Future Adoption of Accounting Pronouncements

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

- GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets (GASB No. 51). This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009.
- GASB Statement No. 52, Land and Other Real Estates Held as Investment by Endowments (GASB No. 52). This Statement requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the method and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported as fair value. This Statement is effective for periods beginning after June 30, 2009.

MUNICIPALITY OF VILLALBA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009

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NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB No. 53). This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. This Statement is effective for periods beginning after June 15, 2009.
- GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB No. 54). This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement is effective for periods beginning after June 15, 2010.

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

NOTE 2: CASH

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.

Of these risks there is only one applicable to the Municipality as follows:

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

The Municipality's cash balances in commercial banks of approximately \$82,283 in the general fund, \$73,533 in the HUD fund, and \$14,048 in the State Assignment Fund were fully collateralized at June 30, 2009. In the other governmental funds there were deposits with commercial banks of approximately \$505,226 that were fully collateralized.

The deposits at GDB of approximately \$526,902, that is restricted for other purposes in the general fund, and the \$3,202,955 in the other governmental are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

MUNICIPALITY OF VILLALBA, PUERTO RICO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2009

NOTE 3: RECEIVABLES

Intergovernmental - Intergovernmental receivable of \$111,524 and \$2,258,005 in the State Assignment Fund and Other Governmental Funds, respectively, represent amounts due to the Municipality from agencies of the Commonwealth of Puerto Rico.

NOTE 4: INTERFUND TRANSACTIONS

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	\$ 343,604	Payment Debt
General Fund	Other Governmental Fund	<u>886,817</u>	Various Purpose
		<u>\$ 1,230,421</u>	

B. Interfund Receivable and Payable Balances

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

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	HUD Fund	\$ 49,682
General Fund	Other Funds	3,254,000
State Assignment	General Fund	1,226,169
Other Fund	General Fund	<u>1,767,098</u>
TOTAL		<u>\$ 6,296,949</u>

NOTE 5: DUE TO GOVERNMENTAL UNITS

As of June 30,2009, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

	<u>AMOUNT</u>
Water & Sewer Company.....	\$215,986
State Retirement System.....	176,610
Labor Department.....	116,985
General Services Administration.....	<u>177,312</u>
Total Due to Governmental Units .....	<u>\$686,893</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2009

NOTE 6: CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2009 was as follows:

Description	Balance July 1, 2008	Adjustments	Additions	Retirements	Balance June 30, 2009
Capital Assets, not being depreciated:					
Land	\$ 1,284,597	-	-	-	\$ 1,284,597
Construction in Progress	<u>1,878,334</u>	-	-	-	<u>1,878,334</u>
Total Capital Assets, not being depreciated	<u>3,162,931</u>	-	-	-	<u>3,162,931</u>
Capital Assets, being depreciated:					
Buildings	8,079,085	-	-	-	8,079,085
Infrastructure	4,969,685	-	-	-	4,969,685
Recreation Facilities	6,951,306	-	-	-	6,951,306
Machinery and Equipment	865,495	-	194,302	-	1,059,797
Motor Vehicles	<u>3,249,287</u>	-	-	-	<u>3,249,287</u>
Total Capital Assets, being depreciated	<u>24,114,858</u>	-	<u>194,302</u>	-	<u>24,309,160</u>
Less Accumulated Depreciation:					
Buildings	(1,617,288)	-	(270,368)	-	(1,887,656)
Infrastructure	(371,966)	-	(175,066)	-	(547,032)
Recreation Facilities	(2,354,173)	-	(268,861)	-	(2,623,034)
Machinery and Equipment	(461,478)	-	(119,367)	-	(580,845)
Motor Vehicles	<u>(1,876,951)</u>	-	<u>(304,198)</u>	-	<u>(2,181,149)</u>
Total Accumulated Depreciation	<u>(6,681,856)</u>	-	<u>(1,137,860)</u>	-	<u>(7,819,716)</u>
Capital Assets, net	<u>17,433,002</u>	-	<u>(943,558)</u>	-	<u>16,489,444</u>
Governmental activities					
CAPITAL ASSETS, NET	<u>\$ 20,595,933</u>	-	-	-	<u>\$ 19,652,375</u>

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

	AMOUNT
General Government.....	\$ 190,617
Public Safety .....	50,080
Public Works.....	310,068
Urban Development .....	175,066
Culture and Recreation.....	395,398
Human Services and Welfare.....	<u>16,631</u>
Total Depreciation Expenses.....	<u>\$1,137,860</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2009

