

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

**MUNICIPIO DE VILLALBA
AUDITORÍA 2009-2010
30 DE JUNIO DE 2010**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2010

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2010

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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, 2010, 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 paragraphs, 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 \$32,134,563 and \$8,965,202, respectively as of June 30, 2010, and the amount of depreciation expense stated at \$1,319,166 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 2009-2010. 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 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, 2010 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.

INDEPENDENT AUDITORS' REPORT
Municipality of Villalba

In addition, 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 the interfund transactions in the due from and due to accounts balance 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, 2010 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 April 13, 2011, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be 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 11 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
April 13, 2011

Stamp number 2573134 was
affixed to the original of this
report



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

The management of the Autonomous Municipality of Villalba in order to comply with the requirements of the Governmental Accounting Standards Board Statement Number 34, "BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS FOR STATE AND LOCAL GOVERNMENTS", present an overview and analysis of the financial activities sustained by the municipality for the fiscal year ended on June 30, 2010.

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, 2010.

FINANCIAL HIGHLIGHTS

- The Municipality's Net Assets for the fiscal year ended on June 30, 2010 were \$9,419,703 in comparison with fiscal year 2009 which were \$ 12,753,613 a \$3,333,910 decrease.
- The Municipality's Financial Statements show that the Governmental Activities - General Revenues were \$11,409,769 for the fiscal year ended on June 30, 2009. In comparison with current fiscal year which was \$11,126,637 a \$283,132 Governmental Activities Revenues decreased.
- The General Fund showed a deficiency of revenues over expenditures of \$738,409 during the course of 2009 fiscal year. In comparison with fiscal year 2010, that showed an excess of revenue over expenditures of \$727,660.
- The Total Governmental Activities Expenditures for the fiscal year 2009 were \$25,068,250 in comparison with this fiscal year ended on June 30, 2010, which balance was \$19,565,728 a \$5,502,522 decrease over last fiscal year.
- The General Fund total expenditures for the current fiscal year showed a decrease of \$1,972,563 with last year's General Fund total expenditures balance, which was \$11,717,758.
- In the current fiscal year the Administration finished the construction and opened a very important project that will help boost an impact over the economy of the city as well as to improve the intern tourism. Such project is:
 - *Héctor "Papo" Díaz Recreative Sport Complex*, a sport complex that includes a basketball court, volleyball concrete and sand courts, two public pools with a splash pad for kids, an extreme sports skating park, a jogging track, a Gotcha park, two tennis courts and many other interesting things.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

- Also, the Administration has other important projects in the final stages of completion that will also impact positively the city economy, such projects are:
 - *Municipal Bowling Alley*, a ten lane bowling alley with conference and activities rooms, sport bar and a game room, among other things that will create a family enjoyable atmosphere. This project will be open by summer 2011.
 - *Municipal Bakery*, a fully equipped bakery and wine bar owned by the Municipal Administration which is located in Caonillas ward and will provide the usual services that a regular bakery provides and also, it will be the central production facility for typical Villalba homemade products that will be distributed among the local supermarkets in the first phase pending the acceptance and support of the local commerce. This project will also be inaugurated by summer 2011.
 - *Three Lake Plaza*, it will consist of a two story building with four commercial spaces that will be rented to local commercial food establishments that will impact the downtown of the city directly and one of the spaces will be reserved for establishing a satellite booth of the Municipal Bakery and Wine Bar. This project will be inaugurated by August 2011.
- Also, the Administration is in the planning and permit phase for starting the construction of private investment projects that will make the biggest positive impact for the local and regional economy, such projects are:
 - *Dos Lagos Hotel*, is actually in the design, planning and permit process and it will began construction during 2012 and it will consist of 200 accommodating rooms plus 200 luxury villas with a casino, an equestrian park, a commercial office building among other family entertaining facilities. The private investment will be around \$ 25,000,000.
 - *Villalba Shopping Center*, it will be located in the main road of Villalba, which is the PR # 149, by the Jagüeyes sector and it is in the final stage of the permit evaluation process. This project will begin the construction by the last quarter of 2011 and its private investment will be around \$ 6,000,000.
 - *Villalba Movie Theaters*, this is another important project which is in the design and planning process and it will consists of three movie rooms and one game room for the entertainment of the kids. This project will be located in Downtown Villalba in order to impact positively the economy in the area. The estimated cost for the project will be around \$3,000,000.
 - *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. This project is in the planning and demolishing stage and will began construction in the final quarter of 2012. The project will have a private investment around \$3,000,000.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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 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, 2010.

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

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

The Government- Wide Financial Statements of the Municipality are principally supported by Intergovernmental Revenues. The Government- Wide Financial Statements of the Municipality are fully presented on pages 12 to 13.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

B – FUND-TYPE FINANCIAL STATEMENTS

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

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

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

The Municipality's Fund- Type Financial Statements are presented on pages 14 to 17.

C – NOTES TO THE FINANCIAL STATEMENTS

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

The Notes to the Financial Statements are presented on pages 18 to 39.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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 end of fiscal year were \$9,419,703. The following table provides a summary of the Municipality's Net Assets:

MUNICIPALITY OF VILLALBA
SUMMARY OF NET ASSETS
JUNE 30, 2009 and 2010

	<u>Governmental Activities</u>	
	2009	2010
Assets:		
Current Assets and Other Assets	\$ 7,616,748	\$ 4,926,829
Capital Assets	<u>23,330,249</u>	<u>23,169,361</u>
Total Assets	\$ 30,946,997	\$ 28,096,190
Liabilities:		
Current liabilities	\$ 4,266,084	\$ 3,634,104
Non-current liabilities	1,223,856	1,789,170
Long- Term liabilities	<u>12,703,444</u>	<u>13,253,213</u>
Total liabilities	\$ 18,193,384	\$ 18,676,487
Net Assets:		
Invested in Capital Assets, Net of Debt	\$ 13,647,542	\$ 16,835,378
Restricted	7,716,129	3,282,988
Unrestricted	<u>(8,610,058)</u>	<u>(10,698,663)</u>
Total of Net Assets	<u>\$ 12,753,613</u>	<u>\$ 9,419,703</u>

Our analysis on the SUMMARY OF NET ASSETS reflects that the largest portion of the Municipality's Net Assets for 2010 consisted of Capital Assets, 82.5% of the Governmental Activities' total assets, and for 2009 it was approximately, 76%.

