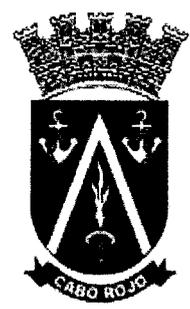


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MUNICIPALITY OF CABO ROJO
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2008



Hon. Perza Rodríguez-Quiñones
Mayor

Miss. Nereida Seda-Vargas
Finance Director

MUNICIPALITY OF CABO ROJO

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MANAGEMENT DISCUSSION AND ANALYSIS

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

We will provide the following analysis of the financial performance of the Municipality of Cabo Rojo to present an overview of the Municipality's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting to report information about the Municipality as a whole:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2008 by \$49,486,874 (net assets).
- Revenues decreased by 6% and expenses increased 20% in comparison with year 2007.
- Net change in net assets amounted to \$2,404,179, a decrease of 73% with respect to prior year net change.

Highlights for Fund Financial Statements

The fund financial statements provide detailed information about the Municipality's most significant funds, which use the current financial resources measurement focus and modified accrual basis of accounting:

- At June 30, 2008, a net change (decrease) of \$2,177,007 in the fund balances of the Municipality's governmental funds resulted in a reported combined ending fund balances of \$16,009,758. Approximately 25% of the total combined fund balances is unreserved.
- The General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of \$830,348 and an unreserved fund balance of \$3,997,874. Unreserved fund balance increased 57% from prior year.

General Financial Highlights

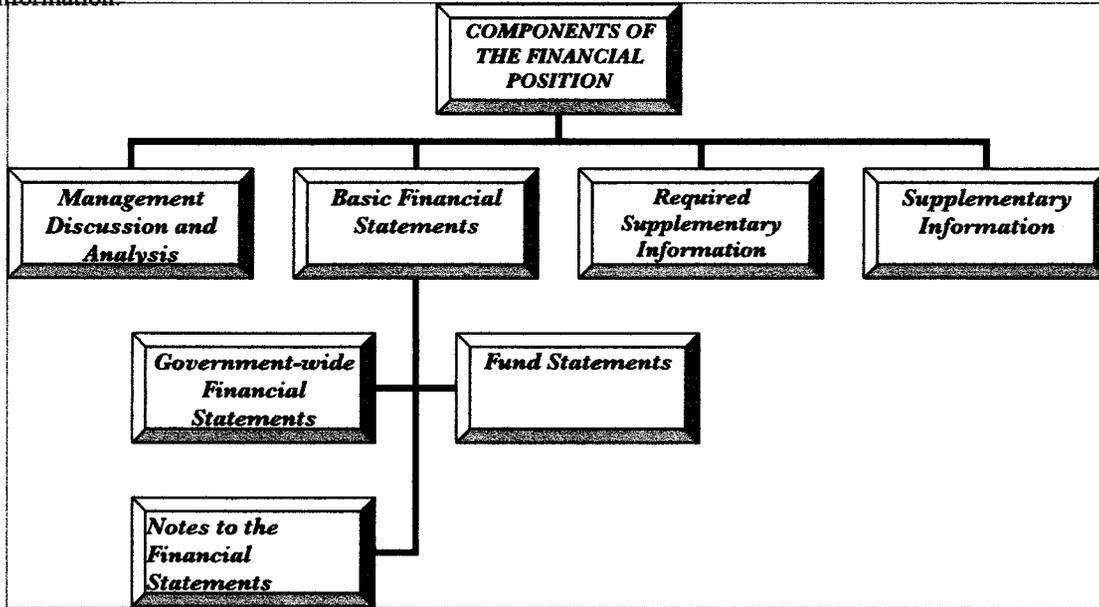
- The investment in capital assets as of June 30, 2008 was \$49,856,012 (net of depreciation).
- Long term debt decreased to \$20,064,139. Approximately a 3% decrease with respect to prior year.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$8,684.

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial reporting comprises four components: (1) management discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

- ***Government-Wide Financial Statements***

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the statement of net assets – presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement – the statement of activities – presents information showing how the net assets changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

MUNICIPALITY OF CABO ROJO

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

The government-wide statements reports as governmental activities the municipality's basic services such as public works and sanitation; public safety, culture and recreation, housing, welfare, and community development; education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well on balances of expendable resources available at year end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that complies with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to the financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Supplementary information

The supplementary information includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2008 and 2007:

TABLE 1

	Governmental Activities	
	2008	2007
Assets		
Current and other assets	\$ 24,519,481	\$ 28,334,483
Capital assets	49,856,012	46,092,870
Total assets	\$ 74,375,493	\$ 74,427,350
Liabilities		
Current and other liabilities	\$ 4,824,480	\$ 6,594,547
Long term liabilities	20,064,139	20,750,108
Total liabilities	24,888,619	27,344,655
Net assets		
Invested in capital assets, net of related debt	36,266,953	32,772,809
Restricted	11,567,850	12,674,842
Unrestricted	1,652,071	1,635,044
Total net assets	\$ 49,486,874	\$ 47,082,695

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year increased 5% with respect to prior year. The most significant changes include an increase in general revenues caused by an increase in approximately \$600,000 in property tax revenues, an increase in approximately \$700,000 in sales and use taxes and the receipt of over \$775,000 in donated assets.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

As of June 30 2008 the Municipality presented an unrestricted net assets balance of \$1,652,071. When compared to prior year we noted no significant change. The increases in revenues previously discussed were offset with increases in general government, public works and public safety expenses.

Changes in net assets

The following table summarizes the changes in net assets for the years ended June 30, 2008 and 2007:

TABLE 2

<i>Summary of Changes in Net Assets</i> <i>As of June, 30</i>		
	Governmental Activities	
	2008	2007
Program revenues:		
Fees, fines and charges for services	\$ 6,672,759	\$ 6,538,013
Operating grants and contributions	2,626,869	3,637,346
Capital grants and contributions	1,941,941	3,198,014
General revenues:		
Property taxes	7,334,598	6,749,436
Municipal license taxes	2,649,022	2,558,698
Sales and use taxes	2,423,926	1,707,427
Grants and contributions not restricted to specific programs	5,538,804	6,741,018
Interest	872,216	926,555
Other	213,993	152,754
Total revenues	30,274,128	32,209,261
Expenses:		
General government	6,423,774	5,817,750
Public works and sanitation	12,285,308	9,687,272
Public safety	3,058,316	2,024,720
Culture and recreation	1,527,490	1,358,085
Health	822,586	818,307
Housing, welfare and community development	2,642,070	2,547,868
Education	250,898	184,586
Interest on long term debt	859,507	870,950
Total expenses	27,869,949	23,309,538
Change in net assets	2,404,179	8,899,723
Net assets-beginning of year	47,082,695	38,182,972
Net assets-end of year	\$ 49,486,874	\$ 47,082,695

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

FIGURE 1

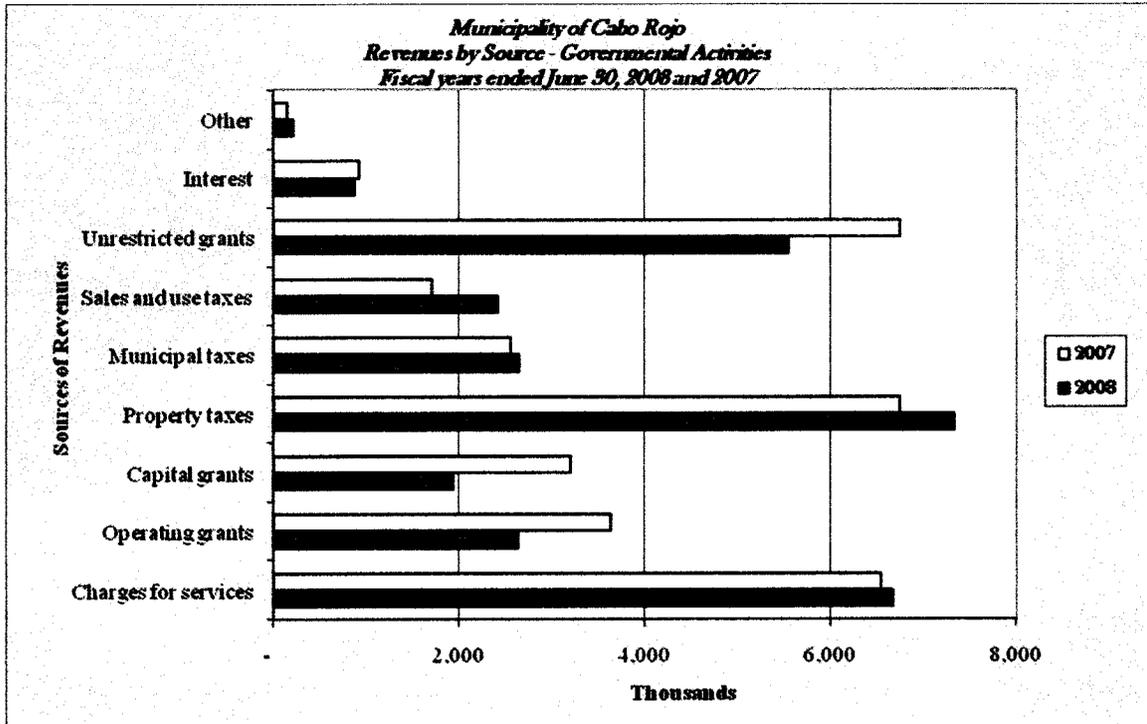
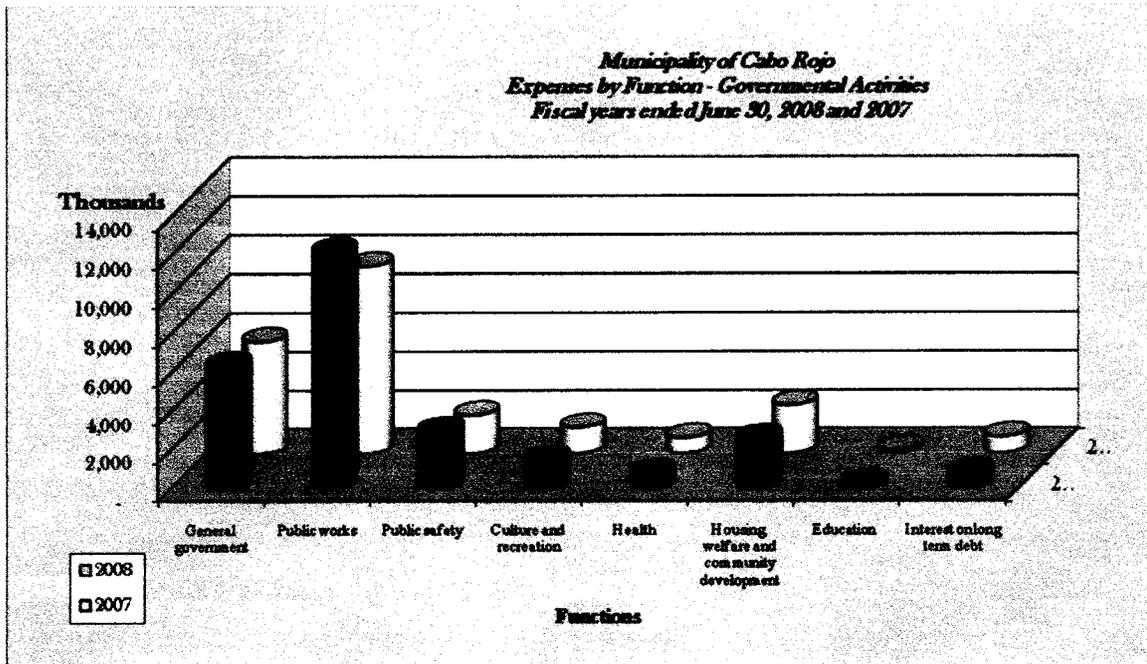


