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SINGLE AUDIT

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA**

JUNE 30, 2010

16

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Municipal Legislature
Commonwealth of Puerto Rico
Municipality of Carolina
Carolina, Puerto Rico

We have audited the accompanying basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Commonwealth of Puerto Rico, Municipality of Carolina as of and for the fiscal years ended June 30, 2010 and 2009, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of 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 statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining governmental fund information of the Commonwealth of Puerto Rico, Municipality of Carolina, as of June 30, 2010 and 2009, and the changes in financial position, where applicable, thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.



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Municipality of Carolina
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In accordance with Government Auditing Standards, we have also issued our report dated March 3, 2011 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Schedule of Revenues, Expenditures – Budget and Actual – General Fund, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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License No. 22
Expires December 1, 2013

March 3, 2011
San Juan, Puerto Rico

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

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

The following is the Management Discussion and Analysis of the Municipality of Carolina (herein after "the Municipality") financial performance, providing an overview and comparison of the financial activities for the fiscal years ended on June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

During fiscal year ended June 30, 2002, the Municipality implemented the new required financial reporting standards established by Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for the State and Local Governments*, issued by the Government Accounting Standards Board (commonly known as "GASB 34"). This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirement of GASB 34, and it has been designed accordingly with the following goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget), and
- e) Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- The Municipality's assets exceeded its liabilities (net assets) by \$1,713.4 million at June 30, 2010, for an increase of \$15.2 million as compared with last fiscal year. Of this amount \$95 million are unrestricted. Net assets may be used to meet the Municipality's current operations.
- The Municipality's assets increased from \$2,112.5 million at June 30, 2009 to \$2,146.7 million at June 30, 2010, for an increase of \$34.2 million.
- The total liabilities of the Municipality increased from \$414.3 million at June 30, 2009 to \$433.3 million at June 30, 2010, for an increase of \$19 million.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

- The total revenues of the Municipality decreased from \$194.5 million for the fiscal year ended June 30, 2009 to \$189.1 million for the fiscal year ended June 30, 2010, for a decrease of \$5.4 million.
- The Municipality's expenses decreased from \$207.6 million for the fiscal year ended June 30, 2009 to \$159.3 million for the fiscal year ended June 30, 2010, for a decrease of \$48.3 million.
- The general revenues of the Municipality decreased from \$159.1 million for the fiscal year ended June 30, 2009 to \$154.7 million for the fiscal year ended June 30, 2010, for a decrease of \$4.4 million.

Governmental Funds Highlights:

- The Municipality's assets exceeded its liabilities (fund balances) by \$190.2 million at June 30, 2010, for an increase of \$16.4 million as compared with last fiscal year. Of this amount \$2 million are available for spending in financial activities and providing services to citizens (unreserved fund balance reported in general fund).
- The total assets of governmental funds increased from \$272.8 million at June 30, 2009 to \$276.9 million at June 30, 2010, for an increase of \$4.1 million. The governmental fund's total liabilities decreased from \$99 million at June 30, 2009 to \$86.7 million at June 30, 2010, for a decrease of \$12.3 million.
- The Municipality's total revenues decreased from \$190.7 million for the fiscal year ended June 30, 2009 to \$189.1 million for the fiscal year ended June 30, 2010, for a decrease of \$1.6 million. The governmental fund's expenditures decreased from \$260.9 million for the fiscal year ended June 30, 2009 to \$238 million for the fiscal year ended June 30, 2010, for a decrease of \$22.9 million.
- Other financing sources (uses), net, of governmental funds increased from \$20.4 million for the fiscal year ended June 30, 2009 to \$60.1 million for the fiscal year ended June 30, 2010, for an increase of \$39.7 million. The key factors to this increase were the \$38.9 million and \$21.2 million in general obligations bonds.
- The Municipality's General Fund (the primary operating fund) reflected a fund balance of \$48.9 million at June 30, 2010, an increase of \$3.1 million as compared with previous fiscal year.
- The total governmental fund cash recorded was \$235.1 million, an increase of \$4.1 million as compared with last fiscal year.

COMMONWEALTH OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

- The Municipality's loans principal and interest expenditures were \$26.7 and \$27.1 million, for fiscal year ended June 30, 2010 and 2009, respectively.