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NOTE 7: 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. 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, 2009, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
<b><u>General Obligations Bonds:</u></b>	
\$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 .....	\$ 184,000
\$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 .....	1,128,000
\$100,000, Series 2001, for construction purposes, payable in annual installments \$5,000, excluding interests at 6.50%, through July 1, 2025 .....	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 .....	70,000
\$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 .....	235,000
\$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 .	2,045,000
\$505,000, Series 2006, for construction purposes, payable in annual installments ranging from \$10,000 to \$40,000, excluding interests at 5.0%, through July 1, 2029 .....	465,000

MUNICIPALITY OF VILLALBA, PUERTO RICO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2009

NOTE 7: GENERAL LONG-TERM DEBTS (Continued)

\$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 .....	155,000
\$440,000, Series 2006 Rent, for construction purposes, payable in semiannual installments ranging from \$7,000 to \$37,000, excluding interests at 7.5%, through July 1, 2033 .....	<u>440,000</u>
Total Bond Payable	<u>\$ 4,901,000</u>

**Notes Payable:**

\$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
\$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 .....	135,000
\$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 .....	95,000
\$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 ....	155,000
\$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 ....	185,000
\$1,486,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$22,000 to \$131,000, excluding interests at 7.5%, through July 1, 2033 .....	1,464,000
\$645,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$10,000 to \$55,000, excluding interests at 7.5%, through July 1, 2033 .....	645,000
\$605,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$5,000 to \$50,000, excluding interests at 7.5%, through July 1, 2033 .....	605,000
\$440,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$5,000 to \$40,000, excluding interests at 7.5%, through July 1, 2033 .....	440,000
\$35,000, Series 2008, for construction purposes, payable in semiannual installments ranging from \$5,000 to \$15,000, excluding interests at 7.5%, through July 1, 2013 .....	35,000

MUNICIPALITY OF VILLALBA, PUERTO RICO  
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 YEAR ENDED JUNE 30, 2009

NOTE 7: GENERAL LONG-TERM DEBTS (Continued)

\$67,000, Series 2009, for construction purposes, payable in semiannual installments ranging from \$2,000 to \$7,000, excluding interests at 7.5%, through July 1, 2023 .....	67,000
Total Notes Payable .....	<u>3,931,000</u>
Total General Obligations Bonds and Notes .....	<u>\$ 9,153,000</u>

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

<u>YEAR ENDING</u> <u>JUNE 30,</u>	<u>PRINCIPAL</u> <u>PAYMENT</u>	<u>INTEREST</u> <u>PAYMENT</u>	<u>TOTAL</u> <u>PAYMENT</u>
2010	454,000	517,397	971,397
2011	447,000	589,445	1,036,445
2012	282,000	561,224	843,224
2013	308,000	542,125	850,125
2014	309,000	522,413	831,413
2015-2019	1,474,000	2,333,972	3,807,972
2020-2024	1,889,000	1,792,969	3,681,969
2025-2029	2,104,000	1,105,169	3,209,169
2030-2034	<u>1,886,000</u>	<u>311,341</u>	<u>2,197,341</u>
<b>TOTAL</b>	<u><b>\$ 9,153,000</b></u>	<u><b>\$ 8,276,054</b></u>	<u><b>\$17,429,054</b></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 \$1,780,663, at June 30, 2009. The principal and interest maturities are as follows:

MUNICIPALITY OF VILLALBA, PUERTO RICO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2009

NOTE 7: GENERAL LONG-TERM DEBTS (Continued)

<u>YEAR ENDING JUNE 30,</u>	<u>PRINCIPAL PAYMENT</u>	<u>INTEREST PAYMENT</u>	<u>TOTAL PAYMENT</u>
2010	36,544	109,622	146,166
2011	38,930	107,236	146,166
2012	41,281	104,885	146,166
2013	43,874	102,292	146,166
2014	46,631	99,535	146,166
2015-2019	280,967	449,863	730,830
2020-2024	381,049	349,781	730,830
2025-2029	516,780	214,050	730,830
2030-2034	<u>394,607</u>	<u>43,892</u>	<u>657,747</u>
TOTAL	<u>\$ 1,780,663</u>	<u>\$ 1,581,155</u>	<u>\$3,361,818</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 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, 2009, the outstanding principal balances amounted to \$65,064.

The principal and interest maturities are as follows:

<u>YEAR ENDING JUNE 30,</u>	<u>PRINCIPAL PAYMENT</u>	<u>INTEREST PAYMENT</u>	<u>TOTAL PAYMENT</u>
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	2,829	3,342	6,171
2015-2019	14,145	14,070	28,215
2020-2024	14,145	9,670	23,815
2025-2029	14,145	5,270	19,415
2030-2034	<u>8,484</u>	<u>1,050</u>	<u>9,534</u>
TOTAL	<u>\$ 65,064</u>	<u>\$ 48,530</u>	<u>\$ 113,594</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 \$110,718 and bears no interest. The note is payable in semiannually installments of \$7,424 through November 1, 2011. This note has an imputed interest rate of 5.95%. At June 30, 2009, the balance of this note amounted to \$34,028. The principal and interest maturities are as follows.