FIGURE 2



MUNICIPALITY OF CABO ROJO

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

Approximately 24% of the Municipality's revenues came from property taxes, 22% from fees and charges for services, 18% from unrestricted grants, 9% from municipal license taxes, 9% from operating grants and 8% from sales and use taxes. The Municipality's expenses cover a range of services. The largest expenses are public works and sanitation representing approximately 44%, general government with 23% and public safety with 11%. Program revenues of the Municipality covered 57% of total expenses.

With respect to prior year, revenues reported a net decrease of approximately 6%. This net increase is primarily the result of: (1) a 39% decrease in capital grants due to a decrease in grants from Commonwealth Legislative Resolutions, (2) 28% decrease in operating grants due mainly from a decrease in grants for public safety and a 18% decrease in operating unrestricted grants and contributions received due to a significant amount of assets received in donation in the previous year.

Expenses increased 20% in comparison with 2007 year. Significant increases were registered on public works and sanitation with 27%, public safety with 51% and general government with 10%. The general increase in expenses was caused basically in areas such as repairs and maintenance on infrastructure and other municipal assets, salaries and related payroll expenses (due to implementation of federal minimum wage) and depreciation of infrastructure and municipal facilities.

The following table focuses on the cost of each of the Municipality's largest programs as well as each program's net cost (total cost less fees generated by the programs and program –specific intergovernmental aid):

TABLE 3

<i>Net Cost of Municipality's Governmental Activities</i>				
<i>Fiscal years ended June 30,</i>				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
General government	\$ 6,423,774	\$ 5,817,750	\$ (2,625,635)	\$ (1,378,166)
Public works and sanitation	12,285,308	9,687,272	(6,368,662)	(2,165,904)
Public safety	3,058,316	2,024,720	(3,020,117)	(1,831,408)
Culture and recreation	1,527,490	1,358,085	(1,425,946)	(1,281,092)
Housing, welfare and community development	2,642,070	2,547,868	(1,453,329)	(1,609,392)
Other	1,932,991	1,873,843	(1,734,691)	(1,670,203)
	<u>\$ 27,869,949</u>	<u>\$ 23,309,538</u>	<u>\$ (16,628,380)</u>	<u>\$ (9,936,165)</u>

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$6,672,759) and other governments and organizations that subsidized certain programs with grants and contributions (\$4,568,810). The \$16,628,380 net cost of services was fully covered by other general revenues including property, municipal license, and sales and use taxes.

MUNICIPALITY OF CABO ROJO

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's welfare and community development expenditures. Actual revenues exceeded actual expenditures net resources available at the end of a fiscal year. For the Fiscal year ended June 30, 2008, the governmental funds reported combined ending fund balances of \$16,009,758, a net decrease of \$2,177,007 in comparison with the prior year. This decrease was caused primarily by a net change in the general fund of (\$830,348); \$29,536 in the Community Development Block Grant Fund; \$718,518 in the debt service fund; (\$946,616) in the Commonwealth Legislative Resolutions Fund and (\$1,148,097) in the other governmental funds. Of total combined fund balances, \$3,997,874 (25%) constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents approximately 25% of total combined ending fund balances. For the year ended June 30, 2008, the fund balance of the general fund decreased by \$830,348 when compared with the prior year. Of this net change \$740,135 pertains to other special funds (with self imposed restrictions) included as part of the general fund. The principal component of the net increase of \$495,867 in revenues is an increase of \$461,938 in intergovernmental revenues, an increase of \$352,443 in sales and use taxes, an increase of \$276,980 in property taxes with a decrease of (\$740,621) in fees, fines and charges for services. The net increase in expenditures of \$4,344,140 is due to increases of \$1,858,032, \$1,317,183 and \$584,961 in public works and sanitation, capital outlays and general government expenditures respectively due to intensive repairs and maintenance performed over Municipal capital assets.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2007-2008 presented an increase of 9% with respect to prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year budget revenues were increased by \$296,373 due to additional collections of intergovernmental subsidies. Budget expenditures were increased by \$1,215,123. Actual revenues exceeded the revised budgeted revenues by \$1,821,882. The most significant variances were in fees, fines and charges for services, \$985,564; \$372,169 in intergovernmental revenues; and \$268,259 in interests.

A positive variance of \$379,523 between revised budget and actual expenditures was due mainly to a positive budget variance of \$516,701 in general government expenditures with a negative budget variance of (\$239,336) in public works and sanitation expenditures.

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$49,856,012 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of approximately 8% over the prior year.

TABLE 4

	Governmental Activities	
	2008	2007
Non-depreciable assets:		
Land	\$ 3,258,738	\$ 3,267,716
Construction in progress	3,879,764	9,212,097
Depreciable assets:		
Land improvements	1,144,792	1,885,349
Buildings and buildings improvements	23,800,842	16,299,132
Infrastructure	12,806,047	12,318,937
Vehicles, machinery and equipment	4,965,829	3,109,639
Total	\$ 49,856,012	\$ 46,092,870

The Municipality's major capital projects that were still in construction as of June 30, 2008 are as follows:

- Construction of "Plaza de Artesanias" - \$1,652,199
- Construction of Municipal Gym - \$907,150
- Rehabilitation of Municipal Library - \$718,667
- Construction of a Convention Center (planning phase) - \$486,858

Buildings increased mostly due to the transfer of \$5,385,327 and \$2,229,397 of the cost of "Casa Alcaldia" and Improvements to the Rebekah Colberg Coliseum respectively from construction in progress. The Villa del Mar Basketball Court (\$347,737), and "Monumento al Soldado Caborrojeño" (\$145,564) were also finished during the year and transferred from construction in progress to their corresponding capital asset account.

The Municipality reported approximately \$1,360,372 in infrastructure additions during the year, which are composed mainly of capital improvements and donations from construction contractors of municipal streets and roads. Some of these improvements and donations are detailed as follows:

- "Tuberia Pluvial Alturas del Mar" - \$172,000
- "Urb. Las Vistas" - \$131,219
- "Extension Altos de Saman" - \$121,263

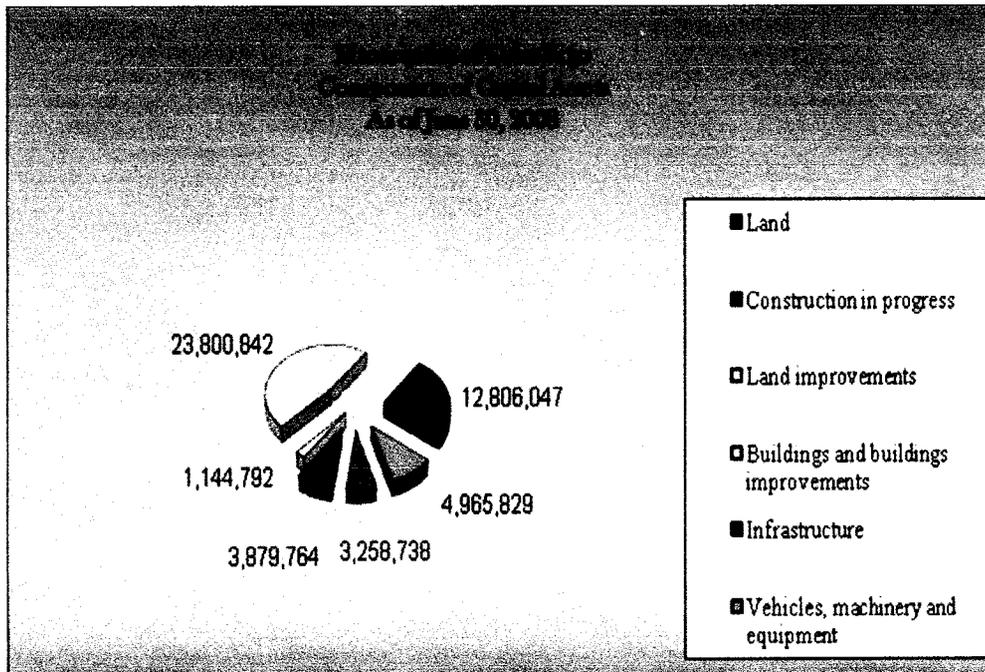
MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

The Municipality acquired a total of \$2,346,216 in vehicles, machinery and equipment during the fiscal year 2007-2008, including eight trucks for a combined amount of \$723,355, three tractors for the amount of \$219,472, two items of heavy equipment for a total amount of \$220,501 and two vehicles for \$51,549. The Municipality also capitalized over \$750,000 in office equipment, furniture and fixtures for the new City Hall.