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: \$ 4,926,829 / \$ 3,634,104

The current ratio for the Municipality is 1.36 percent for the fiscal year 2010, .43 percent more than fiscal year 2009's, 1.79 percent.

This ratio indicates the ability of the Municipality to pay current fiscal year obligations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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 you can see that the largest expensed activity is 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, 2009 and 2010

	<u>Governmental Activities</u>	
	2009	2010
Revenues:		
Program Revenues		
Property Taxes	\$ 1,250,896	\$ 1,347,281
Volume of Business Tax	1,521,452	1,641,884
Sales Tax	909,145	930,077
Federal Financial Assistance	2,729,313	3,129,716
Other local taxes	656,583	374,786
Intergovernmental Revenues	11,849,323	8,559,604
Rent of Property	51,225	56,640
Interest	16,115	5,597
Miscellaneous	<u>90,546</u>	<u>186,233</u>
Total Revenues	\$ 19,074,598	\$ 16,231,818
Expenses:		
Program Expenses:		
Mayor and Municipal Legislature	\$ 2,512,782	\$ 1,639,740
General Administration	7,217,280	6,735,211
Public Safety	1,331,798	499,516
Public Works	7,660,873	4,234,757
Culture and Recreation	1,457,684	971,839
Health and Sanitation	417,725	592,176
Human Services and Welfare	2,557,083	2,547,458
Urban Development	1,470,580	1,929,150
Interest (<i>Debt Service</i>)	<u>442,445</u>	<u>428,881</u>
Total Expenses	\$ 25,068,250	\$ 19,565,728
Change in Net Assets	(5,993,652)	(3,333,910)
Beginning Balance	18,747,265	12,753,613
Ending Net Assets	<u>\$ 12,753,613</u>	<u>\$ 9,419,703</u>

Our analysis of the SUMMARY OF CHANGES IN NET ASSETS reflects that the largest portion of the Municipality's Total Revenues for 2010 consisted of Intergovernmental Revenues, 53% and for fiscal year 2009, was 63% approximately.

The Governmental Activities' Expenditures, decreased from \$ 25,068,250 to \$ 19,565,728 for fiscal year 2010. The major expenditure category for both fiscal years was General Administration, which compromises 29 % and 35 % for 2009 and 2010, respectively. Public Work program showed a decrease of \$ 3,426,116 for 2010.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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 \$ 1,054,468. There are reservations of Fund Balance up to \$4,351,612.

This reserved Fund Balance is committed to cover balances shown as follows:

- \$ 192,709 is reserved to cover purchase orders of prior fiscal years.
- \$ 538,017 is to pay Debt Service.
- \$ 3,620,886 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, 2010, it showed a Deficit of \$ 2,228,520.

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 arose during the course of the fiscal year.

For fiscal year 2010-2011's budget, the Mayor remitted to the Municipal Legislature the original Municipality's budget, which was approved by the Legislative body with amendments in which the Mayor did not concur. Therefore, the amounts of the 2010-2011 Municipality's budget that were not approved by the Municipal Legislature and the Mayor according to the process established by law, were presented in a reserve account in accordance to the sentence emitted by a Superior Court Judge in the region of Ponce. Any referenced needed is available in the office of the Mayor of the Municipality of Villalba.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in capital assets as of June 30, 2010 is \$ 32,134,563, net of accumulated depreciation of \$ 8,965,202, leaving a Net Book Value of \$ 23,169,361. The investment in capital assets includes land, buildings improvement, equipment, infrastructure, motor vehicles, recreation facilities and construction in progress.

The total decreased in the Municipality's investment in Capital Assets as of June 30, 2010 was \$160,888 in terms of Net Book Value in comparison with fiscal year 2009. Depreciation charges decrease for the fiscal year by \$ 181,306 in comparison with fiscal 2009.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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:

	<u>2009</u>	<u>2010</u>
Capital Assets:		
Land	\$ 1,284,597	\$ 1,284,597
Construction in progress	5,262,704	5,985,284
Buildings	8,079,085	8,079,085
Infrastructure	5,263,189	5,314,682
Recreation Facilities	6,951,306	7,091,305
Machinery and Equipment	1,059,797	1,810,615
Motor Vehicles	<u>3,249,287</u>	<u>3,136,759</u>
Total Capital Assets	<u>\$ 31,149,965</u>	<u>\$ 32,134,563</u>

DEBT ADMINISTRATION

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

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

In addition, principal of an interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality, constitute a first lien on the Municipality's Basic Tax revenues.

Accordingly, the Municipality's Basic Tax revenues would be available to make Debt Service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, are not sufficient to cover such Debt Service. It has never been necessary to apply Basic Taxes to pay Debt Service on general obligation debt for the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

MUNICIPALITY OF VILLALBA
LONG TERM AND OTHER DEBTS

	<u>2009</u>	<u>2010</u>
General Obligations Bonds	\$ 5,222,000	\$ 5,068,000
Special Notes Payable	3,931,000	3,814,000
Convertible line of Credit	1,550,000	1,550,000
Property Taxes (CRIM, PRTD)	1,879,755	1,827,366
Retirement System Administration	—	81,754
PR Department of Labor	—	890,643
Compensated Absences	<u>1,344,545</u>	<u>1,248,629</u>
Total Long-Term and Other Debts	<u>\$ 13,927,300</u>	<u>\$ 15,042,383</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

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

All of these factors are considered when preparing the Municipality's Budget for the fiscal year ended on June 30, 2011.

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**

**STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2010**

	Governmental Activities
ASSETS:	
Cash	\$ 838,472
Cash with Fiscal Agent (Note 2)	2,547,874
Accounts Receivable, net:	
Property Taxes	92,351
Federal Grants	188,562
Intergovernmental (Note 3)	169,784
Others	1,089,786
Capital Assets (Note 6):	
Land and Construction in Progress	7,269,881
Other Capital Assets, net	15,899,480
Total Capital Assets	23,169,361
TOTAL ASSETS	\$ 28,096,190
LIABILITIES:	
Accounts Payable and Accrued Expense	\$ 1,317,077
Due to Governmental Units	744,557
Claims and Judgments Debt	-
Accrued Interest	80,712
Deferred Revenues	1,491,758
Long-Term Liabilities (Note 7):	
Due within One Year	1,789,170
Due in More than One Year	13,253,213
Total Liabilities	18,676,487
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	16,835,378
Restricted for:	
Community Development Projects	67,321
Special Revenue	1,339,236
State Assignment Fund	1,338,414
Debt Service	538,017
Unrestricted (Deficit)	(10,698,663)
TOTAL NET ASSETS	\$ 9,419,703