MUNICIPALITY OF VILLALBA, PUERTO RICO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2009

NOTE 7: GENERAL LONG-TERM DEBTS (Continued)

<u>YEAR ENDING</u> <u>JUNE 30,</u>	<u>PRINCIPAL</u> <u>PAYMENT</u>	<u>INTEREST</u> <u>PAYMENT</u>	<u>TOTAL</u> <u>PAYMENT</u>
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>\$ 34,028</u>	<u>\$ 3,097</u>	<u>\$ 37,125</u>

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2009:

<u>DESCRIPTION</u>	<u>BALANCE</u> <u>JULY 1,</u> <u>2008</u>	<u>NEW</u> <u>ISSUES</u>	<u>RETIREMENTS</u> <u>AND</u> <u>ADJUSTMENT</u>	<u>BALANCE</u> <u>JUNE 30,</u> <u>2009</u>	<u>AMOUNTS</u> <u>DUE WITHIN</u> <u>ONE YEAR</u>	<u>AMOUNTS</u> <u>DUE AFTER</u> <u>NEXT YEAR</u>
Bonds and Notes.....	\$ 5,756,000	\$ 3,718,000	\$ 321,000	\$ 9,153,000	\$ 454,000	\$ 8,699,000
Convertible line of Credit	1,550,000	-	-	1,550,000	-	1,550,000
Property Taxes – MRCC	1,831,469	-	50,826	1,780,663	36,544	1,744,119
Property Taxes – TD....	46,302	-	12,274	34,028	13,016	21,012
Property Taxes – MRCC	67,893	-	2,829	65,064	2,829	62,235
Compensated Absences	<u>1,248,629</u>	<u>813,383</u>	<u>717,467</u>	<u>1,344,545</u>	<u>717,467</u>	<u>627,078</u>
TOTAL.....	<u>\$ 10,500,293</u>	<u>\$ 4,531,383</u>	<u>\$ 1,104,376</u>	<u>\$ 13,927,300</u>	<u>\$ 1,223,856</u>	<u>\$ 12,703,444</u>

NOTE 8: 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. The Debt Service fund is comprised with the Other Governmental Funds.

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 9: 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.

MUNICIPALITY OF VILLALBA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009

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NOTE 9: PROPERTY TAXES (Continued)

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

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 10: 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 11: SALES TAX

On July 4, 2006, the Governor of Puerto Rico signed into law the Taxpayer Justice Act (Act No.117, H.B. 2193). The new law imposes a municipal sales tax at a rate of 1.5% (effective July 1, 2006) and the Commonwealth sales tax at the rate of 5.5%, with an effective date of November 15, 2006. Conversely, the Commonwealth of Puerto Rico eliminated the excise tax of 6.6% on some imports (taxes on cigarettes, liquor, and cars are still in effect) and implemented the sales and use tax ("sales tax") system. Accordingly with this law the municipal sales tax is administered at the local level, and the Commonwealth sales tax is administered through the Puerto Rico Treasury Department. Consequently, separate registration and filing forms are required of retailers.

In fiscal year 2007-2008, the Municipal Legislature of the Municipality of Villalba approved an Ordinance establishing a citizenship contribution of 1.0% over all business or personal transactions related to sale of goods and/or services made on the Municipalities boundaries. The resources collected due to this tax assessment will be used in local activities like improvements in health services, improvements in the control and management of solid waste disposal and recycling programs, public improvements, improvements of public safety, and maintenance of all public facilities of the Municipality.

Any person/corporation is required to register with each municipality in which it conducts commercial transactions and in the Puerto Rican Treasury to obtain a Retailer's Registration Certificate, exemption certificates, and tax returns forms. The retailers are required to file and send monthly sales tax returns by the 20th day following the month in which the tax was collected.

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

These funds are administered by the Government Development Bank for Puerto Rico. Finally, the Law restricts the use of the funds by the municipalities to certain specific activities.

NOTE 12: 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 13: BEGINNING FUND BALANCE RESTATEMENT

The beginning Other Governmental Funds Fund Balance has been restated by approximately \$650,901 to property presents the previously reported Other Governmental Funds Fund Balance at June 30, 2008. The restatement is mainly due to receivable accounts that during the last fiscal year were deemed collectibles and during this fiscal year it was determined that they would not be collected.

NOTE 14: EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2009 amounted to approximately \$393,549 and \$441,108, respectively.