The Municipality's fiscal year 2008-2009 consolidated capital budget calls for a significant amount of new and continuous projects including the completion of the construction of "Plaza Artesanias", the completion of the construction of the Municipal Gym, the completion of the improvements to the Municipal Library, the completion of the planning phase of the construction of a Convention Center, and extensive capital improvements to municipal streets, roads and structures. These projects will be financed through Federal and Commonwealth grants, funds from the Commonwealth Legislature, general obligation bonds and Municipal funds.

Capital assets composition as of June 30, 2008 follows:



More detailed information about the Municipality's capital assets is presented in Note F to the financial statements.

Long term debt

At year-end, the Municipality had \$14,799,055 in general and special bonds and notes, a decrease of 3% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2008 and 2007:

MUNICIPALITY OF CABO ROJO
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

TABLE 5

<i>Outstanding Long-term Debt</i> <i>As of June 30,</i>		
	Governmental Activities	
	2008	2007
General and special obligation bonds and notes	\$ 14,799,055	\$ 15,319,055
Note payable to CRIM - LIMS	289,247	361,559
Note Payable to CRIM – prior years delinquent accounts	320,023	333,357
Note payable to Puerto Rico Department of Labor	34,825	63,502
Note payable to Puerto Rico Solid Waste Authority	20,353	26,899
Note payable to solid waste land site contractor	776,540	1,196,536
Note payable to PR Employee Retirement System	83,950	148,978
Obligation under capital leases	6,156	15,397
Compensated absences	3,001,484	2,914,063
Christmas Bonus	401,821	367,898
Claims and judgments	52,000	-
Payable to CRIM – property tax advances	-	2,864
Payable to PREPA	278,685	-
Total	\$ 20,064,139	\$ 20,750,108

Although there was an overall decrease in the general and special obligation bonds and notes (due to payments of maturities of general obligation bonds made during the year) there was a \$710,000 new bond issuance during fiscal for improvement to infrastructure assets. The note payable to Puerto Rico Electric Power Authority (PREPA) is the result of a new debt agreement formalized during the year. More detailed information about the Municipality's long term liabilities is presented in Note G to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2008-2009 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 9.6%, which compares with the Commonwealth rate of 11.8%.

MUNICIPALITY OF CABO ROJO

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2008

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2008-2009 are \$19,766,524, an increase of approximately 8% with respect to prior year estimates. Budgeted expenditures are expected to rise accordingly to the increase of budgeted revenues. In addition to the estimated budget for the general fund, the Municipality has submitted Federal and Commonwealth funds proposals for welfare and community development as well as for capital improvements and public works funds. The construction industry has been one of the major sources of income generated by the Municipality, in the construction of personal housing, contributing with construction taxes. Management believes that this contribution level will be maintained in the next year.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Director of Finance at PO Box 1380, Cabo Rojo, Puerto Rico 00623.

González - Torres, Llavona - Casas, LLP.

Certified Public Accountants and Consultants

Partners:

José A. González Torres, CPA, CFE
Fernando Llavona Casas, CPA, CFE

Members of:

Puerto Rico Society of Certified Public Accountants
American Institute of Certified Public Accountants
Association of Certified Fraud Examiners

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Municipal Council
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Cabo Rojo, Puerto Rico, as of and for the year ended June 30, 2008, which collectively comprise the Municipality's 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 opinions of these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

We were unable to obtain a liability estimate of the landfill's closure and post closure care costs at June 30, 2008. The accompanying government-wide financial statement did not include the liability for these costs. Accounting principles generally accepted in the United States of America require that landfill's closure and port-closure costs are estimated and included as liability in the government-wide financial statement, which would decrease the assets and net assets in the government-wide financial statements. The amount by which this departure would affect the assets and net assets of the government-wide financial statement is not reasonably determinable. The note "I" of the financial statements describes more details regarding the landfills costs.

In our opinion, except for the effects of not providing an adequate liability estimate of the landfill's closure and post closure care costs for the government-wide financial statement as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality's of Cabo Rojo as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the, each major funds and the aggregate remaining fund information of Municipality of Cabo Rojo, as of June 30, 2008, 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.

As described in Note A, the Municipality has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for States and Local Governments, as amended and interpreted, as of June 30, 2008.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

The Management's Discussion and Analysis and budgetary comparison information on pages 1 through 12 and 50 through 55, are not a required part of the basic financial statements but are supplementary information required by 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 supplementary information. However, we did not audit the information and express no opinion on it.

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

March 23, 2008
San Juan, Puerto Rico

González Torres Llavona LLP
González - Torres, Llavona - Casas LLP
License number 226
Expires December 1, 2010

The stamp number 2384758
was affixed to the original.



BASIC FINANCIAL STATEMENTS

**MUNICIPALITY OF CABO ROJO
STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS	Governmental Activities
Cash and cash equivalents	\$ 6,923,568
Receivables, net:	
Municipal license taxes	8,526
Sales and use taxes	156,831
Rents and construction permits	17,248
Due from:	
Commonwealth Government (note C)	1,581,067
Federal Government (note C)	49,659
Restricted assets:	
Cash and cash equivalents	8,893,839
Cash with fiscal agents	5,837,890
Deferred bond issuance costs	64,853
Other assets (note E)	986,000
Capital assets (note F):	
Land and construction in progress	7,138,502
Other capital assets, net	42,717,510
Total capital assets, net	<u>49,856,012</u>
Total assets	<u>\$ 74,375,493</u>
LIABILITIES	
Accounts payable and accrued liabilities	2,313,201
Interest payable	395,884
Due to:	
Commonwealth Government	76,938
Deferred revenues:	
Municipal license taxes	1,996,094
Intergovernmental-Commonwealth agencies	26,774
Federal grants	15,589
Long term liabilities (note H) :	
Due within one year	2,891,436
Due in more than one year	17,172,703
Total liabilities	<u>24,888,619</u>
NET ASSETS	
Invested in capital assets, net of related debt	36,266,953
Restricted for:	
Capital projects	7,007,518
Debt service	3,294,748
Other specified purposes	1,265,584
Unrestricted	1,652,071
Total net assets	<u>\$ 49,486,874</u>

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2008

Functions	Program Revenues			Net (Expenses) Revenues and Change in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General government	\$ 6,423,774	\$ 3,350,204	\$ 171,493	\$ (2,625,635)
Public works and sanitation	12,285,308	3,121,626	1,407,585	(6,368,662)
Public safety	3,058,316	-	38,199	(3,020,117)
Culture and recreation	1,527,490	101,544	-	(1,425,946)
Health	822,586	-	-	(822,586)
Housing, welfare and community development	2,642,070	99,385	811,292	(1,453,329)
Education	250,898	-	198,300	(52,598)
Interest on long term debt	859,507	-	-	(859,507)
Total	\$ 27,869,949	\$ 6,672,759	\$ 2,626,869	\$ (16,628,380)
			Capital Grants and Contributions	
			276,442	
			1,387,435	

General revenues:

Taxes:	
Property taxes	7,334,598
Municipal license taxes	2,649,022
Sales and use taxes	2,423,926
Grants and contributions not restricted to specific programs	5,538,804
Interest	872,216
Net gain on disposition of capital assets	118,851
Other	95,142
Total general revenues	19,032,559
Change in net assets	2,404,179
Net assets -beginning	47,082,695
Net assets -ending	\$ 49,486,874

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	Major Funds					Total Governmental Funds
	General	Community Development Block Grant Program	Debt Services	Commonwealth Legislative Resolutions	Other Governmental Funds	
Assets						
Cash and cash equivalents	\$ 6,923,568	-	-	-	-	\$ 6,923,568
Receivables, net:						
Municipal license taxes	8,528	-	-	-	-	8,528
Sales and use taxes	156,831	-	-	-	-	156,831
Rents and construction permits	10,034	-	-	-	-	10,034
Other	-	-	-	-	7,214	7,214
Due from:						
Commonwealth Government	910,321	-	277,159	344,210	49,375	1,581,065
Federal Government	-	49,174	-	-	485	49,659
Other funds (note D)	924,354	-	-	-	-	924,354
Restricted assets:						
Cash and cash equivalents	-	10	-	6,919,697	1,974,132	8,893,839
Cash with fiscal agents	-	-	3,587,844	-	2,250,046	5,837,890
Total assets	\$ 8,933,636	\$ 49,184	\$ 3,865,003	\$ 7,263,907	\$ 4,281,252	\$ 24,392,982
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 834,030	\$ 33,353	\$ -	\$ 783,277	\$ 662,541	\$ 2,313,201
Matured debt and interest payable	91,500	-	-	-	-	91,500
Matured bonds and interest payable	-	-	1,568,052	-	-	1,568,052
Due to:						
Commonwealth Government	76,938	-	-	-	-	76,938
Other funds	-	15,821	-	655,293	253,240	924,354
Deferred revenues:						
Municipal license taxes (note J)	1,996,094	-	-	-	-	1,996,094
Intergovernmental-Commonwealth Government (note G)	786,339	-	183,906	344,210	49,375	1,363,830
Federal grants	-	13,363	-	-	16,064	29,427
Rents and construction permits	15,680	-	-	-	-	15,680
Advances from other funds	-	-	-	-	-	-
Others	-	-	-	-	4,148	4,148
Total liabilities	\$ 3,800,581	\$ 62,537	\$ 1,751,958	\$ 1,782,780	\$ 985,368	\$ 8,383,224
Fund balances (deficits):						
Reserved for:						
Encumbrances	76,177	-	-	-	-	76,177
Debt service	-	-	2,113,045	-	-	2,113,045
Capital projects	-	-	-	5,481,127	3,002,947	8,484,074
Other specified purposes	1,059,004	(13,353)	-	-	292,937	1,338,588
Unreserved						
Designated for subsequent years expenditures	1,223,431	-	-	-	-	1,223,431
Undesignated	2,774,443	-	-	-	-	2,774,443
Total fund balances (deficits)	\$ 5,133,055	\$ (13,353)	\$ 2,113,045	\$ 5,481,127	\$ 3,295,884	\$ 16,009,758
Total liabilities and fund balances (deficits)	\$ 8,933,636	\$ 49,184	\$ 3,865,003	\$ 7,263,907	\$ 4,281,252	\$ 24,392,982