See accompanying Notes to the Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA**

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Charges For Services	Program Revenue		Net (Expenses) Revenues and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 1,639,740	\$ -	\$ -	\$ -	\$ (1,639,740)
General Administration	6,735,211	56,640	-	-	(6,678,571)
Public Safety	499,516	-	-	-	(499,516)
Public Works	4,234,757	-	1,733,685	-	(2,501,072)
Culture and Recreation	958,839	-	-	-	(958,839)
Health and Sanitation	592,176	-	-	-	(592,176)
Human Services and Welfare	2,547,458	-	1,685,187	-	(862,271)
Urban Development	1,929,150	-	1,629,669	-	(299,481)
Interest on Long-Term Debt	428,881	-	-	-	(428,881)
Total Governmental Activities	\$ 19,565,728	\$ 56,640	\$ 5,048,541	\$ -	\$ (14,460,547)

General revenues:

Taxes:

Property tax, levied for General Purposes	1,067,161
Property tax, levied for Debt Service	280,120
Volume of Business Tax	1,641,884
Sales Tax	930,077
Other local taxes	374,786
Intergovernmental Revenues	6,640,779
Interest	5,597
Miscellaneous	186,233
Total General Revenues and Special Items	11,126,637
Change in the Net Assets	(3,333,910)
Net Assets - Beginning of Year	12,753,613
Net Assets - Ending of Year	\$ 9,419,703

See accompanying Notes to the Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA**

**BALANCE SHEET - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010**

	General Fund	HUD Fund	State Assignment Fund	Other Governmental Funds	Total Funds
ASSETS:					
Cash	\$ 236,518	\$ 62,390	\$ 10,992	\$ 528,572	\$ 838,472
Cash with Fiscal Agent (Note 2)	478,896	-	-	2,068,978	2,547,874
Accounts receivable:					
Property Tax	-	-	-	5,094	5,094
Federal Grant	-	69,254	-	119,308	188,562
Intergovernmental (Note 3)	-	-	62,993	106,791	169,784
Due from Other Funds (Note 4)	4,264,662	-	1,391,707	2,680,182	8,336,551
Others	101,686	5,312	-	982,788	1,089,786
TOTAL ASSETS	<u>\$ 5,081,762</u>	<u>\$ 136,956</u>	<u>\$ 1,465,692</u>	<u>\$ 6,491,713</u>	<u>\$ 13,176,123</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable and Accrued Expense Liabilities	1,037,091	28,085	-	251,901	1,317,077
Due to Governmental Units (Note 5)	744,557	-	-	-	744,557
Due to Other Funds	4,071,889	41,550	127,278	4,095,834	8,336,551
Deferred Revenues:					
Volume of Business Tax	1,456,745	-	-	-	1,456,745
Federal Grants	-	-	-	35,013	35,013
Mature bonds due and payable	-	-	-	151,000	151,000
Interest Payable	-	-	-	80,712	80,712
Total Liabilities	<u>7,310,282</u>	<u>69,635</u>	<u>127,278</u>	<u>4,614,460</u>	<u>12,121,655</u>
Fund Balances:					
Reserve For:					
Encumbrances	192,709	-	-	-	192,709
Debt Service	-	-	-	538,017	538,017
Other Purposes	875,915	67,321	1,338,414	1,339,236	3,620,886
Unreserved (Deficit)	(3,297,144)	-	-	-	(3,297,144)
Total Fund Balances	<u>(2,228,520)</u>	<u>67,321</u>	<u>1,338,414</u>	<u>1,877,253</u>	<u>1,054,468</u>
TOTAL LIABILITIES AND FUND BALANCES:	<u>\$ 5,081,762</u>	<u>\$ 136,956</u>	<u>\$ 1,465,692</u>	<u>\$ 6,491,713</u>	<u>\$ 13,176,123</u>

See accompanying Notes to the Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA**

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2010**

Total Fund Balances- Governmental Funds \$ 1,054,468

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	\$ 7,269,881	
Depreciable Capital Assets	19,550,000	
Infrastructure Assets	<u>5,314,682</u>	
Accumalated Depreciation	<u>(8,965,203)</u>	
Total Capital Assets		23,169,360

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

Municipal Revenue Collection Center	<u>87,257</u>	
		87,257

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

General Bonds and Notes Payable	(10,281,000)	
Compensated Absences	(1,810,615)	
Municipal Revenue Collection Center	(1,806,354)	
Other	<u>(993,413)</u>	
Total Long-Term Liabilities		(14,891,382)

Total Net Assets of Governmental Activities \$ 9,419,703

See accompanying Notes to the Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010**

	General Fund	HUD Fund	State Assignment Fund	Other Governmental Funds	Total Funds
REVENUES					
Property Tax	\$ 979,904	\$ -	\$ -	\$ 280,120	\$1,260,024
Volume of Business Tax	1,641,884	-	-	-	1,641,884
Federal Assistance	-	1,770,553	-	1,170,754	2,941,307
Intergovernmental Revenues	6,640,779	-	37,813	2,069,421	8,748,013
Sales Tax	587,032	-	-	343,045	930,077
Licenses and Permits	374,786	-	-	-	374,786
Rent	67,620	-	-	-	67,620
Interest	5,597	-	-	-	5,597
Miscellaneous	175,253	-	-	-	175,253
TOTAL REVENUES	10,472,855	1,770,553	37,813	3,863,340	16,144,561
EXPENDITURES					
Mayor and Municipal Legislature	1,639,740	-	-	-	1,639,740
General Administration	4,616,291	-	-	729,521	5,345,812
Public Safety	388,435	-	-	105,189	493,624
Public Works	1,861,555	-	40,869	2,688,569	4,590,993
Culture and Recreation	674,420	-	10,000	-	684,420
Health and Sanitation	355,468	-	-	236,708	592,176
Human Services and Welfare	209,286	532,585	-	1,785,332	2,527,203
Urban Development	-	1,256,120	-	487,788	1,743,908
Debt Service:					
Principal	-	-	-	397,000	397,000
Interest and Other Charges	-	-	-	428,881	428,881
TOTAL EXPENDITURES	9,745,195	1,788,705	50,869	6,858,988	18,443,757
Excess (deficiency) of revenue over expenditure	727,660	(18,152)	(13,056)	(2,995,648)	(2,299,196)
OTHER FINANCIAL SOURCES (USES):					
Bonds Issued	-	-	-	160,000	160,000
Operating Transfer Out	(1,008,422)	-	-	-	(1,008,422)
Operating Transfer In	-	-	-	1,008,422	1,008,422
Net Other Financing Sources (Uses)	(1,008,422)	-	-	1,168,422.00	160,000
Net Change in the Fund Balance	(280,762)	(18,152)	(13,056)	(1,827,226)	(2,139,196)
FUND BALANCE - BEGINNING, AS RESTATED	(1,947,758)	85,473	1,351,470	3,704,479	3,193,664
FUND BALANCES AT END OF YEAR	(2,228,520)	\$ 67,321	\$ 1,338,414	\$ 1,877,253	\$1,054,468