On September 24, 1999 an amendment to Act. No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

MUNICIPALITY OF VILLALBA, PUERTO RICO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009

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NOTE 14: EMPLOYEE'S RETIREMENT PLAN (Continued)

Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Required contributions for the fiscal year were as follows:

Type of Contribution	Contributions to Retirement Plan	
	June 30, 2009	
	Law 447	Reforma 2000
Required	\$116,428	\$192,115
Actual	\$116,428	\$192,115

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42004, San Juan, PR 00940.

NOTE 15: 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

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

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Budget Amounts		Actual Amount	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
			(See Note A)	Positive (Negative)
<b>Resources (Inflows)</b>				
Property Taxes	\$ 1,281,010	\$ 1,281,010	\$ 1,092,495	\$ (188,515)
Volume of Buseness Taxes	1,556,265	1,556,265	1,521,452	(34,813)
Sales Tax	301,000	301,000	308,672	7,672
Intergovernmental Revenues	6,569,833	6,569,833	7,461,757	891,924
License and Permits	2,751,200	2,751,200	317,519	(2,433,681)
Rent	46,200	46,200	51,225	5,025
Miscellaneous	264,000	264,000	90,546	(173,454)
Interest	15,000	15,000	16,115	1,115
Total Resources (Inflows)	12,784,508	12,784,508	10,859,781	(1,924,727)
<b>Charges to Appropriations (Outflows)</b>				
Mayor and Municipal Legislature	2,407,184	2,686,456	2,603,599	82,857
General Government	5,398,320	5,406,653	4,893,506	513,147
Public Safety	1,127,504	1,014,109	1,010,128	3,981
Public Work	1,654,504	1,661,962	1,555,544	106,418
Culture and Recreation	828,960	776,829	767,674	9,155
Health and Sanitation	504,904	429,500	417,725	11,775
Human Services and Welfare	487,432	465,395	458,771	6,624
Transfer to Other Funds	375,700	343,604	343,604	-
Total Charges to Appropriations	\$ 12,784,508	\$ 12,784,508	\$ 12,050,551	\$ 733,957
Excess (deficiency) of revenues over(under) expenditures, encumbrances and other financing sources(use)	\$ -	\$ -	\$ (1,190,770)	

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

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

JUNE 30, 2009

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

	<u>General Fund</u>
<b>Sources/Inflows of Resources:</b>	
Actual Amounts (Budgetary Basic) " Available for Appropriation" from the Budgetary Comparison Schedule	\$ 10,859,781
<b>Difference- Budget to GAAP:</b>	
Non-Budgetary Revenues	<u>119,568</u>
Total Revenue as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance	<u>\$ 10,979,349</u>
 <b>Uses/Outflows of Resources:</b>	
Actual Amounts (Budgetary Basic) "Total Charges to Appropriation" from the Budgetary Comparison Schedule	\$ 12,050,551
<b>Difference- Budget to GAAP:</b>	
Prior Year expenditures are not outflows of budgetary resources but are expenditures For Financial reporting purposes	123,778
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(112,967)
Transfer to other funds are outflows of Budgetary Resources but are not Expenditures For Financial Reporting Purpose	<u>(343,604)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance	<u>\$ 11,717,758</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2009

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
<b>U.S. Department of Agriculture:</b>		
Pass-through – Rural Development:		
Housing Preservation Grant.....	10.433	\$ 49,218
Pass-through the Commonwealth of Puerto Rico - Department of Education:		
Child and Adult Care Food Program.....	10.558	<u>32,670</u>
Total U.S. Department of Agriculture .....		<u>81,888</u>
<b>U.S. Department of Housing and Urban Development:</b>		
Pass-through State – Office of Commissioner Of Municipal Subjects:		
Community Development Block Grants Program ...	14.228	1,295,514
Pass-through State – P.R. Public Housing Administration:		
Public and Indian Housing.....	14.850	614,842
Direct Program:		
Section 8 Housing Choice Voucher Program .....	14.871	<u>513,540</u>
Total U.S. Department of Housing and Urban Development.....		<u>2,423,896</u>
<b>U.S. Department of Transportation:</b>		
Pass-through the Commonwealth of Puerto Rico- Transit Safety Commission:		
Alcohol Traffic Safety and Drunk Driving Prevention Incentive .....	20.601	10,568
<b>U.S. Department of Education:</b>		
Pass-through Department of Education of P.R.:		
Twenty-First Century Community Learning Centers 84.287		13,019
<b>U.S. Department of Health and Human Services:</b>		
Pass-through Office of Governor – Elderly Office:		
Special Program for the Aging, Title III, Part B .....	93.044	24,102

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2009

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**U.S. Department of Homeland Security:**

Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR): Disaster Grants – Public Assistance.....	97.036	48,348
Pass-through the Commonwealth of Puerto Rico – Department of Justice: Homeland Security Grant Program .....	97.067	<u>127,492</u>
Total U.S. Department of Homeland Security .....		<u>175,840</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,729,313</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