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

Total governmental fund balances:		\$ 16,009,758
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		49,856,012
Other assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Deferred bond issuance costs	\$ 64,856	
Other assets	<u>986,000</u>	1,050,856
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Receivables:		
P.R. Department of Treasury - Christmas bonus reimbursement	200,910	
CRIM - Property taxes (General Fund)	232,118	
Federal Grants - CDBG	13,353	
Commonwealth Legislative Resolutions	344,210	
CRIM - Property taxes (Debt Service Fund)	168,414	
Sales Taxes (Debt Service Fund)	15,492	
Sales Taxes (Municipal Development Fund)	15,680	
P.R. Department of Education ("Consevacion Rutinaria Escuelas")	22,600	
P.R. Electric Power Authority (PREPA)	278,685	
Other grants and miscellaneous receivables	<u>79,257</u>	1,370,719
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds:		(23,297)
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds and notes	13,594,055	
Note payable to CRIM-LIMS	289,247	
Note payable to CRIM-financing of delinquent accounts	320,023	
Note payable to P.R. Department of Labor	34,825	
Note payable to ADS	20,353	
Note payable to solid waste landfill site contractor	694,575	
Note payable to ERS	83,950	
Obligation under capital leases	6,156	
Compensated absences	3,001,484	
Christmas bonus	401,821	
Judgements and Claims	52,000	
Payable to P.R. Electric Power Authority (PREPA)	<u>278,685</u>	<u>(18,777,174)</u>
Net assets of governmental activities:		<u>\$ 49,486,874</u>

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	Major Funds						Total Governmental Funds
	General	Community Development Block Grant Program	Debt Service	Commonwealth Legislative Resolutions	Other Governmental Funds		
Revenues:							
Taxes:							
Property taxes (note J)	\$ 4,479,439	\$ -	\$ 2,561,610	\$ -	\$ -	\$ -	\$ 7,041,049
Municipal license taxes (note K)	2,649,022	-	-	-	-	-	2,649,022
Sales and use taxes (note L)	2,059,870	-	332,884	-	-	-	2,392,754
Intergovernmental (note M):							
Commonwealth government	7,356,748	-	-	714,876	1,738,637	-	9,810,261
Federal government	-	970,418	-	-	761,510	-	1,731,928
Fees, fines and charges for services	4,046,775	-	-	-	-	-	4,046,775
Interest	288,842	-	74,028	337,963	171,383	-	872,216
Other	70,578	-	-	-	-	-	70,578
Total Revenues	20,951,274	970,418	2,968,522	1,052,839	2,671,530	-	28,614,583
Expenditures:							
Current:							
General government	6,019,832	276,442	-	-	55,495	-	6,351,769
Public works and sanitation	8,915,350	336,976	-	56,020	1,702,915	-	11,011,261
Public safety	2,142,705	-	-	-	54,112	-	2,196,817
Culture and recreation	994,734	-	-	-	-	-	994,734
Health	822,586	-	-	-	-	-	822,586
Housing, welfare and community development	1,789,653	277,064	-	1,000	476,585	-	2,544,302
Education	15,353	-	-	-	229,869	-	245,222
Capital outlays	1,607,643	50,400	-	1,604,472	1,752,163	-	5,014,678
Debt service:							
Principal	-	-	1,395,000	-	-	-	1,395,000
Interest	-	-	782,243	-	-	-	782,243
Bond issuance costs	-	-	-	-	-	3,636	3,636
Total expenditures	22,307,856	940,882	2,177,243	1,661,492	4,274,775	-	31,362,248
Excess (deficiency) of revenues over expenditures	(1,356,582)	29,536	791,279	(608,653)	(1,603,245)	-	(2,747,665)
Other financing sources (uses):							
Proceeds from general obligation bonds	-	-	-	-	710,000	-	710,000
Payment of debt to P.R. Electric Power Authority (PREPA)	(139,342)	-	-	-	-	-	(139,342)
Transfers in	712,683	-	-	-	45,235	-	757,918
Transfers out	(47,107)	-	(72,761)	(337,963)	(300,087)	-	(757,918)
Total other financing sources (uses)	526,234	-	(72,761)	(337,963)	455,148	-	570,658
Net change in fund balance	(830,348)	29,536	718,518	(946,616)	(1,148,097)	-	(2,177,007)
Fund balances at beginning of year	5,963,403	(42,889)	1,394,527	6,427,743	4,443,981	-	18,186,765
Fund balances (deficit) at end of year	\$ 5,133,055	\$ (13,353)	\$ 2,113,045	\$ 5,481,127	\$ 3,295,884	\$ -	\$ 16,009,758

The accompanying notes are an integral part of this statement.

González - Torres, Llavona - Casas, LLP.

MUNICIPALITY OF CABO ROJO
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances-total governmental funds:		\$ (2,177,007)
Amounts reported for governmental activities in the Statement of activities are different because:		
Governmental funds reports capital assets 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:		
Expenditures for capital assets	\$ 5,014,678	
Less: current year depreciation	<u>(2,762,820)</u>	2,251,858
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed assets:		
		(29,503)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
P.R. Department of Treasury - Christmas bonus reimbursement (current)	200,910	
CRIM - Property taxes (General Fund)	232,118	
Commonwealth Legislative Resolutions	210,664	
CRIM - Property taxes (Debt Service Fund)	168,414	
Sales Taxes (Debt Service Fund)	15,492	
Sales Taxes (Municipal Development Fund)	15,680	
P.R. Department of Education ("Consevacion Rutinaria Escuelas")	22,600	
P.R. Electric Power Authority (PREPA)	278,685	
Other grants and miscellaneous receivables	79,257	
Donated capital assets	<u>786,181</u>	2,010,001
Revenues reported in funds which are not reported as revenues in the Statement of Activities:		
P.R. Department of Treasury - Christmas bonus reimbursement (prior year)	(183,949)	
CRIM - Property taxes General Fund (prior year)	(106,984)	
Federal Grants - CDBG (prior year)	<u>(29,536)</u>	(320,469)
Proceeds from general obligation bonds is an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets:		
		(710,000)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds and notes principal payments (net change)		165,000
Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets:		
General obligation bonds and notes	1,230,000	
Other long term liabilities	<u>1,205,837</u>	2,435,837
Governmental funds report the effect of bond issuance costs as expenditure when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:		
Bond issuance costs	3,636	
Amortization of bond issuance costs	<u>(8,240)</u>	(4,604)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Compensated absences	(336,275)	
Christmas bonus	(401,821)	
Payment to P.R. Electric Power Authority (PREPA)	(418,027)	
Judgements and Claims	(64,000)	
Accrued interest (net change)	4,155	
Other miscellaneous expenses	<u>(966)</u>	(1,216,934)
Change in net assets of governmental activities:		<u>\$ 2,404,179</u>

The accompanying notes are an integral part of this statement.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Cabo Rojo was founded in 1771. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen (14) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

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

1. *Financial reporting entity*

The financial reporting entity included in this report consists of the financial statements of the Municipality of Cabo Rojo (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and,
 - 1) The primary government can impose its will on the potential component unit and/or,
 - 2) A financial benefit/ burden exist between the primary government and the potential component unit.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

Based on the above criteria there are no potential component units which should be included as part of the financial statements.

2. *Basis of presentation, measurement focus and basis of accounting*

The financial report of the Municipality consists of a Management Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

Management Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Basic financial statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long lived) assets and receivables as well as long term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Statements

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures (for Commonwealth Legislature Resolutions Fund and Debt Service Fund) or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users (for Community Development Block Grant Program Fund). The Municipality reports the following major governmental funds:

General Fund: The General Fund is the general operations fund of the Municipality. It is used to account for all financial resources except those required to be accounted in another fund.

Community Development Block Grant Program Fund (CDBG): CDBG fund is used to account for revenues sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

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

Commonwealth Legislative Resolutions Fund: Commonwealth Legislative Resolutions fund is used to account for revenue sources to be used for the construction and improvement of capital facilities and for welfare purposes.

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenues susceptible to accrual include property taxes, recognized as revenues in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met, and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases revenues are recognized at the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

The Municipality reports deferred revenues in the governmental funds statements which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met. (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following: 1) payments of principal and interest on general long term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) 2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long term portions of debt must be included).

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information:

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

3. *Cash, cash equivalents (unrestricted and restricted) and restricted cash with fiscal agents*

Cash and cash equivalents consists of cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the general and other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

4. *Receivables and due from governmental entities*

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

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

5. *Interfund receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due from/to other funds".