Overview of the Basic Financial Statements

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this MD&A as an introduction to the Municipality's basic financial statements.

The Municipality's basic financial statements include three components: 1) Government-Wide Financial Statements (GWFS), 2) Governmental Fund Financial Statements (GFFS), and 3) Notes to the Basic Financial Statements (NBFS) that provides more details. This report also contains additional required supplementary information (budgetary schedule) in addition to the basic financial statements themselves. These components are described below.

The basic financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below:

a) Government-Wide Financial Statements

The GWFS present the financial position of the Municipality from the economic resources measurement focus using the accrual basis of accounting. In addition, the GWFS include all assets of the Municipality (including infrastructure) as well as all liabilities (including long-term debt). Certain eliminations have been made in regards to interfund activity, payables and receivables. These financial statements provide short-term and long-term information about the Municipality's financial position, which assist the municipality's management to determine the economic condition at June 30, 2010. The GWFS are composed of: 1) statement of net assets (SNA) and 2) statement of activities (SA).

COMMONWEALTH OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to those used by most private business.

The SNA and SA are two financial statements that report information about the Municipality and its activities that should help answer this question: Is the Municipality better off or worse off as result of this year activities?

1. Statement of Net Assets

The purpose of SNA is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality.

On the other hand, the Municipality reports liabilities, such as claims and judgments or municipal solid waste landfill closure and post-closure care costs, even though these liabilities might not be paid until several fiscal years into the future.

The difference between the Municipality's total assets and total liabilities reported in SNA is presented as *net assets*, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net assets, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

2. Statement of Activities

The SA presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2010, by presenting all of the Municipality's revenues and expenses.

As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are recorded when incurred by the Municipality.

Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

COMMONWEALTH OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Although SA looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as net change in net assets, which is essentially the same concept.

The focus of SA is on the net cost of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality. GWFS and GFFS present all of the Municipality's governmental activities, which are supported mostly by taxes and intergovernmental revenues (such as federal and state grants and contributions).

The SA is intended to summarize and simplify the user's analysis of the costs of governmental services. The governmental activities reflect basic services, including public safety, public works and transportation, solid waste disposal and sanitation, recreation and sports, education, public housing and building, recreation and sports, health, economic development activities and general government services. This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

b) Governmental Fund Financial Statements

These financial statements report the financial position and results of operations of the Municipality's governmental funds, with an emphasis on the Municipality's major individual funds. The GFFS are composed of: 1) balance sheet-governmental funds and 2) statement of revenues, expenditures and changes in fund balances-governmental funds.

These financial statements report the financial position and results of operations of the Municipality's governmental funds, with an emphasis on the Municipality's major governmental funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The major governmental funds presentation provides detailed information about the most significant funds, not the Municipality as a whole.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other monies.

The Municipality's basic services are reported in governmental funds, which focus on how money flows in and out of these funds and the balances at the end of the year that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statement provides a detailed short-term view of the Municipality's general governmental operations and the basic services it provides.

Governmental funds are used to account for all of the services provided by the Municipality. These funds are used to account for essentially the same functions reported as governmental activities in the GWFS. Unlike GWFS, the focus of GFFS is directed to specific activities of the Municipality rather than the Municipality as a whole; therefore, GFFS report the Municipality's operations in more detail than the GWFS.

The Municipality has five major governmental funds. Each major fund is presented in a separate column in the governmental funds balance sheet and the governmental funds statements of revenues, expenditures and changes in fund balances. For financial reporting purposes, the Municipality classifies its governmental funds as: general fund, debt service fund, capital project fund, economic development fund and workforce investment act fund.

GFFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, GFFS focus on near-term inflows and outflows of expendable financial resources, consequently, generally measure and account for cash and other assets that can easily be converted to cash.

For example, amounts reported on the balance sheet include capital assets within a very short period, but do not include capital assets such as land and buildings. Governmental fund liabilities generally include amounts that normally are going to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is reported as the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year. Because the focus of GFFS is narrower than that of the GWFS, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and the governmental activities reported in the government-wide financial statements.