MUNICIPALITY OF VILLALBA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2009

NOTE 1: BASIS OF PRESENTATION

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) to the general-purpose combined financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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/A/V 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



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

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

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

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, 2009, which collectively comprise Municipality of Villalba's basic financial statements and have issued our report thereon dated March 30, 2010. The report's opinion on governmental wide financial statement was qualified because does not maintained adequate records regarding capital assets, accumulated depreciation and related depreciation expense 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 the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

INDEPENDENT AUDITORS' REPORT

Municipality of Villalba

Page 2

We consider the deficiencies described in the accompanying schedule of finding and questioned costs to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as finding number 09-01 and 09-02.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality'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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 09-01 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 agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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 findings 09-01 and 09-02.

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 responses and, accordingly, we express no opinion on them.

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 other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Mendoza & Ramos CPAs  
MENDOZA & RAMOS  
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico  
March 30, 2010

Stamp number 2395385 was  
affixed to the original of this  
report.



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

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

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 year ended June 30, 2009. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. 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 others 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.

As described in the accompanying Schedule of findings and questioned costs, the Municipality did not comply with the requirements that are applicable to its major programs, as follows:

Reference Number	Compliance Requirement	Major Program
09-03	Equipment and Real Property Management	Community Development Block Grant / Small Cities
09-04 09-06	Procurement and Suspension and Debarment	Community Development Block Grant / Small Cities
09-05 09-07 09-08	Special Tests and Provisions	Community Development Block Grant / Small Cities Section 8 Housing Choice Vouchers
09-09	Reporting	Public and Indian Housing

Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to such programs.

INDEPENDENT AUDITORS' REPORT

Municipality of Villalba

Page 2

In our opinion, except for the noncompliance described above, 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 year ended June 30, 2009.

Internal Control Over Compliance

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with 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 deficiency in internal control over compliance that we consider to be significant deficiency and a material weakness.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 09-03 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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of finding and questioned costs, we consider items 09-03 to be material weaknesses.

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 responses and, accordingly, we express no opinion on them. 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 other regulatory agencies, 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  
March 30, 2010

Stamp number 2395386 was  
affixed to the original of this  
report.



MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2009

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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 the following:

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

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  
YEAR ENDED JUNE 30, 2009

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FINDING	09-01
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 is working hard to obtain all the information related to the capital assets. Also, the Finance's Director changes the person who was in charge of Property Division. Responsible Person: Mr. Angel R Guzmán Díaz Contact Number: (787)-847-2500

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009

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FINDING	09-02
CATEGORY	INTERNAL CONTROLS
TOPIC SENTENCE	ACCOUNTING SYSTEM
CONDITIONS	<ul style="list-style-type: none"><li>- 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).</li><li>- 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.</li><li>- Cash bank account reconciliations are not performed on a timely basis.</li><li>- The Municipality does not count with an account receivable subsidiary ledger.</li></ul>
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  
YEAR ENDED JUNE 30, 2009

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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 orient and train our accounting personnel to prepare the financial information according with GAAP.  Responsible Person: Mr. Angel R Guzmán Díaz Contact Number: (787)-847-2500

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009

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FINDING	09-03
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"><li>- 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.</li><li>- A physical inventory of the property has not been taken for more than two years nor the results reconciled with the property subsidiary ledger.</li><li>- No records were maintained regarding dispositions of any property and equipment.</li><li>- 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.</li></ul>
CRITERIA	<p>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.</p>

MUNICIPALITY OF VILLALBA, PUERTO RICO

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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 of the Regulation for the Municipal Administration 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** The Finance's Director changed the person who was in charge of the Property Division. At this time the inventory of the Municipality is done.

Responsible Person: Mr. Angel R Guzmán Díaz  
Contact Number: (787)-847-2500

MUNICIPALITY OF VILLALBA, PUERTO RICO

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FINDING	09-04
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
CATEGORY	COMPLIANCE
NONCOMPLIANCE	PROCUREMENT
TOPIC SENTENCE	Non compliance over procurements
CONDITIONS	<p>In testing procurement, we selected three auctions in order to determine that procurement procedures were followed according to applicable Federal and Municipality's laws and regulations. In relation to such auctions we determined the following deficiencies:</p> <p>In July 2008 the Municipality adjudicated an auction (Num. 5: 2007-08) for the supply of electrical material and the construction of bathrooms at the recreational facilities in La Pulga, Villalba. For such auction, two bids were received. One of the bids was for the supply of the electrical material and the other was for the construction of the bathrooms. There was no competition between bidders and no additional bids were received before the auction was awarded. In addition, the work related to the construction of the bathrooms was awarded before the statutory 20 days after the bid has being awarded.</p> <p>The Auction Board did not have a minute or any other source of information explaining the reasons for awarding such auction without having the required competence.</p>
CRITERIA	<p>As per 24 CFR 85.36 (a) when procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. Chapter VIII, Part II, Section 1 of the Regulation for the Municipal Administration establishes that the municipalities must announce a public auction when the goods and services that are interested to purchase exceeds \$40,000. An auction must be announced in addition for any construction in excess of \$100,000. Similar regulation applied to the period prior to July 2008, except for threshold amounts which were \$10,000 and \$40,000, respectively.</p> <p>As stated in 24 CFR 85.36 (b)(9) grantee and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.</p>