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Assets, as management believes is not significant.

7. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the Statement of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The municipality maintains a threshold level of \$1,000 or more for capitalizing vehicles, machinery and equipment. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Ye ars</u>
Land improvements	20
Buildings and building improvements	20-
	50
Infrastructure	20-
	40
Vehicles, machinery and equipment	5-
	15

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

8. Long-term obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consists of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. *Deferred bond issuance costs*

Bond issuance costs are reported as deferred charges and amortized as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

10. *Compensated absences*

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness).

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997, the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

11. *Fund balances and Net Assets*

a. Fund balances:

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balance represent portions of the fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

Encumbrances: Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.

Debt Service: Represents net assets available to finance future debt service payments.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Projects: Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed.

Other specified purposes: Represent amounts to be used for future expenditures of Federal and Commonwealth's grants as well as funds reserved through enabling legislation passed by the government itself, to be used to finance activities other than construction or capital improvement commitments

Fund balance unreserved-designated represents amounts that Management has identified for future spending and not legally segregated.

b. Net assets

In the government-wide statements net assets are segregated into three categories:

Invested in capital assets, net of related debt: Consists of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

Restricted net assets: Represents net assets that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).

Unrestricted net assets: Represent net assets that do not meet the definition of net assets Invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

12. Interfund transactions

The Municipality reports certain transactions as transfers, which are legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Risk financing

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality consists of professional, public responsibility, property and theft, auto and fidelity bond coverage.

14. Use of estimates

The preparation of the basic financial statements in accordance 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 disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

15. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
45 Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions	June 30, 2009
49 Accounting and Financial Reporting for Pollution Remediation Obligations	June 30, 2009
51 Accounting and Financial Reporting for Intangible Assets	June 30, 2010
52 Land and Other Real Estate Held as Investments by Endowments	June 30, 2009
53 Accounting and Financial Reporting for Derivative Instruments	June 30, 2010

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

NOTE B - CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. At year end the Municipality's bank balance in commercial banks amounts to \$16,473,471.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B – CUSTODIAL CREDIT RISK – DEPOSITS - Continued

Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year end the Municipality's bank balance in governmental banks amounts to \$5,837,890.

NOTE C - DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2008 follows:

	Commonwealth Government	Federal Government
Municipal Revenue Collection Center (CRIM) – property taxes and intergovernmental subsidy (general fund)	\$ 282,604	\$ -
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	205,631	-
P.R. Department of Treasury – Christmas bonus reimbursement	200,910	-
P.R. Department of Treasury – sales and use taxes-Municipal Development fund (general fund)	31,466	-
P.R. Department of Treasury – sales and use taxes (debt service fund)	71,528	-
P.R. Department of Education	49,375	-
P.R. Department of Labor – Law No. 52	74,628	-
P.R. Department of Labor – Law No. 82	20,000	-
Commonwealth Legislative Resolutions	344,210	-
P.R. Electric Power Authority (PREPA)	278,685	-
Others	22,030	485
US Department of Housing and Urban Development - CDBG	-	49,174
	\$ 1,581,067	\$ 49,659

See note G for detail of amounts due from Governmental Entities recorded as deferred revenue.

2. Amounts due to governmental entities as of June 30, 2008 follows:

	Commonwealth Entities
Employees' Retirement System of the Government of P.R. (ERS)	\$58,959
P.R. Aqueduct and Sewer Authority (PRASA)	15,401
P.R. General Services Administration	<u>2,578</u>
	<u>\$76,938</u>

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D - INTERFUND TRANSACTIONS

1. Due from/to other funds:

Amounts due from/to other funds represent temporary advances to other funds by the general fund for payroll and payroll taxes expenditures, as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Major fund:	
	CDBG	\$ 15,821
	Major fund:	
	Commonwealth Legislature Resolutions	655,293
	Other governmental funds:	
	\$4,425,000 Bond Issuance	168,869
	\$355,000 Bond Issuance	33,263
	Child Care	25,022
	Infrastructure - PREPA	16,484
	Others	9,602
Total:		\$ 924,354

2. Transfers in (out):

Transfers between individual funds were made for operational purposes. Transfers include: interest earned on restricted cash with fiscal agents in the debt service fund, on restricted cash in the Commonwealth legislative resolutions fund and on operating and capital improvement loans in other governmental funds which is transferred to the general fund; and principal and interest payments of general long term debt transferred from the general fund to the debt service fund.

NOTE E - OTHER ASSETS

Other assets include a \$986,000 deposit in a Commonwealth's court of justice for the acquisition of a parcel of land.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2008 is as follows:

	<u>Balance July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,267,716	\$ -	\$ 8,978	\$ 3,258,738
Construction in progress	9,212,097	3,001,026	8,333,359	3,879,764
Total capital assets not being depreciated:	12,479,813	3,001,026	8,342,337	7,138,502
Capital assets, being depreciated:				
Land improvements	2,581,332	19,850	-	2,601,182
Buildings and building improvements	21,493,155	8,161,360	-	29,654,515
Infrastructure	18,193,010	1,360,372	47,193	19,506,189
Vehicles, machinery and equipment	6,982,581	2,346,216	54,546	9,274,251
Total capital assets being depreciated	49,250,078	11,887,798	101,739	61,036,137
Less accumulated depreciation for:				
Land improvements	695,983	760,407	-	1,456,390
Buildings and building improvements	5,194,024	659,649	-	5,853,673
Infrastructure	5,874,073	855,810	29,741	6,700,142
Vehicles, machinery and equipment	3,872,941	486,954	51,473	4,308,422
Total accumulated depreciation	15,637,021	2,762,820	81,214	18,318,627
Total capital assets being depreciated, net	33,613,057	9,124,978	20,525	42,717,510
Governmental activities capital assets, net	\$ 46,092,870	\$ 12,126,004	\$ 8,362,862	\$ 49,856,012

Depreciation expense was charged to functions/programs of the Municipality as follows:

Governmental activities:

General government	\$ 159,646
Public works and sanitation	1,105,475
Public safety	861,499
Culture and recreation	532,756
Welfare and community development	97,768
Education	5,676
Total depreciation expense, governmental activities	\$ 2,762,820

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G - DEFERRED REVENUES – GOVERNMENTAL FUNDS

Deferred revenues for amounts due from Commonwealth Government represent revenues not available as required by current standards and for amounts due from Federal Grants represent resources received before allowable expenditures are incurred or not available as required by current standards. A detail of these balances follows:

	<u>Commonwealth Government</u>	<u>Federal Grants</u>
<u>Major fund - general fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes (general fund)	\$ 232,118	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	200,910	-
P.R. Department of Labor – Law No. 52	74,626	-
P.R. Electric Power Authority (PREPA)	278,685	-
<u>Major fund – debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	168,414	-
P.R. Department of Treasury – sales and use taxes (debt service fund)	15,492	-
<u>Major fund – Commonwealth Legislature resolutions fund:</u>		
Commonwealth Legislative Resolutions	344,210	-
<u>Major fund – Community Development Block Grant fund:</u>		
US Department of Housing and Urban Development - CDBG	-	13,363
<u>Other governmental funds:</u>		
P.R. Department of Education	49,375	-
Office of Elderly Affairs	-	15,579
Others	-	485
	<u>\$ 1,363,830</u>	<u>\$ 29,427</u>

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT

1. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2008:

	<u>Balance at July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2008</u>	<u>Due within one year</u>
General, Special Obligations Bonds and Notes	\$ 15,319,055	\$ 710,000	\$ 1,230,000	\$ 14,799,055	\$ 1,382,000
Note payable to CRIM-LIMS	361,559	-	72,312	289,247	76,678
Note payable to CRIM - Financing of delinquent accounts	333,357	-	13,334	320,023	13,334
Note payable to P.R. Department of Labor	63,502	-	28,677	34,825	34,825
Note payable to P.R. Solid Waste Authority	26,899	-	6,546	20,353	6,887
Note payable to solid waste landfill contractor	1,196,536	-	419,996	776,540	420,435
Note payable to ERS	148,978	-	65,028	83,950	48,494
Obligation under capital leases	15,397	-	9,241	6,156	6,156
Compensated absences	2,914,063	336,275	248,854	3,001,484	309,464
Christmas bonus	367,898	401,821	367,898	401,821	401,821
Claims and judgments	-	64,000	12,000	52,000	52,000
Payable to PREPA	-	418,027	139,342	278,685	139,342
Payable to CRIM-excess of property tax advances over actual collections	2,864	-	2,864	-	-
	<u>\$ 20,750,108</u>	<u>\$ 1,930,123</u>	<u>\$ 2,616,092</u>	<u>\$ 20,064,139</u>	<u>\$ 2,891,436</u>

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT - Continued

2. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2008 amount to \$14,799,055. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by law. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of certain long term debt issued for operational purposes (public improvement bonds of \$880,000 and \$454,000) are made through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).