The differences of results between governmental activities and governmental funds are explained in a reconciliation schedule following each governmental fund financial statement.

c) Notes to Basic Financial Statements

The NBFS provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic statements can be found immediately following the basic financial statements.

d) Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

The Municipality's Government Wide Financial Statements start on page 25. The Municipality's Fund Financial Statements start on page 28.

Financial Analysis of Government-Wide Financial Statements

The Municipality's overall financial position and operations for the last two fiscal years are summarized as follows, based on the information included in the accompanying GWFS. The following reflects the comparative condensed Statement of Net Assets:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Condensed Statement of Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Assets		
Current assets	\$ 270,136,078	\$ 265,260,775
Noncurrent assets:		
Capital assets, net	1,875,032,801	1,846,879,114
Other noncurrent assets	<u>1,521,417</u>	<u>342,531</u>
Total assets	<u>\$ 2,146,690,296</u>	<u>\$ 2,112,482,420</u>
Liabilities		
Current liabilities	76,600,576	101,931,143
Long-term liabilities	<u>356,665,869</u>	<u>312,377,852</u>
Total liabilities	<u>\$ 433,266,445</u>	<u>\$ 414,308,995</u>
Net assets		
Invested in capital assets, net related debt	\$ 1,533,084,820	\$ 1,547,099,578
Restricted	84,986,316	124,360,369
Unrestricted	<u>95,352,715</u>	<u>26,714,178</u>
Total net assets	<u>\$ 1,713,423,851</u>	<u>\$ 1,698,174,125</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

As noted earlier, net assets may serve over time as useful indicator of the Municipality's financial position. In the case of the Municipality's, net assets (excess of assets over liabilities) amounted to \$1,713.4 million at June 30, 2010.

The Municipality's current assets amounting to \$270,136,078 are mainly composed of unrestricted cash and certificates of deposits (\$112.1 million) and restricted cash (\$123 million) and federal grants receivables (\$20.5 million).

The restricted cash represents legally designated for: (1) payments of debt service, (2) the acquisition, construction and improvement of major capital assets and (3) the operations of federally and state funded programs. Restricted cash also consists of unspent proceeds of bonds issued to pay accounts payable and certain specific commitments.

The short-term investments in certificates of deposit are unrestricted and available to meet operational needs and obligations with citizens and creditors. Restricted property taxes receivable represent resources set aside to redeem the bonds of the Municipality in minimum annual or biannual principal and interest payments.

At the end of the current fiscal year, the Municipality's current liabilities amounting to \$76.6 million are substantially composed of deferred volume of business taxes (\$25.1 million), deferred federal revenues (\$5.6 million), the portions due within one year of bonds payable (\$15 million) and accounts payables and accrued liabilities (\$17.5 million). As noted in the condensed statements of net assets, the Municipality's current assets exceeded current liabilities by \$193.5 million, for a current ratio of 3.5 to 4.

The Municipality's noncurrent liabilities, amounting to \$356 million at June 30, 2010, are mainly composed of portions due after one year of bonds and notes payable (\$328.1 million), compensated absences (\$11.3 million), interest due for account sold (\$6.7 million), accrued legal claims (\$4.7 million), governmental agencies payables (\$4.3 million), and estimated liability for the municipal solid waste landfill closure and post closure care costs (\$1.3 million).

The largest portions of the Municipality's net assets are invested in capital assets net of their related debt which amount to \$1,533,084,820. The Municipality's net assets are also composed of net assets amounting to \$84,986,316 that are restricted for (1) future debt service payments and (2) the future acquisition or construction of capital assets. In addition, the Municipality's net assets are reported net of an unrestricted net asset of \$95,352,715.

The portion of the Municipality's net assets invested in capital assets, such as land, buildings, equipment and infrastructure (roads, improvements and other immovable assets), less any outstanding related debt used to acquire those assets, are used by the Municipality to provide services to its residents. Consequentially, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

The restricted net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the Municipality's ongoing obligations to residents and creditors. Internally imposed designations of resources are not presented as restricted net assets.