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	<p>In addition, Chapter VIII, Part II, Section 13(4) of the Regulation for the Municipal Administration establishes that facing the possibility of any challenge to an award in an auction, not formalize any agreement until 20 days elapsed after the deposit in the mail of the notification of the awarded bid.</p>
CAUSE	<p>The aforementioned conditions were caused since the Auction Board did not follow the adequate procedures as per State regulation in order to grant the contracts early.</p>
EFFECT	<p>As a result of these deficiencies, the Municipality could incurred in additional costs and not be benefitted from the best offer. Also, these conditions could result in cost disallowances by the federal awarding agency or pass through entity.</p>
RECOMMENDATION	<p>The Municipality should maintain records sufficient to detail the significant history of the procurement by detailing the rationale method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. As part of the procurement process, the Municipality should obtain more than one bid before the auction had been awarded.</p>
QUESTIONED COSTS	<p>None</p>
MANAGEMENT RESPONSE	<p>In response to this finding the Municipality's administration can't accept the finding as described, because for both of the auctions celebrated in July 2008 for the construction of bathrooms in the recreational facilities of La Pulga and the electrical materials supply, two bids for each auction were received. Please, note the following:</p> <p><u>Constructions of Bathrooms:</u> HG Construction, Inc. \$87,810.00 Constructora La Pulga, Inc. \$80,900.00</p> <p><u>Adjudicated Bidder:</u> HG Construction, Inc.</p> <p><u>Criteria of the Bid Board:</u> As recommended by the Eng. Hernaan Gonzalez, Consultant of the Municipality of Villalba, it was best for the Municipality to adjudicate the bid to HG Construction, Inc. in this case particular, because at the time of the bid, this contractor was in the process of construction of the recreational facilities of La Pulga and the bathrooms were going to be built at the same site that HG Construction Inc. was using for the construction. The decision was made that way in order to try to avoid having two different Contractors working at the same construction site and with two different construction schedules at hand, an accident that put the lives and property of the workers in danger was likely to happen.</p>

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Supply of Electrical Materials:

HG Construction, Inc. \$294,585.00

Constructora La Pulga, Inc. \$172,990.00

Adjudicated Bidder: Constructora La Pulga, Inc.

Criteria of the Bid Bond: The only criteria, because of the circumstances regarding this bid, that the Bid Board concern was the price. It was like that because no extra work at the Construction site was going to take place with this Bid. In order to achieve the purposes of the administration, the bid was adjudicated to the lower bidder.

Because all of the above mentioned reasons, and of course, with the proper evidence attached to this letter, it is strongly recommended that the Single Audit finding in reference must be, discarded.

Responsible Person: Mr. Dalvín Hernández Pérez

Contact Number: (787)-847-2500

FINDING	09-05
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
CATEGORY	COMPLIANCE
NONCOMPLIANCE	SPECIAL TEST
TOPIC SENTENCE	Commitment of funds before Approval of a Release of Funds
CONDITIONS	<p>In testing compliance with the special test regarding HUD's approval for the release of funds, we determined that CDBG funds were committed before the required request for release of funds (RROF) was approved and received from the correspondent State's Agency (OCAM).</p> <p>During the fiscal year 2008-2009, funds amounting \$251,300 were encumbered for two contracts regarding the supply of electrical material and the construction of bathrooms at the recreational facilities in La Pulga, Villalba. Such funds were committed before the approval of the request for release of funds from OCAM. Contracts were awarded in July and August 2008 while the related RROF was approved by OCAM in May 2009.</p>