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See accompanying Notes to the Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF
THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Net Change in Fund Balance - Total Governmental Funds \$ (2,139,196)

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

Governmental Activities:		
Capital Outlay	\$ 1,158,278	
Depreciation Expense	<u>(1,319,166)</u>	
Excess of Capital Outlay over Depreciation Expense		(160,888)

Revenues in the Statement of Revenues that correspond to Prior Year resources are record as Revenue in the Statement of Activities 87,257

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: (160,000)

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: 425,000

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

Increase in Compensated Absences	(466,070)	
Decrease in Crim Debt	49,560	
Incesase in Other Debt	(969,573)	
Total Additional Expenditures		(1,386,083)

Change in Net Assets of Governmental Activities \$ (3,333,910)

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 (CONTINUED)

Government-wide Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information of all the activities of the Municipality. For 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 (CONTINUED)

- 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 (CONTINUED)

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 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 primarily 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 primarily 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 (CONTINUED)

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 (CONTINUED)

vacation and sick leave unpaid at June 30, 2010, 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 undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico. From the total cash with fiscal agent recognized in the Other Governmental Fund \$737,118 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 (CONTINUED)

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

<u>Capital Asset</u>	<u>Years</u>
Buildings	30
Improvement Other Than Buildings	30
Equipment	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 (CONTINUED)

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences for \$1,810,615, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion \$887,060 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 (CONTINUED)

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, 2010 amounted to approximately \$138,563. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$350,475 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, 2010:

- 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.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- GASB Statement No. 57, *Fund OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (GASB No. 57). The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).. : The provisions of Statement No. 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.
- GASB Statement No. 59, *Financial Instruments Omnibus* (GASB No. 59). The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement is effective for periods beginning after June 15, 2010.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB No. 60). The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement is effective for periods beginning after December 15, 2011.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* (GASB No. 61). The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement is effective for periods beginning after June 15, 2012.

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

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010

NOTE 2: CASH (CONTINUED)

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, 2010. Therefore, the Municipality's management has concluded that at June 30, 2010 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 \$236,518 in the general fund, \$62,390 in the HUD fund, and \$10,992 in the State Assignment Fund were fully collateralized at June 30, 2010. In the other governmental funds there were deposits with commercial banks of approximately \$528,572 that were fully collateralized.

The deposits at GDB of approximately \$478,896, that is restricted for other purposes in the general fund and the \$2,068,978 in the other governmental are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3: RECEIVABLES

Intergovernmental - Intergovernmental receivable of \$62,993 and \$106,791 in the State Assignment Fund and Other Governmental Funds, respectively, represent amounts due to the Municipality from agencies of the Commonwealth of Puerto Rico. Also, the Governmental Wide Financial Statements includes an intergovernmental receivable of \$92,351.

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	\$ 306,992	Payment Debt
General Fund	Other Governmental Fund	<u>701,430</u>	Various Purposes
		<u>\$ 1,008,422</u>	

B. Interfund Receivable and Payable Balances

Interfund receivables and payables at June 30, 2010 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	HUD Fund	\$ 41,550
General Fund	State Assignment	127,278
General Fund	Other Funds	4,095,834
State Assignment	General Fund	1,391,707
Other Funds	General Fund	<u>2,680,182</u>
TOTAL		<u>\$ 8,336,551</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010

NOTE 5: DUE TO GOVERNMENTAL UNITS

As of June 30, 2010, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

	AMOUNT
Water & Sewer Company	\$228,429
State Retirement System	58,680
Labor Department	189,843
General Services Administration	<u>267,605</u>
 Total Due to Governmental Units	 <u>\$744,557</u>

NOTE 6: CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2010 was as follows:

Description	Balance July 1, 2009	Adjustments	Additions	Retirements	Balance June 30, 2010
Non-Depreciable Capital					
Land	\$ 1,284,597	\$ -	\$ -	\$ -	\$ 1,284,597
Construction in Progress	<u>1,878,334</u>	<u>3,384,370</u>	<u>722,580</u>	-	<u>5,985,284</u>
Total Non-Depreciable	<u>3,162,931</u>	<u>3,384,370</u>	<u>722,580</u>	-	<u>7,269,881</u>
Depreciable Capital					
Buildings	8,079,085	-	-	-	8,079,085
Infrastructure	4,969,685	293,504	51,493	-	5,314,682
Recreation Facilities	6,951,306	-	139,999	-	7,091,305
Machinery and Equipment	1,059,797	-	183,054	-	1,242,851
Motor Vehicles	<u>3,249,287</u>	-	<u>61,152</u>	<u>(173,680)</u>	<u>3,136,759</u>
Total Depreciable Capital	<u>24,309,160</u>	<u>293,504</u>	<u>435,698</u>	-	<u>24,864,682</u>
Less Accumulated					
Buildings	(1,887,656)	-	(270,361)	-	(2,158,017)
Infrastructure	(547,032)	-	(185,242)	-	(732,274)
Recreation Facilities	(2,623,034)	-	(272,361)	-	(2,895,395)
Machinery and Equipment	(580,845)	-	(157,102)	-	(737,947)
Motor Vehicles	<u>(2,181,149)</u>	-	<u>(434,100)</u>	<u>173,680</u>	<u>(2,441,569)</u>
Total Accumulated	<u>(7,819,716)</u>	-	<u>(1,319,166)</u>	-	<u>(8,965,202)</u>
Total Depreciable Capital	<u>16,489,444</u>	<u>293,504</u>	<u>(883,468)</u>	-	<u>15,899,480</u>
CAPITAL ASSETS, NET	<u>\$ 19,652,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,169,361</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010

NOTE 6: CAPITAL ASSETS (CONTINUED)