A detail of the general and special obligation bonds and notes as of June 30, 2008 follows:

	Outstanding Amount
1985 public improvement bonds of \$300,000 due in annual installments ranging from \$4,000 to \$22,000 through January 1, 2011; bearing interest at 6.125%	\$ 63,055
1992 public improvement bonds of \$880,000 due in annual installments ranging from \$20,000 to \$61,000 through January 1, 2016; bearing interest at 5%	412,000
1993 public improvement bonds of \$454,000 due in annual installments ranging from \$10,000 to \$32,000 through January 1, 2017; bearing interest at 5%	235,000
1995 public improvement bonds of \$1,145,000 due in annual installments ranging from \$55,000 to \$135,000 through July 1, 2008; bearing interest at rates from 4.70% to 6.875% (6.12% at June 30, 2008)	135,000
1996 public improvement bonds of \$105,000 due in annual installments ranging from \$5,000 to \$10,000 through July 1, 2010; bearing interest at rates ranging from 4.70% to 6.63% (6.12% at June 30, 2008)	30,000

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT - Continued

1997 public improvement bonds of \$765,000 due in annual installments ranging from \$15,000 to \$75,000 through July 1, 2016; bearing interest at rates ranging from 4.70% to 6.58% (6.12% at June 30, 2008)	485,000
1997 general obligation notes of \$1,735,000 due in annual installments ranging from \$40,000 to \$165,000 through July 1, 2016; bearing interest at rates ranging from 4.70% to 6.58% (6.12% at June 30, 2008)	1,105,000
1994 public improvement bonds of \$300,000 due in annual installments ranging from \$21,000 to \$34,000 through January 1, 2009; bearing interest at 4.875%	34,000
1999 general obligation bonds of \$830,000 due in annual installments ranging from \$10,000 to \$70,000 through July 1, 2023; bearing interest at rates ranging from 4.865% to 6.56% (5.69% at June 30, 2008)	680,000
1999 general obligation bonds of \$1,310,000 due in annual installments ranging from \$50,000 to \$140,000 through July 1, 2013; bearing interest rates ranging from 4.865% to 6.11% (5.69% at June 30, 2008)	700,000
2000 general obligation bonds of \$2,040,000 due in annual installments ranging from \$80,000 to \$215,000 through July 1, 2014; bearing interest rates ranging from 2.70% to 7.81% (3.88% at June 30, 2008)	1,225,000
1995 general obligation bonds of \$500,000 due in annual installments ranging from \$40,000 to \$61,000 through January 1, 2010; bearing interest at 4.875%	120,000
2003 general obligation bonds of \$4,425,000 due in annual installments ranging from \$75,000 to \$345,000 through July 1, 2026; bearing interest rates ranging from 2.70% to 5.60% (3.86% at June 30, 2008)	3,895,000
2004 general obligation bonds of \$305,000 due in annual installments ranging from \$35,000 to \$50,000 through July 1, 2010; bearing interest rates ranging from 5.00% to 6.00% (4.24% at June 30, 2008)	145,000

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT - Continued

2004 general obligation bonds of \$505,000 due in annual installments ranging from \$10,000 to \$40,000 through July 1, 2028; bearing interest rates ranging from 2.36% to 5.00% (4.24% at June 30, 2008)	465,000
2004 general obligation bonds of \$545,000 due in annual installments ranging from \$10,000 to \$35,000 through July 1, 2028; bearing interest rates ranging from 2.36% to 5.00% (4.24% at June 30, 2008)	495,000
2004 general obligation bonds of \$1,000,000 due in annual installments ranging from \$20,000 to \$75,000 through July 1, 2028; bearing interest rates ranging from 5.00% to 6.00% (4.23% at June 30, 2008)	920,000
2004 general obligation bonds of \$505,000 due in annual installments ranging from \$40,000 to \$65,000 through July 1, 2014; bearing interest rates ranging from 3.28% to 5.00% (4.24% at June 30, 2008)	380,000
2006 general obligation bonds of \$850,000 due in annual installments ranging from \$100,000 to \$145,000 through July 1, 2012; bearing interest rates ranging from 6.25% to 7.25% (7.25% at June 30, 2008)	645,000
2006 general obligation bonds of \$355,000 due in annual installments ranging from \$5,000 to \$25,000 through July 1, 2030; bearing interest rates ranging from 4.17% to 5.33% (4.24% at June 30, 2008)	345,000
2006 general obligation note of \$1,775,000 due in annual installments ranging from \$200,000 to \$315,000 through July 1, 2013; bearing interest rates ranging from 6.60% to 7.50% (7.25% at June 30, 2008)	1,575,000
2007 general obligation note of \$710,000 due in annual installments ranging from \$80,000 to \$125,000 through July 1, 2014; bearing interest rates ranging from 3.93% to 7.50% (6.48% at June 30, 2008)	710,000
	<u>14,799,055</u>
	<u>\$ 14,799,055</u>

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT - Continued

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2008 follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,382,000	\$ 806,335
2010	1,289,000	729,629
2011	1,313,055	653,108
2012	1,315,000	575,029
2013	1,408,000	493,962
2014-2018	3,832,000	1,557,173
2019-2023	2,000,000	897,110
2024-2028	2,035,000	299,815
2029-2030	225,000	9,413
Totals	<u>\$ 14,799,055</u>	<u>\$ 6,021,574</u>

3. Other long-term liabilities

Outstanding
Amount

Note payable to CRIM (LIMS) – On July 24, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$691,648 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$46,382, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows:

\$ 289,247

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 76,678	\$ 15,706
2010	81,308	11,053
2011	86,218	6,119
2012	45,043	1,117
Totals	<u>\$ 289,247</u>	<u>\$ 33,995</u>

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT - Continued

Note payable to CRIM (Financing of delinquent accounts)– On March 15, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of \$960,664 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a nonrevolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first 5 years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Also, during the first 5 years any collection from those delinquent accounts was credited to the loan principal. After the 5 year period the loan outstanding balance was restructured for a 25 years period. Debt service requirements in future years are as follows:

\$ 320,023

June 30	Principal	Interest
2009	\$ 13,334	\$ 20,030
2010	13,334	19,447
2011	13,334	18,847
2012	13,334	18,227
2013	13,334	17,589
2014-2018	66,671	77,650
2019-2023	66,671	58,430
2024-2028	66,671	36,031
2029-2032	53,340	10,226
Totals	\$ 320,023	\$ 276,477

Note payable to Puerto Rico Department of Labor – On March 30, 2006 the Municipality entered into a financing agreement with the PR Department of Labor for a total amount of \$107,961 for unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the Municipality. The agreement bears interest at 11.35%, and is payable in monthly installments of \$2,843 and due in March, 2009. The note is being paid from unrestricted funds. Debt service requirements in future years are as follows:

\$ 34,825

June 30	Principal	Interest
2009	\$ 34,825	\$ 2008

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT -- Continued

Note payable to Puerto Rico Solid Waste Authority – On February 10, 2006 the Municipality entered into a financing agreement with the PR Solid Waste Authority for a total amount of \$50,256 for goods and services provided by this Authority to the Municipality in prior years. The agreement is in the form of a non-interest bearing note (imputed interest of 5.09%) payable in monthly installments of \$647, and a final payment of \$1,827 due in February, 2011. The note balance as of June 30, 2007 is net of an unamortized discount of \$2,750 and is being paid from unrestricted funds. The principal and discount amortization (recorded as interest expense) maturities are as follows:

\$ 20,353

June 30	Principal	Interest
2009	\$ 6,887	\$ 877
2010	7,246	518
2011	6,220	137
Totals	\$ 20,353	\$ 1,532

Note payable to solid waste landfill site contractor– On July 22, 2006 the Municipality entered into an agreement with the administrator of the Municipal Solid Waste Landfill (MSWL) for a total amount of \$2,439,000 for capital improvements to be done for the purpose to increase the capacity and useful life of the MSWL. The agreement includes a first payment of \$975,000 due at the end of the improvement (the improvement ended in May, 2006). The remaining balance was financed through a non-interest bearing note (imputed interest of 5.09%) beginning one month after the first payment and is payable in monthly installments of \$30,500 due in June, 2010. The note balance at June 30, 2007 is net of an unamortized discount of \$114,963 and is being paid from unrestricted funds. The principal and discount amortization (recorded as interest expense) maturities is as follows:

\$ 776,540

June 30	Principal	Interest
2009	\$ 420,435	\$ 37,065
2010	356,105	9,894
Totals	\$ 776,540	\$ 46,959

The June 30, 2008 annual requirement includes a matured amount of \$91,500 (principal of \$81,965 and interest of \$9,535) due as of June 30, 2008.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT – Continued

Note payable to Employee’s Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS). –

On June 29, 2007 the Board of Trustees of the Employee’s Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS) approved Resolution No. 2007-02 authorizing the ERS to establish payment plans with employers related to the application of certain “Special Laws” issued by the Commonwealth Government. Those Special Laws granted increases in pensions to retired employees of the Municipality. This obligation was recognized by the Municipality prior to June 30, 2007. On September 30, 2007 the Municipality refinanced this debt on a long term basis through a \$161,801 non-interest bearing note with the ERS. The note has an imputed interest rate is 6.48% and was recorded at its present value of \$134,960 net of an unamortized discount of \$10,661. The note is payable in annual installments of \$53,934 (including interest), is due on January 30, 2010 and will be repaid with unrestricted funds. Debt service requirements in future years are as follows:

\$ 83,950

June 30	Principal	Interest
2009	\$ 48,494	\$ 5,440
2010	35,456	2,298
Totals	\$ 83,950	\$ 7,738

Obligation under capital lease – The Municipality is obligated under a capital lease with a third party that expires on 2009. As of June 30, 2007 the capitalized cost of capital leased equipment amounted to \$24,093 and is being paid in monthly installments of \$441 including interest at 3.75%.

\$ 4,336

Obligation under capital lease – The Municipality is obligated under a capital lease with a third party that expires on 2009. As of June 30, 2007 the capitalized cost of capital leased equipment amounted to \$19,506 and is being paid in monthly installments of \$369 including interest at 4.75%.