MUNICIPALITY OF VILLALBA, PUERTO RICO

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CRITERIA	As stated in 24 CFR 58.22(a) neither a recipient nor any participant in the development process, including public or private nonprofit or for-profit entities, or any of their contractors, may commit HUD assistance under a program listed in Sec. 58.1(b) on an activity or project until HUD or the state has approved the recipient's RROF and the related certification from the responsible entity. In addition, until the RROF and the related certification have been approved, neither a recipient nor any participant in the development process may commit non-HUD funds on or undertake an activity or project under a program listed in Sec. 58.1(b) if the activity or project would have an adverse environmental impact or limit the choice of reasonable alternatives.
CAUSE	The main cause for this condition was that contract services and related auction were contracted and awarded, respectively, before the CDBG Program would have received the approval of a request for release of funds from OCAM.
EFFECT	Expenditures could be questioned from the State CDBG Program or the Federal Government and be adversely affected in the benefits they are entitled to receive in the future.
RECOMMENDATION	No funds should be committed for any activity or project until HUD or the State has approved the recipient's RROF and the related certification from the responsible entity. In addition, until the RROF and the related certification have been approved, neither a recipient nor any participant in the development process may commit non-HUD funds.
QUESTIONED COSTS	Since project's costs have not been expended no costs will be questioned.
MANAGEMENT RESPONSE	The Municipality's administration does not accept the finding as described because although the celebration of the auctions took place before the release of funds letter, the Municipality does not obligated such finds until the release of fund letter arrived. To corroborate that information, the OCAM have approved the certification for payments of such contractors in both contracts. If any irregularity, such as the one you mentioned had occurred, the OCAM does not have approved those certifications for payment.

Responsible Person: Mr. Dalvin Hernández Pérez  
Contact Number: (787)-847-2500

MUNICIPALITY OF VILLALBA, PUERTO RICO

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YEAR ENDED JUNE 30, 2009

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FINDING	09-06
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
CATEGORY	COMPLIANCE
NONCOMPLIANCE	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
MANAGEMENT RESPONSE	The administration does not accept the finding as described, because although we don't conduct an investigation in order to comply with the specific requirements that you mention in the finding, we incorporated to all the contracts clauses that sustain in overall basis, the compliance regarding state and federal matters such as the one mentioned in the finding.

MUNICIPALITY OF VILLALBA, PUERTO RICO

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Attached to this letter you can have a standard document that the Municipality subscribes with all independent contractors were you can note the compliance of the Municipality with such requirements.

Responsible Person: Mr. Dalvin Hernández Pérez  
Contact Number: (787)-847-2500

FINDING	2009-07
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA NO. 14.871)
CATEGORY	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
TOPIC SENTENCE	Incorrect Determination of the Housing Assistance Payment
CONDITION	<p>During the fiscal year 2008-09, Municipality's Section 8 Housing Choice Voucher Program counts with approximately 80 participants. In order to evaluate participants' income eligibility, total tenants payments and housing assistance payments ("HAP") we selected for testing 10 participants files or 13% of Programs' total participants. The test revealed the following deficiencies:</p> <ul style="list-style-type: none"><li>- From October 2008 to January 2009, on a monthly basis, the Program paid in excess \$13 to one participant (\$52 in total) due to an error in the amount considered as income from the Social Security Administration. An increase in the amount received by the participant from the Social Security Administration effective December 2008 was considered for HAP purposes since October 2008. An interim reexamination was made in February 2009 to correct such error.</li><li>- One participant's file (1%) does not include evidence that justify the application of a disability allowances of \$400 considered as part of HAP reexamination made in May 2009. Due to such allowance the Program paid in excess \$20 from may to june 2009 as part of the Program HAP.</li><li>- Utility allowance used to determine one participant's (1%) gross rent and HAP amount was incorrect. Causing the participant would receive a negative rent for a lesser amount to which he was entitled.</li></ul>
CRITERIA	<p>The foregoing conditions are not in accordance with 24 CFR 982.54(d)(14) which establishes that the PHA administrative plan must cover PHA policies regarding the process for establishing and revising payment standards, including affordability adjustment.</p>

MUNICIPALITY OF VILLALBA, PUERTO RICO

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CAUSE	Program's personnel is not following, gathering and obtaining all the required documents that support amounts indicated on form 50058. In addition, HUD forms 50058 are not double checked once they are electronically generated by a mechanism system in order to determine any mistake made at the moment when the information was entered into the system.
EFFECT	Housing assistance payment (HAP) amount could be incorrectly determined by considering an amount not properly supported or incorrectly determined. The Program might be making payments in excess or below the corresponding HAP amount that may expose the Municipality to cost disallowance and adversely affect the Municipality's ability to be awarded with future grants.
RECOMMENDATION	At the moment of determining HAP and TTP amounts, Program personnel should adhere to the policies and procedures established by HUD approved Program's Administrative Plan. The Program should also revise its internal control procedures to obtain, and include in the participant files, all the necessary information that support amounts indicated on HUD 50058 forms.
QUESTIONED COSTS	None questioned costs were determined since likely questioned costs does not exceed \$10,000.
MANAGEMENT RESPONSE	We calculate incorrectly the Housing Assistance Payment (HAP) of one programs participant, but the transaction was corrected and adjusted.  Responsible Person: Mr. Luis Rios Contact Number: (787)-847-1478