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

	Amount
General Government	\$ 214,370
Public Safety	67,043
Public Works	417,837
Urban Development	185,242
Welfare	20,255
Culture and Recreation	414,418
 Total Depreciation Expenses	 <u>\$ 1,319,166</u>

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, 2010, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
<u>General Obligations Bonds:</u>	
\$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	\$ 162,000
\$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	250,000
\$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	1,083,000
\$100,000, Series 2001, for construction purposes, payable in annual installments \$5,000, excluding interests at 6.50%, through July 1, 2025	80,000

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010

NOTE 7: GENERAL LONG-TERM DEBTS (CONTINUED)

DESCRIPTION	AMOUNT
<u>General Obligations Bonds (CONTINUED):</u>	
\$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	65,000
\$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	230,000
\$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	150,000
\$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	2,010,000
\$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	450,000
\$165,000, Series 2007, for construction purposes, payable in annual installments ranging from \$5,000 to \$15,000, excluding interests at 7.50 %, through July 1, 2032	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>433,000</u>
Total Bond Payable	<u>\$ 5,068,000</u>
<u>Notes Payable:</u>	
\$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	\$ 50,000
\$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, 2013	110,000
\$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	90,000

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010

NOTE 7: GENERAL LONG-TERM DEBTS (CONTINUED)

DESCRIPTION	AMOUNT
<u>Notes Payable (CONTINUED):</u>	
\$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	80,000
\$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	95,000
\$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	635,000
\$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	600,000
\$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	435,000
\$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	30,000
\$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	65,000
\$160,000, Series 2009, for construction purposes, payable in semiannual installments ranging from \$5,000 to \$15,000, excluding interests at 7.5%, through July 1, 2034	160,000
Total Notes Payable	<u>3,814,000</u>
Total General Obligations Bonds and Notes	<u>\$ 8,882,000</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010

NOTE 7: GENERAL LONG-TERM DEBTS (CONTINUED)

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2010 are as follows:

Year Ending June, 30	Principal Payment	Interest Payment	Total Payment
2011	\$ 452,000	\$ 471,248	\$ 923,248
2012	287,000	563,660	850,660
2013	313,000	549,791	862,791
2014	314,000	529,680	843,680
2015	283,000	513,419	796,419
2016-2020	1,556,000	2,269,589	3,825,589
2021-2025	1,989,000	1,722,662	3,711,662
2026-2030	2,134,000	1,004,195	3,138,195
2031-2035	1,554,000	215,385	1,769,385
TOTAL	\$ 8,882,000	\$ 7,839,629	\$ 16,721,629

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 \$1,744,119, at June 30, 2010. The principal and interest maturities are as follows:

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010

NOTE 7:GENERAL LONG-TERM DEBTS (CONTINUED)

Year Ending June, 30	Principal Payment	Interest Payment	Total Payment
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	49,561	96,605	146,166
2016-2020	298,623	432,207	730,830
2021-2025	404,990	325,840	730,830
2026-2030	549,250	181,580	730,830
2031-2035	270,979	21,353	292,332
TOTAL	<u>\$ 1,744,119</u>	<u>\$ 1,471,533</u>	<u>\$ 3,215,652</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, 2010, the outstanding principal balances amounted to \$62,235.

The principal and interest maturities are as follows:

Year Ending June, 30	Principal Payment	Interest Payment	Total Payment
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	2,829	3,166	5,995
2016-2020	14,145	13,190	27,335
2021-2025	14,145	8,790	22,935
2026-2030	14,144	4,390	18,534
2031-2035	5,656	524	6,180
TOTAL	<u>\$ 62,235</u>	<u>\$ 44,484</u>	<u>\$ 106,719</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, 2010, the balance of this note amounted to \$21,012. The principal and interest maturities are as follows.

MUNICIPALITY OF VILLALBA, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010

NOTE 7: GENERAL LONG-TERM DEBTS (CONTINUED)

Year Ending June, 30	Principal Payment	Interest Payment	Total Payment
2011	\$ 13,802	\$ 1,048	\$ 14,850
2012	7,210	215	7,425
TOTAL	\$ 21,012	\$ 1,263	\$ 22,275

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2010:

Description	Balance 07/01/09	Balance Adjustment	New Issuances	Retirements	Balance 06/30/10	Amounts Due Within One Year	Amounts Due After Next Year
Bonds and Notes	9,153,000	-	160,000	431,000	8,882,000	447,000	8,435,000
Property Taxes - MRCC	1,780,663	-	-	36,544	1,744,119	38,930	1,705,189
Property Taxes - TD.	34,028	-	-	13,016	21,012	13,802	7,210
Property Taxes - MRCC	65,064	-	-	2,829	62,235	2,829	59,406
Retirement System Administration	-	-	81,759	-	81,759	81,759	-
Puerto Rico Department of Labor	-	-	890,643	-	890,643	317,790	572,853
Convertible Line of Credit	1,550,000	-	-	-	1,550,000	-	1,550,000
Claims and Judgements	-	-	-	-	-	-	-
Compensated Absences	1,344,545	-	1,353,130	887,060	1,810,615	887,060	923,555
TOTAL	13,927,300	-	2,485,532	1,370,449	15,042,383	1,789,170	13,253,213

NOTE 8: DEBT RETIREMENT

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

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 GOVERNMENTAL ACTIVITIES NET ASSETS RESTATEMENT

The beginning Governmental Activities Net Assets has been restated by approximately \$3,677,874 to property presents the previously reported net assets at June 30, 2009. The restatement is mainly due to the correction of the capital assets erroneously reported in Governmental Wide Financial Statements.

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, 2010 amounted to approximately \$296,994 and \$332,887, 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.