\$ 1,820

The present value of future minimum lease payments of all three leases as of June 30, 2007 follows:

Year ending June 30,	Amount
2009 Total minimum lease payments	\$ 6,253
Less: Amount representing interest	(97)
Present value of minimum lease payments	\$ 6,156

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H- LONG TERM DEBT - Continued

Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time, represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds	\$ 3,001,484
Christmas Bonus - represent the accrued portion corresponding to fiscal year 2007-2008 of the Christmas bonus to be paid in December 2008	\$ 401,821
Claims and judgments - represent the final settlement of legal cases paid subsequent to June 30, 2008. The awarded amount will be paid with unrestricted funds.	\$ 52,000
Payable to PREPA - As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority ("PREPA") should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax ("CELI") based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For Fiscal year 2006-2007 the Municipality's annual energy charges amounts to \$1,947,882 but the CELI obligation determined by PREPA amounted to \$1,529,855. As communicated by PREPA the excess amount of \$418,027 was recorded as a payable to the Municipality and will be amortized over a 3 year period against the corresponding receivable for the same amount. As of June 30, 2008 the outstanding amount of \$ 278,685 is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:	\$ 278,685

June 30	Principal
2009	\$ 139,342
2010	139,343
Totals	\$ 278,685

NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS

The Municipality discontinued the operation and ceased to accept solid waste in one of its two landfills. State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance procedures at the landfill site for thirty years after closure. The closure and post closure care procedures are being assumed by the Municipality. As guidance for calculation of total closure costs, the Municipality utilized an estimate provided by the Puerto Rico Solid Waste Disposal Authority. The Municipality is required to provide post closure care after the closure is completed. Total post closure care costs has not been determined and accounted as required by accounting principles generally accepted in the United States as of June 30, 2008.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS - Continued

The Municipality also has a solid waste landfill, which is in operation as of June 30, 2008. The total estimate of the closure and post closure care costs of the landfill and the portion of estimated total current cost of closure and post closure care has not been determined and recorded as required by accounting principles generally accepted in the United States as of June 30, 2008. The final effect of these matters cannot be properly determined. The Municipality has reserved \$14,507 as of June 30, 2008 to finance future closure and post-closure care costs of this solid waste landfill. This reserve has been created by legislation.

NOTE J - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2008 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	<u>2.00%</u>	<u>2.00%</u>
Total tax rate:	7.03%	9.03%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	<u>(.20%)</u>	<u>(.20%)</u>
Total percent to be paid by taxpayers:	<u>6.83%</u>	<u>8.83%</u>

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE J - PROPERTY TAXES - Continued

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The Municipality has a net receivable of \$232,118 resulting from the preliminary settlement 2007-2008.

NOTE K - MUNICIPAL LICENSE TAXES

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15. During the Fiscal year ended June 30, 2008 the tax rates were as follows:

Financial business - 1.50% of gross revenues
Other organizations - .50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$1,996,094 is recorded as deferred revenues.

NOTE L - SALES AND USE TAXES

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

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The municipal sales and use tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The municipal sales and use tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within Municipal limits. The Municipal Legislature approved the imposition of the municipal sales and use tax on November 1, 2006 with Ordinance No. 36 Series 2006-2007, effective on November 15, 2006.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE L - SALES AND USE TAXES - Continued

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which amend Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

Amount collected by the PRDT (the remaining .5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by the Act and,
- .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

The Municipal Legislature approved Ordinance No. 5 Series 2007-2008 to amend Municipal Ordinance No. 3 Series 2006-2007 to conform to dispositions of Act 80.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. A total \$156,831 sales and use tax receivable represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts; \$31,466 and \$71,528 represents amounts of "Municipal Development Fund" and "Municipal Redemption Fund" respectively collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30. The amount of \$15,492 (related to Municipal Redemption Fund) is recorded as deferred revenue since is not available as required by current standards.

NOTE M - INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the General Fund are comprised of the following:

	<u>Amount</u>
Amount of municipal subsidies and equalization fund send by CRIM	\$4,412,477
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	2,493,670
Reimbursement from Commonwealth Government of Christmas Bonus expenditure	296,373
Reimbursement from Commonwealth Government of Law 52 and Law 82 program expenditures	95,545
Reimbursement from Commonwealth government - other programs expenditures	58,683
	<u>\$7,356,748</u>

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE N - RETIREMENT PLAN

1. *Plan description*

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement system. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and non occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of 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 System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

MUNICIPALITY OF CABO ROJO

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE N - RETIREMENT PLAN - Continued

2. *Funding policy*

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>
2008	\$ 445,691	\$ 212,441
2007	\$ 417,441	\$ 171,635
2006	\$ 426,919	\$ 165,305

NOTE O - POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note M, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year ended, costs related to these post employment benefits amounted to \$58,959. These benefits are recorded as expenditures in the general fund.

NOTE P - COMMITMENTS

1. *Operating leases*

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted approximately to \$55,601 and \$4,688 respectively. The lease agreement for the office space was terminated during fiscal year ended June 30, 2008. Management believes that the summary of the future minimum rental commitments under non cancelable equipment leases with terms exceeding one year is not significant.

2. *Construction*

The Municipality has commitments at June 30, 2008 of approximately \$ 2,693,241 for construction, improvements or renovation of certain municipal facilities.

MUNICIPALITY OF CABO ROJO
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE Q - CONTINGENCIES

1. Federal and State grants

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

2. Judgments and legal claims

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance and certain cases whereby the legal counsel has not determined an outcome. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

NOTE R - NET CHANGE IN FUND BALANCE - GENERAL FUND

The Statement of revenues, expenditures and changes in fund balance reported a net change in fund balance for the general fund in the amount of (\$830,348), which is composed of the following:

	<u>Amount</u>
Net change in fund balance, 01 Fund	\$ (90,213)
Net change in fund balance, other special funds (with self imposed restrictions) included as part of the general fund:	(740,135)
	<u>\$ (830,348)</u>

Negative net change in fund balance in 01 Fund resulted of the effect of a fund balance readjustment of \$1,940,000. This represents a readjustment of current year budget with prior year's fund balance resources, approved by the Municipal Legislature. Resources to finance other special funds included as part of the general fund were provided in previous years but funds were expended in current year.

NOTE S - FUND BALANCE DEFICITS

Community Development Grant Program fund disclosed a fund balance deficit of \$13,353. The deficit results from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement-based (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPALITY OF CABO ROJO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 6,415,069	\$ 6,415,069	\$ 6,526,362	\$ 111,293
Municipal license taxes	2,652,500	2,652,500	2,646,565	(5,935)
Intergovernmental	4,190,243	4,486,616	4,858,785	372,169
Fees, fines and charges for services	2,521,000	2,521,000	3,506,564	985,564
Interest	611,888	611,888	880,147	268,259
Other	60,000	60,000	150,532	90,532
Total revenues	16,450,700	16,747,073	18,568,955	1,821,882
Expenditures:				
Current:				
General government	5,132,298	6,057,924	5,541,223	516,701
Public works and sanitation	6,228,219	6,535,317	6,774,653	(239,336)
Public safety	2,203,529	2,159,110	2,139,046	20,064
Culture and recreation	1,032,122	941,555	925,829	15,726
Health	829,489	828,489	823,679	4,810
Welfare and community development	1,596,843	1,729,148	1,669,030	60,118
Education	28,200	14,280	12,840	1,440
Total expenditures	17,050,700	18,265,823	17,886,300	379,523
Excess of revenues over expenditures	(600,000)	(1,518,750)	682,655	2,201,405
Other financing sources (uses):				
Transfers in	1,800,000	1,868,200	1,598,111	(270,089)
Transfers (out)	(1,200,000)	(2,289,450)	(2,289,450)	-
Total other financing sources (uses):	600,000	(421,250)	(691,339)	(270,089)
Readjustment from prior year fund balance	-	1,940,000	-	(1,940,000)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ (8,684)	\$ (8,684)

The accompanying notes to required supplemental information are an integral part of this schedule.

MUNICIPALITY OF CABO ROJO

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

June 30, 2008

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

NOTE B - BUDGET READJUSTMENT

During the year the approved operational budget was increased by \$ 1,940,000 from previous year excess fund balance. The purpose of this readjustment was to increase the amount assigned to certain expenditures in the general fund.

NOTE C - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

MUNICIPALITY OF CABO ROJO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
June 30, 2008

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	\$ (8,684)
Budget to GAAP differences:	
Entity differences:	
Non budgeted funds recorded as revenues for financial reporting purposes:	2,777,587
Non budgeted funds recorded as expenditures for financial reporting:	(4,254,829)
Non budgeted transfers in:	2,458,018
Non budgeted transfers out:	(1,720,911)
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis:	429,143
Revenues recorded in budgetary basis purposes but not in financial reporting:	(116,339)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	119,256
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(316,314)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	70,977
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(268,252)
Net change in fund balance (GAAP basis):	<u>\$ (830,348)</u>

SUPPLEMENTARY INFORMATION

**MUNICIPALITY OF CABO ROJO
FINANCIAL DATA SCHEDULE
BALANCE SHEET INFORMATION
JUNE 30, 2008**

	Section 8 Housing Choice Vouchers <u>14,871</u>
ASSETS	
Current Assets	
Cash - unrestricted	\$ 63,763
Cash - other restricted	<u>78,040</u>
Total cash	141,803
Accounts and notes receivables:	
Accounts receivable - PHA projects	75
Accounts receivable - HUD other projects	2,991
Fraud recovery	13,007
Allowance for doubtful accounts - fraud	<u>(4,504)</u>
Total receivables, net of allowance for doubtful accounts	11,569
Total Current Assets	153,372
Noncurrent Assets	
Fixed assets	
Furniture, equipment & machinery - administration	29,041
Accumulated depreciation	<u>(6,912)</u>
Total fixed assets, net of accumulated depreciation	22,129
Total Noncurrent Assets	<u>22,129</u>
	<u>\$ 175,501</u>
Current Liabilities	
Accrued compensated absences - current portion	\$ 2,730
Inter-program - due to	<u>1,200</u>
Total Current Liabilities	3,930
Noncurrent Liabilities	
Accrued Compensated Absences - non current	<u>5,896</u>
Total Noncurrent Liabilities	5,896
TOTAL LIABILITIES	9,826
EQUITY	
Invested in Capital Assets, Net of Related Debt	22,129
Restricted Net Assets	78,040
Unrestricted Net Assets	<u>65,506</u>
TOTAL EQUITY/NET ASSETS	<u>165,675</u>
TOTAL LIABILITIES AND EQUITY/NET ASSETS	<u>\$ 175,501</u>

The accompanying notes are an integral part of this schedule.