MUNICIPALITY OF VILLALBA, PUERTO RICO

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FINDING	2009-08
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA NO. 14.871)
CATEGORY	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
TOPIC SENTENCE	Waiting List Deficiencies
CONDITIONS	<p>In testing compliance with applicable federal regulations regarding the waiting list administration, we selected for testing four out of seven (57%) participants admitted into the Program during the fiscal year 2008-2009.</p> <p>Three of the participants examined were not selected from the waiting list in accordance with the Municipality's ("PHA") administrative plan. Such participants were selected and admitted into the Program before other applications at the top of the waiting list since it was understood that they could be entitled to a preference as a handicapped participant.</p> <p>We noted that the health conditions to which the Program referred could not be classified as a handicapped condition. In addition, the persons with such alleged conditions, were members of the family and not the Program's subscriber participant.</p>
CRITERIA	<p>As stated in 24 CFR 982.204(a); except for special admissions, PHA must select participants from the waiting list in accordance with admission policies in the PHA administrative plan. Section I B of PHA's administrative plan establishes that the PHA will select the family at the top of the waiting list unless qualify for any local preference (involuntary displacement and victims of domestic violence). Also, 24 CFR 982.207(c) establishes that the method for selecting applicants from a preference category must leave a clear audit trail that can be used to verify that each applicant has been selected in accordance with the method specified in the administrative plan.</p>
CAUSE	<p>Participants are being chosen based on preferences which are not considered in the Program's Administrative Plan.</p>
EFFECT	<p>Selection process from the waiting list could be questioned by alleging preference among applicants. Such lack of control, also, could cause that ineligible participants could be admitted into the Program causing costs disallowances. In addition, SEMAP score regarding waiting selection could be affected.</p>

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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RECOMMENDATION            As an adequate control measure, the Program should encourage that all policies and procedures, as the one established in the administrative plan regarding admission selection from the waiting list, should be followed unless there is a major cause for the contrary.

QUESTIONED COSTS        None.

MANAGEMENT RESPONSE    The selection of the participants of the program was made following HUD'S and Administrative Plan regulations. We select people with physical, mental and psychology disabilities certified by specialists in medicine. HUD establishes that a person with disability is that one who has limitation doing basic functions as a normal person does. Also, HUD includes epileptic, diabetic and emotional disorder as disability.

Responsible Person: Mr. Luis Rios  
Contact Number: (787)-847-1478

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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FINDING	2009-09
FEDERAL PROGRAM	PUBLIC AND INDIAN HOUSING (CFDA NO. 14.850)
CATEGORY	COMPLIANCE
NONCOMPLIANCE	REPORTING
TOPIC SENTENCE	Non-compliance with Reporting Requirements
CONDITIONS	In testing compliance with the reporting requirements we determined that 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).
CRITERIA	<p>The following provisions of the Management Agent Agreement between the PRPHA and the Municipality establish:</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> <p>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.</p>
CAUSE	Reports were not prepared and 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.

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

QUESTIONED COSTS None.

MANAGEMENT RESPONSE During fiscal year ended June 30, 2008 the accounting and reports has not been submitted to PRPHA because Municipality of Villalba haven't contract an employee to realize this labor. In July 1, 2008 the Municipality contracts an Accounting Clerk who created accounting books for fiscal year 2007-2008 because the priority of the Municipality of Villalba was compliance with required reports. Because we are working on fiscal year 2007-2008, Monthly Financial Reports from fiscal year 2008-2009 were delay. However, this reports were sent via email and then in hard copy.

The Quarterly Report and Quarterly Report Reconciliation were not make because haven't knowledge about this. We request to Puerto Rico Public Housing Authority orientation about it because we have not a format for this reports. According to Puerto Rico Public Housing Authority, format for this reports were the same as Monthly Financial Reports.

Responsible Person: Mr. Lourdes Barcclo  
Contact Number: (787)-847-2500

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009

(1) Audit Findings that have been Fully Corrected:

<b>Questioned Finding Number</b>	<b>CFDA</b>	<b>Cost</b>	<b>Comments</b>	
08-05 Activities Allowed or Unallowed		14.850	None	Fully Corrected
08-06 Davis Bacon		14.850	None	Fully Corrected
08-08 Special Test - Inventory		14.850	None	Fully Corrected

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:

<b>Questioned Finding Number</b>	<b>CFDA</b>	<b>Cost</b>	<b>Comments</b>	
08-03 Equipment and Real Property Management		14.228	None	Situation still prevails.
08-04 Suspension and Debarment		14.228	None	Situation still prevails.
08-07 Reporting		14.850	None	Situation still prevails.
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**