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, 2010		June 30, 2009	
	Law 447	Reforma 2000	Law 447	Reforma 2000
Required	\$118,819	\$214,068	\$116,428	\$192,115
Actual	\$118,819	\$214,068	\$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

MUNICIPALITY OF VILLALBA, PUERTO RICO
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
 YEAR ENDED JUNE 30, 2010

	Budget Amounts		Actual Amount (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows)				
Property Taxes	\$ 979,904	\$ 979,904	\$ 979,904	\$ -
Volume of Buseness Taxes	1,793,245	1,793,245	1,627,087	(166,158)
Sales Tax	376,000	376,000	326,870	(49,130)
Intergovernmental Revenues	6,285,143	6,285,143	6,640,779	355,636
License and Permits	2,103,160	2,103,160	679,851	(1,423,309)
Rent	54,000	54,000	56,640	2,640
Miscellaneous	361,200	361,200	142,534	(218,666)
Interest	20,000	20,000	5,597	(14,403)
Prior Year Allocation	-	-	-	-
Total Resources (Inflows)	11,972,652	11,972,652	10,459,263	(1,513,389)
Charges to Appropriations (Outflows)				
Mayor and Municipal Legislature	1,699,469	1,999,626	1,753,560	246,066
General Government	5,607,706	5,701,226	4,743,114	958,112
Public Safety	1,104,040	985,011	948,822	36,189
Public Work	1,523,764	1,220,759	984,335	236,424
Culture and Recreation	794,560	790,582	674,999	115,583
Health and Sanitation	332,388	423,357	355,200	68,157
Human Services and Welfare	540,988	482,352	378,294	104,058
Urban Development	-	-	-	-
Transfer to Other Funds	369,737	369,737	306,992	62,745
Total Charges to Appropriations	11,972,652	\$ 11,972,652	\$ 10,145,316	1,827,336
Excess (deficiency) of revunues over(under) expenditures, encumbrances and other financing sources(use)	\$ 0	\$ 0	\$ 313,948	

See accompanying Notes to Required Information

MUNICIPALITY OF VILLALBA, PUERTO RICO
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2010

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

	<u>General Fund</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basic) " Available for Appropriation" from the Budgetary Comparison Schedule (See Page 41)	\$ 10,459,263
Basis Difference- Budget to GAAP:	
Non-Budgetary Revenues	<u>13,592</u>
Total Revenue as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 19)	<u>\$ 10,472,855</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basic) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 41)	\$ 10,145,316
Basis Difference- Budget to GAAP:	
Prior Year expenditures are not outflows of budgetary resources but are expenditures For Financial reporting purposes	649,023
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(820,987)
Non- Budgetary Expenditures	93,835
Transfer to other funds are outflows of Budgetary Resources but are not Expenditures For Financial Reporting Purpose	<u>686,430</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 19)	<u>\$ 10,753,617</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	Pass-through Entity Identifying Number	2009-2010 Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers Program	14.871		532,585
Pass-through the Commonwealth of Puerto Rico- Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant - State's Grants	14.218	Not Available	1,256,120
ARRA- Homelessness Prevention and Rapid Re-housing Program	14.257	Not Available	<u>61,220</u>
Total Pass-through the Commonwealth of Puerto Rico- Office of the Commissioner of Municipal Affairs:			1,317,340
Pass-Through the Commonwealth of Puerto Rico- Puerto Rico Housing Administration:			
Public and Indian Housing	14.850	RQ-3073 RQ-5164 RQ-5203	<u>1,147,459</u>
Total U.S. Department of Housing and Urban Development			<u>2,997,384</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-through the Commonwealth of Puerto Rico- Transit Safety Commission:			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive	20.601	Not Available	6,088
Total U.S. Department of Transportation:			<u>6,088</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE			
Pass-Through the Commonwealth of Puerto Rico - Office of Governor, Elderly Office:			
Special Program for Aging, Title III, Part B	93.044	Not Available	14,374
Total U.S. Department of Health and Human Service:			<u>14,374</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-Through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Disaster Grants - Public Assistance	97.036	Not Available	79,242
Pass-Through the Commonwealth of Puerto Rico - Office of Management and Budget:			
Homeland Security Grant Program	97.067	Not Available	32,628
Total U.S. Department of Homeland Security:			<u>111,870</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>3,129,716</u></u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

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/AV are not available.

NOTE 5: MAJOR PROGRAMS

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

END OF NOTES



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

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, 2010, which collectively comprise Municipality of Villalba's basic financial statements and have issued our report thereon dated April 13, 2011. 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. Also, the report's opinion on Fund Financial Statements was qualified because the Municipality does not maintain complete and accurate records of interfund transactions. Except as discussed in the preceding sentences, 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.

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 10-01 and 10-02.

INDEPENDENT AUDITORS' REPORT

Municipality of Villalba

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.

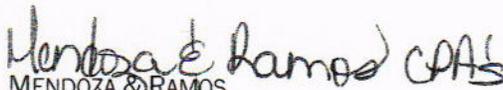
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 10-01 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 10-01 and 10-02.

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
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
April 13, 2011

Stamp number 2573135 was
affixed to the original of this
report.





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

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 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, 2010. 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
10-03	Equipment and Real Property Management	Community Development Block Grant / State's Program
10-04 10-05 10-06	Procurement and Suspension and Debarment	Community Development Block Grant / State's Program
10-07	Davis Bacon	Community Development Block Grant / State's Program
10-08	Special Test / Housing Rehabilitation	Community Development Block Grant / State's Program
10-09	Special Tests and Provisions	Section 8 Housing Choice Vouchers
10-10	Reporting	Section 8 Housing Choice Vouchers
10-11	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 Villaalba

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, 2010.

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 10-03 to be significant deficiencies.

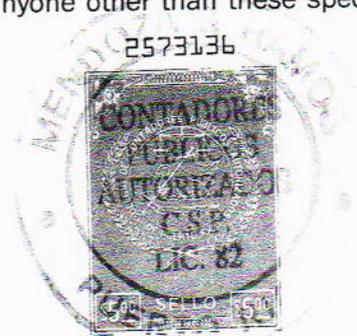
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Municipality's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of finding and questioned costs, we consider items 10-03 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
April 13, 2011

Stamp number 2573136 was
affixed to the original of this report.



MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Financial Statements

Type of auditors' report issued:

- Unqualified Opinion
- 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 / State's Program
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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-01
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 had gathered relevant information related to the capital assets but it has not been sufficient so far. The person in charge of the Property Division is working very hard in obtaining as much information as possible and for the most part, the situation will be resolved for next year. Responsible Person: Mrs. Joan Quiñonez Contact Number: (787)-847-2500

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING 10-02

CATEGORY INTERNAL CONTROLS

TOPIC SENTENCE ACCOUNTING SYSTEM

- CONDITIONS
- 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 Principles of the United States of America (GAAP).
 - There are no internal controls or records to account for the inter fund receivable and payables balances between Municipality's funds. Monthly program's expenditures financed by the Municipality's general fund are not being register, monitored nor accounted for by the Programs' accountants. In addition, inter fund transactions regarding the reimbursement of money between funds were not supported by an analysis.
 - The Municipality does not count with an account receivable subsidiary ledger.