**MUNICIPALITY OF CABO ROJO
FINANCIAL DATA SCHEDULE
STATEMENT OF REVENUES AND EXPENSES INFORMATION
FISCAL YEAR ENDED JUNE 30, 2008**

	Section 8 Housing Choice Vouchers <u>14,871</u>
REVENUES:	
HUD PHA operating grants	\$ 511,117
Fraud recovery	4,354
Other revenue	<u>2,341</u>
TOTAL REVENUES	517,812
EXPENSES:	
Administrative	
Administrative salaries	36,089
Auditing fees	1,500
Compensated absences	5,162
Employee benefit contributions- administrative	8,206
Other operating- administrative	<u>5,660</u>
TOTAL OPERATING EXPENSES	56,617
EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>461,195</u>
Housing assistance payments	388,226
Depreciation expense	<u>4,591</u>
TOTAL EXPENSES	<u>449,434</u>
EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ 68,378</u>

The accompanying notes are an integral part of this schedule.

MUNICIPALITY OF CABO ROJO

NOTES TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE

June 30, 2008

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

REPORTS REQUIRED UNDER THE OMB CIRCULAR A-133

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

To the Mayor and Municipal Legislature
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

We have audited the accompanying financial statements of governmental activities, each major fund, and aggregated fund information of Municipality of Cabo Rojo, as for the year ended June 30, 2008, which collectively comprise Municipality of Cabo Rojo's basic financial statements and have issued our report thereon dated December 12, 2008. We were unable to obtain a liability estimate of the landfill's closure and post closure care costs at June 30, 2008. The accompanying government-wide financial statement did not include the liability for these costs. Accounting principles generally accepted in the United States of America require that landfill's closure and port-closure costs are estimated and included as liability in the government-wide financial statement, which would decrease the assets and net assets in the government-wide financial statements. The amount by which this departure would affect the assets and net assets of the government-wide financial statement is not reasonably determinable. The note "I" of the financial statements describes more details regarding the landfills costs. Except as discussed in the preceding qualification, 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Cabo Rojo's internal control over financial reporting as a 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 Municipality of Cabo Rojo's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Municipality of Cabo Rojo's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting tha we consider to be weaknesses, as defined above.

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

(Continued)

Compliance

As part of obtaining reasonable assurance about whether Municipality of Cabo Rojo'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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to management of Municipality of Cabo Rojo in a separate letter dated on March 23, 2009.

This report is intended solely for the information and use of management, audit committee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 23, 2008
San Juan, Puerto Rico

González Torres Llavona Casas LLP
González - Torres, Llavona - Casas LLP
License number 226
Expires December 1, 2010

The stamp number 2384759
was affixed to the original



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

To the Mayor and Municipal Legislature
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Compliance

We have audited the compliance of the Municipality of Cabo Rojo, 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, 2008. The Municipality of Cabo Rojo'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 Municipality of Cabo Rojo's management. Our responsibility is to express an opinion on Municipality of Cabo Rojo'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 the Government Auditing Standards, issued by the Comptroller 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 Municipality of Cabo Rojo's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Municipality of Cabo Rojo's compliance with those requirements.

In our opinion, Municipality of Cabo Rojo, 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, 2008.

Internal Control Over Compliance

The management of Municipality of Cabo Rojo is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Cabo Rojo's internal control over compliance with 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 of Cabo Rojo's internal control over compliance.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE WITH OMB CIRCULAR A-133
(Continued)**

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 of Cabo Rojo's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Municipality of Cabo Rojo's internal control .

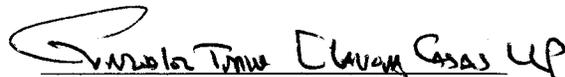
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Municipality of Cabo Rojo's internal control.

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

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

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 23, 2008
San Juan, Puerto Rico


González - Torres, Llavona - Casas LLP
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Expires December 1, 2010

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MUNICIPALITY OF CABO ROJO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Entity Identifying Number (note C)	Federal Expenditures (note A)
<u>U.S. Department of Agriculture</u>			
Passed through the P.R. Department of Education: Child and Adult Care Food Program	10.558	N/A	\$ 13,086
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grant - Entitlement Grants	14.218	N/A	939,397
Passed through the Office of Commissioner of Municipal Affairs: Community Development Block Grant - State's Program	14.228	AF - 10	1,485
Section 8 Housing Choice Vouchers	14.871	N/A	<u>462,937</u>
Subtotal U.S. Department of Housing and Urban Development			<u>1,403,819</u>
<u>U.S. Department of Justice</u>			
Passed through the P.R. Department of Justice: COPS Universal Hiring Program	16.710	2004UMWX0114	50,931
<u>U.S. Department of Health and Human Services</u>			
Passed through the P.R. Governor Office (Office of Elderly Affairs): Special Programs for the Aging_ Title III Part B_ Grants for Supportive Services and Senior Centers	93.044	N/AV	69,561
Passed through the P.R. Department of Family - Families and Children Administration: Child Care and Development Block Grant	93.575	2006-07-041 2007-08-024	<u>121,902</u>
Subtotal U.S. Department of Health and Human Services			<u>191,463</u>
<u>U.S. Department of Homeland Security</u>			
Passed through the Puerto Rico Governor Office - (Office of Public Safety Affairs): Homeland Security Grant Program (SHSP)	97.067	2005-GE-TS-4009	<u>1,850</u>
Total Expenditures of Federal Awards			<u>\$ 1,661,149</u>

The accompanying notes are an integral part of this schedule.

MUNICIPALITY OF CABO ROJO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations". Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

NOTE C – PASS-THROUGH ENTITY IDENTIFYING NUMBER

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though 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 the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

NOTE D – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Community Development Block Grant Fund	Other Governmental Funds
10.558	\$ -	\$ 13,086
14.218	939,397	-
14.228	1,485	-
14.871	-	462,937
16.710	-	50,931
93.044	-	69,561
93.575	-	121,902
97.067	-	1,850
Total federal awards expenditures	940,882	720,267
Total nonfederal awards expenditures	-	3,554,508
Total expenditures, fund statements	<u>\$ 940,882</u>	<u>\$ 4,274,775</u>

MUNICIPALITY OF CABO ROJO
SCHEDULE OF CURRENT YEAR FINDINGS, PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2008

SECTION I - SUMMARY OF AUDIT RESULTS

Part I. Financial Statements:

1. Type of audit report:
 Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
2. Control deficiencies reported:
 Yes No
3. Material weakness reported:
 Yes No
4. Material noncompliance disclosed:
 Yes No

Part II. Federal Awards:

1. Type of report: on compliance for major programs:
 Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
2. Control deficiencies reported:
 Yes No

MUNICIPALITY OF CABO ROJO
SCHEDULE OF CURRENT YEAR FINDINGS, PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2008
(Continued)

SECTION I – SUMMARY OF AUDIT RESULTS (Continued)

Part II. Federal Awards (Continued):

3. Material noncompliance disclosed:

Yes No

4. Audit findings required to be reported under Section 510 (a) of Circular A-133:

Yes No

5. Major Programs:

CFDA Number (s)	Federal Program Grantor and Program Name
14.218	<i>US Department of Housing and Urban Development: Community Development Block Grants-Entitlement</i>
14.228	<i>Community Development Block Grant-States Program</i>
14.871	<i>Section 8 (Housing Vouchers)</i>

Dollar threshold used to distinguish Type A and Type B programs:

\$500,000 or 3% of total federal awards expended

6. Low-risk auditee

Yes No

7. Waive risk criteria under 520 (i) of Circular A-133

Yes No

MUNICIPALITY OF CABO ROJO
SCHEDULE OF CURRENT YEAR FINDINGS, PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2008
(Continued)

SECTION II – FINANCIAL STATEMENTS FINDINGS

Current year:

None.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Current year:

None.

Previous years:

None.



Estado Libre Asociado de Puerto Rico

Municipio Autónomo de Cabo Rojo

Oficina Auditoría Interna

Hon. Perza A. Rodríguez Quiñones - Alcaldesa

March 27, 2009

Hon. Omar E. Negrón Judice, MBA
Comisionado
Oficina Comisionado Asuntos Municipales
PO Box 70167
San Juan, PR 00936-8167

Mr. Negrón Judice:

Accompanied herewith please find a copy of our Financial Statements Audited and the Single Audit Report, of Independent Certified Public Accountants with Additional Report required under the OMB Circular A-133 of the Municipality of Cabo Rojo, Puerto Rico, for the year ended June 30, 2008.

Should you have any question regarding to the above mentioned, please let us know.

Cordially yours,

Lourdes M. Negrón Mercado
Internal Auditor

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Tel. 787-851-1025 / Fax: 787-851-3388

www.ciudadcaborojo.net / E-mail: ciudadcaborojo@yahoo.com





Estado Libre Asociado de Puerto Rico

Municipio Autónomo de Cabo Rojo

Oficina Auditoría Interna

Hon. Perza A. Rodríguez Quiñones - Alcaldesa

HOJA DE TRAMITE

Hon. Omar E. Negrón Judice, MBA
Comisionado
Oficina Comisionado Asuntos Municipales
San Juan, PR 00936-8167

Sra. Lourdes M. Negrón Mercado
Auditora Interna

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Oficina Comisionado Asuntos Municipales

27 de marzo de 2009

ESTADOS FINANCIEROS E INFORME INDEPENDIENTE 2007-08

Adjunto, original Estados Financieros e Informe Independiente preparado por auditores externos a cargo del Single Audit 2007-08, según requerido por Ley.

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