CRITERIA

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.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-02 (Continued)
EFFECT	<p>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.</p> <p>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.</p>
RECOMMENDATION	<p>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.</p>
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	<p>The Finance Director is implementing new intern accounting procedures related to the financial information in the Department in order to prepare the information according to GAAP. This situation will be solved promptly.</p> <p>Responsible Person: Mrs. Joan Quiñonez Contact Number: (787)-847-2500</p>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-03
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM (CDBG) (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	INTERNAL CONTROLS / COMPLIANCE
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
TOPIC SENTENCE	INADEQUATE CONTROLS OVER PROPERTY AND EQUIPMENT ITEMS ACQUIRED WITH FEDERAL FUNDS
CONDITIONS	<p>The Municipality is not maintaining adequate controls over property and equipment items acquired with Federal Funds. In testing property and equipment we noted the following:</p> <ul style="list-style-type: none">- The Municipality could not provide 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.- We could not ascertain that all property and equipment purchased was properly identified through a numbered plate or any other identification number, nor that it has been used by the Municipality in the program or project for which it was acquired.
CRITERIA	<p>As per OMB Circular A-102 Common Rule (____.32 (d)), procedures for managing equipment, as a minimum, will be 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> <p>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.</p> <p>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</p>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

	<p>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.</p>
CAUSE	<p>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.</p>
EFFECT	<p>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.</p>
RECOMMENDATION	<p>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.</p>
QUESTIONED COSTS	<p>None</p>
MANAGEMENT RESPONSE	<p>The new person in charge of the Property Division has finished the inventory and with the new accounting process which is been implemented in the department regarding the financial information, we consider that this situation will be corrected for next year.</p> <p>Responsible Person: Mrs. Joan Quiñonez Contact Number: (787)-847-2500</p>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-04
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM (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	LACK OF DOCUMENTATION IN PROCUREMENT FILES
CONDITION	<p>In testing compliance with the procurement requirement, we examined the processes carried out to procure goods and services which were paid during the fiscal year 2009-2010. In relation to such examination we observe that procurement files for construction projects did not include evidence regarding the documents that should be required to the contractor, such as and minutes of the Bid Board, Payment and Performance Bond, General Liability Insurance, State Insurance Fund Policy and evidence of payment of municipal excise taxes.</p>
CRITERIA	<p>As stated in 24 CFR 85.36 (b)(9) grantee and subgrantees will maintain records sufficient to detail the significant history of 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> <p>The 24 CFR 85.36 (h) states the requirements regarding Payment and Performance Bond on the part of the contractor for 100 percent of the contract price for construction contracts.</p> <p>Chapter IX, Section 2, of the Municipal Management Regulation states the documents that the Municipality should require to the contractors.</p>
CAUSE	<p>The Municipality did not have appropriate controls to assure that required documentation is obtain from the contractors and maintain in the procurement files.</p>
EFFECT	<p>The Municipality is not in compliance with the requirements of 24 CFR 85.36 and Municipal Management Regulation.</p>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-04 (CONTINUED)
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. Also, the Municipality should assure that required documentation is obtained from contractors and maintained in the corresponding procurement files.</p>
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	<p>The Municipal Secretary has a file of the Bid Board Minute's by fiscal year and in some cases these minutes are not in the construction file, but they are in the Bid Board Minutes files.</p> <p>On the other hand, the Municipal Secretary requests Payment and Performance Bonds and other documents such as the ones mentioned in this finding, for construction projects in which the degree of expertise or there is a high risk of uncertainty because of the contractor.</p> <p>This is done this way because the cost for the project increases with the request of these documents and for project's with a limited budget it makes it unaffordable for the Municipality to request this documents in every construction project.</p> <p>Responsible Person: Mr. Miguel Bonilla Contact Number: (787)-847-2500</p>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-05
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM (CDBG) (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT STANDARDS
TOPIC SENTENCE	LACK OF REQUIRED CONTRACT CLAUSES
CONDITION	<p>In testing compliance with the procurement requirement, we examined five contracts for construction projects which were paid during the fiscal year 2009-10 with CDBG funds. In relation to such examination we determined absence of contract clauses required by the program regulation, as follows:</p> <ul style="list-style-type: none">• one contract did not include clauses regarding compliance with Davis-Bacon Act and Contract Work Hours and Safety Standard Act,• two contracts did not include clauses regarding compliance with Clear Air and Clear Water Act, and Energy Policy and Conservation Act, and retention of all required records for three years after grantees makes final payment and all other pending matters are closed,• four contracts did not include clauses regarding compliance with Copeland "Anti-Kickback" and Executive Order 11246 EEO,• five contracts did not include clauses regarding granting access to GAO and other federal agencies to books and documents, and provisions for suspension and debarment.
CRITERIA	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (i) (1-13) states that subgrantee's contract must contain provisions in paragraph (i) of these Sections. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
CAUSE	The Municipality did not maintain appropriate procurement standard procedures; in order to assure that contractor complies with program requirements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-05 (CONTINUED)
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR, Section 85.36 (i) (1-13).
RECOMMENDATION	We recommend management to update contract model according with the federal requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	<p>The majority of the construction contracts have the referred clauses incorporated, but there some contracts that may not have them. Therefore, we are instructing the Municipal Secretary to incorporate these clauses to every construction in order to comply with federal and state regulations.</p> <p>Responsible Person: Mr. Miguel Bonilla Contact Number: (787)-847-2500</p>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-06
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM (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 in 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 non-procurement 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	<p>The Municipal Secretary will be instructed to implement a procedure that assured the Municipal Administration to comply with such regulations.</p> <p>Responsible Person: Mr. Miguel Bonilla Contact Number: (787)-847-2500</p>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-07
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/ STATE'S PROGRAM (CDBG) (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	COMPLIANCE
NONCOMPLIANCE	DAVIS-BACON ACT
TOPIC SENTENCE	NONCOMPLIANCE WITH THE DAVIS-BACON ACT
CONDITION	Municipality did not comply adequately with Davis-Bacon Act applicable regulations. The Municipality did not required to all contractors or subcontractors, for each week in which any contracted work was performed, a copy of the payroll and a statement of compliance. There is no evidence that the Municipality verifies that all laborers employed by the contractors were paid according to the wages established by law.
CRITERIA	As stated in 29 CFR 5.5 (a)(3)(ii)(A), the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the Municipality. The payrolls submitted shall set out accurately and completely all of the information required to be maintained. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. Each payroll submitted shall be accompanied by a "Statement of Compliance", signed by the contractor or subcontractor or his or her agent who pays or supervise the payment of the persons employed under the contract and certifying all the information required under 5.5 (a)(3)(ii)(B) (1) to (3).
CAUSE	The Municipality did not required all contractors the required documentation to ascertain compliance with such requirement.
EFFECT	The Municipality may have procured services from an organization that is not complying with the applicable Department of Labor regulations and could result in cost disallowances by the federal awarding agency.
RECOMMENDATION	The Municipality should require to all contractors whose contracts are funded with CDBG award that complies with this requirement and should verify its compliance trough the designated municipal officer.
QUESTIONED COSTS	None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING

10-07

MANAGEMENT RESPONSE

This situation has been partially solve because in some contracts such information had been gathered, but there are construction contracts that are not funded with federal money and therefore we do not request this information. Nonetheless, we will instruct the Municipal Secretary to request the proper information in every contract in order to comply with the Davis Bacon.

Responsible Person: Mrs. Sara Robles
Contact Number: (787)-847-2500

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-08
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/ STATE'S PROGRAM (CDBG) (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS / REHABILITATION
TOPIC SENTENCE	Lack of internal controls and deficiencies regarding residential rehabilitation activities
CONDITIONS	<p>In order to test compliance with the rehabilitation special test requirement we selected for testing ten beneficiaries' files which rehabilitation costs amount approximately \$37,799 or 11% of the fiscal year rehabilitation expenditures. After performing the test we noted the following deficiencies:</p> <ul style="list-style-type: none">- In four cases, on site visits and inspections during the rehabilitation process were not performed.- All files examined lack required reports and evidence regarding the completion of the rehabilitation works.- All files examined did not include evidence regarding the receipt of the construction material on the part of the beneficiary nor the expense control register.- In addition, two files did not include evidence of participant's disability considered in the eligibility determination.
CRITERIA	<p>As stated in 24 CFR 570.506(b)(8) each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipient has met the requirements of this part. At a minimum, the records for each residential rehabilitation activity determined to aid in the prevention or elimination of slums or blight in a slum or blighted area: (i) The local definition of "substandard"; (ii) A pre-rehabilitation inspection report describing the deficiencies in each structure to be rehabilitated; and (iii) details and scope of CDBG assisted rehabilitation, by structure.</p> <p>Also, the aforementioned conditions were not according the Moderate Rehabilitation Operational Guide established by the Municipality's CDBG Program in April 2008.</p>
CAUSE	Lack of an adequate supervision over the duties performed by the personnel in charge of the rehabilitation program and lack of knowledge from such personnel.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

EFFECT	The Municipality could be subject to penalties 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	The CDBG Program must make sure that the personnel in charge of the Rehabilitation Program follow the process that has been established in the Moderate Rehabilitation Operational Guide.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	<p>The Federal Program's Director will be instructed to implement more efficient strategies for the supervisor personnel in order to solve this situation.</p> <p>Responsible Person: Mrs. Sara Robles Contact Number: (787)-847-2500</p>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-09
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 2009-10, Municipality's Section 8 Housing Choice Voucher Program counts with approximately 84 participants. In order to evaluate participants' income eligibility, total tenants payments and housing assistance payments ("HAP") we selected for testing 10 participants files or 12% of Programs' total participants. The test revealed the following deficiencies:</p> <p>-In two cases, unemployment income was not considered in the HAP calculation for reexaminations made in February and April 2010. The monthly amounts paid by these participants were understated by \$36.00 and \$120, respectively.</p> <p>-In one case, the file did not include evidence of income received by the participant. An estimate amount was used in the calculation of HAP payment.</p>
CRITERIA	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.
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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-09 (CONTINUED)
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.
MANAGEMENT RESPONSE	<p>The Section 8 Director made a proper evaluation with the information provided by the participant and in this case there was no difference to adjust because the income used in the evaluation was for the correct amount.</p> <p>We strongly recommend to discard the situation commented in the finding because there was no departure from the regulations.</p> <p>Responsible Person: Mr. Luis Ríos Contact Number: (787)-847-1478</p>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-10
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM CFDA NO. 14.871)
CATEGORY	COMPLIANCE
NONCOMPLIANCE	REPORTING
TOPIC SENTENCE	ADMINISTRATIVE COSTS NOT INCLUDED IN THE VMS REPORT
CONDITIONS	During our evaluation of the VMS report we observe that the amounts informed as administrative costs to HUD were understated by approximately \$37,913.
CRITERIA	As required by HUD, the PHA must submit monthly the form <i>HUD-52681-B – Voucher for Payment of Annual Contributions and Operating Statement</i> electronically through the Voucher Management System (VMS) on the same basis of accounting (full or modified) as the PHA prepares its annual financial submission to HUD through the FASS-PH system.
CAUSE	Program personnel did not have adequate controls to assure that the VMS report is prepared according to program requirements.
EFFECT	The amounts presented in the VMS report were not accurate and according to HUD requirements.
RECOMMENDATION	Accounting personnel should implement adequate controls to prepare accurate financial reports as required by HUD.
QUESTIONED COSTS	None.
MANAGEMENT RESPONSE	This was a clerical error which had been solve, therefore the Section 8 Director will be instructed in order to assure that this situation don't occur again. Responsible Person: Mr. Luis Rios Contact Number: (787)-847-1478

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-11
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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

FINDING	10-11 (CONTINUED)
RECOMMENDATION	Reports should be provided to the PRPHA on a timely basis including all activity of the reporting period.
QUESTIONED COSTS	None.
MANAGEMENT RESPONSE	The accountant in charge of this process was instructed to take notice of the situation mention in this finding and make the proper arrangements in order to comply with regulations. Responsible Person: Mr. Lourdes Barceló Contact Number: (787)-847-2500

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

(1) Audit Findings that have been Fully Corrected:

Finding Number	CFDA	Questioned Cost	Comments
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(2) Audit Findings not corrected or Partially Corrected:

Finding Number	CFDA	Questioned Cost	Comments
09-03 Equipment and Real Property Management	14.228	None	Situation still prevails.
09-04 Procurement	14.228	None	Situation still prevails.
09-05 Special Test and Provisions	14.228	None	Situation still prevails.
09-06 Suspension and Debarment	14.228	None	Situation still prevails.
09-07 Special Test and Provisions	14.871	None	Situation still prevails.
09-08 Special Test and Provisions	14.871	None	Partially corrected
09-09 Reporting	14.850	None	Situation still prevails.
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