The following is a comparative condensed presentation of the Municipality's results of operations as reported in the GWFS:

Statement of Activities

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Revenues		
Program revenues:		
Operating grants and contributions	\$ 29,972,092	\$ 31,087,013
Capital grants and contributions	2,380,933	503,794
Charges for services	2,111,541	3,058,622
General revenues:		
Property taxes	70,821,319	71,857,217
Volume of business taxes	35,150,899	35,429,825
Municipal sales taxes	21,103,090	19,955,774
Municipal licenses and permits	6,374,536	9,849,189
Intergovernmental contributions	17,144,153	14,762,566
Interest income	2,992,180	5,508,863
Other	1,078,370	1,759,121
	<u>189,129,113</u>	<u>193,771,984</u>
Total revenues		
Expenses		
General government	37,044,843	43,315,854
Public safety	12,928,584	20,432,691
Highway, streets and public works	45,129,493	49,255,503
Sanitation	13,640,145	13,052,241
Health	7,885,802	7,885,802
Recreation and sports	2,610,088	1,325,443
Education	9,589,842	24,940,405
Public housing and buildings	9,365,218	22,319,711
Economic developments	2,732,155	1,096,855
Welfare	4,729,405	6,930,599
Federal workforce investment	3,697,151	5,800,304
Interest	9,942,069	11,274,164
	<u>159,294,795</u>	<u>207,629,572</u>
Total expenses		
Change in net assets	\$ 29,834,318	\$ (13,089,658)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

The Municipality's net assets increased during fiscal year. The total revenues decrease from \$193.8 million for the fiscal year ended June 30, 2009 to \$189.1 million for the fiscal year ended June 30, 2010, for a decrease of \$4.7 million.

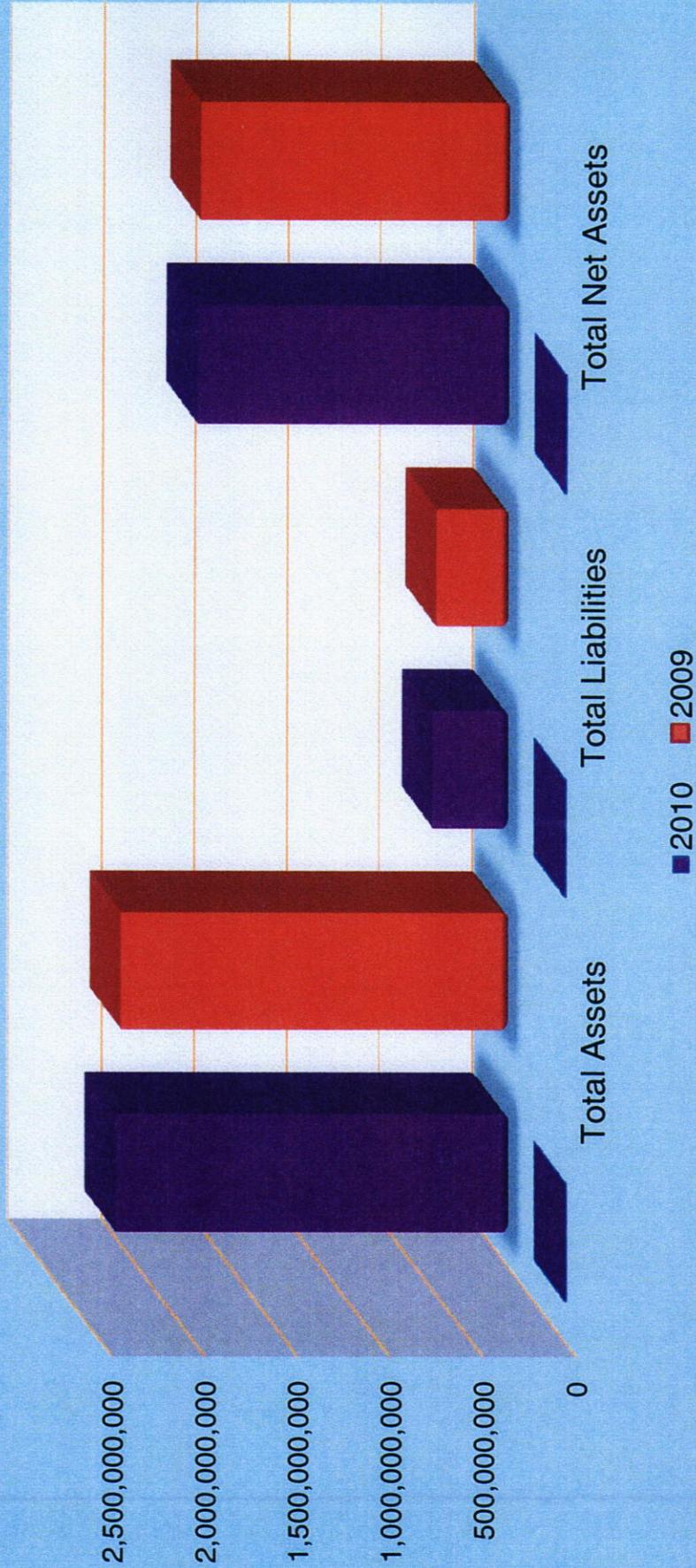
Of this amount, \$133.5 million (69%) came from property taxes, volume of business taxes, municipal sales taxes and licenses and permits (construction excise taxes), while \$35.8 million (19%) came from capital and operating grants and contributions and \$2.1 million (1%) came from charges for services. The most significant fluctuations among the current fiscal year revenues and those of the prior fiscal year were as follows:

- Municipal licenses and permits (including construction excise taxes), interest income, and property taxes decreased by \$2.5, \$3.4 and \$1.1 million, respectively. Operating grants and contributions and intergovernmental contributions increased by \$2 million, respectively as compared with last fiscal year.
- The Municipality's expenses cover a wide range of services. The largest expenses were related to capital improvements to streets, public works and transportation (\$45.1 million) and general administrating and operating costs (\$37 million), which were classified as "general government".
- During fiscal year 2009-10, the Municipality's total expenses decreased from \$207.6 million for the fiscal year ended June 30, 2009 to \$159.6 million for the fiscal year ended June 30, 2010, for a decrease of \$48 million.
- General government expenses, education, public safety and public housing and buildings, decreased by \$28.4, \$15.3, \$7.4 and \$5.9 million, respectively as compared with last fiscal year.



Commonwealth of Puerto Rico Municipality of Carolina

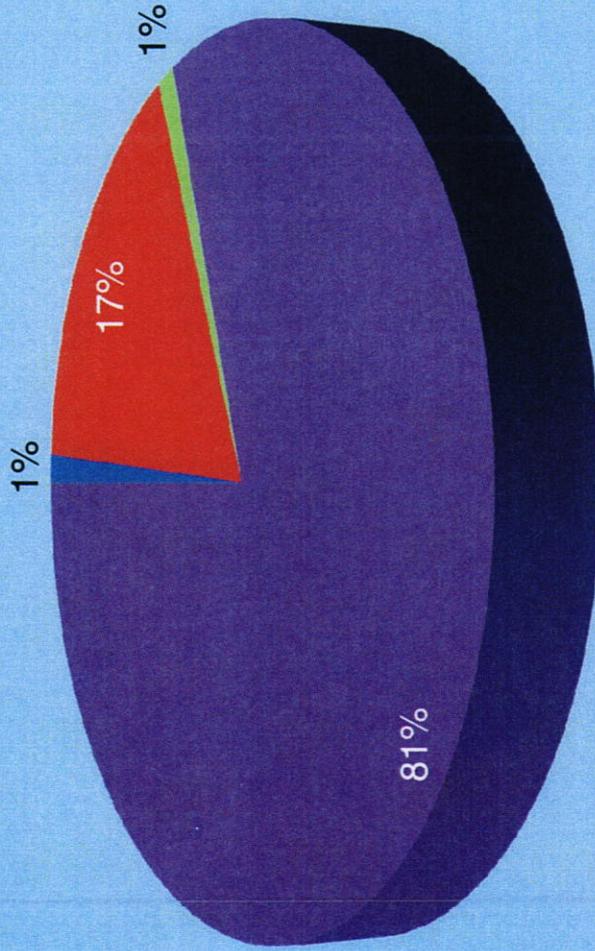
STATEMENT OF NET ASSETS June 30, 2010 ● 2009



Commonwealth of Puerto Rico Municipality of Carolina

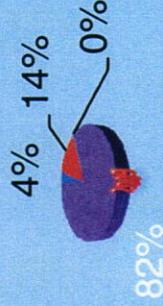
Statement of Activities REVENUES

June 30, 2010 ● 2009



- Charges for Services
- Operating Grants
- Capital Grants
- General Revenue

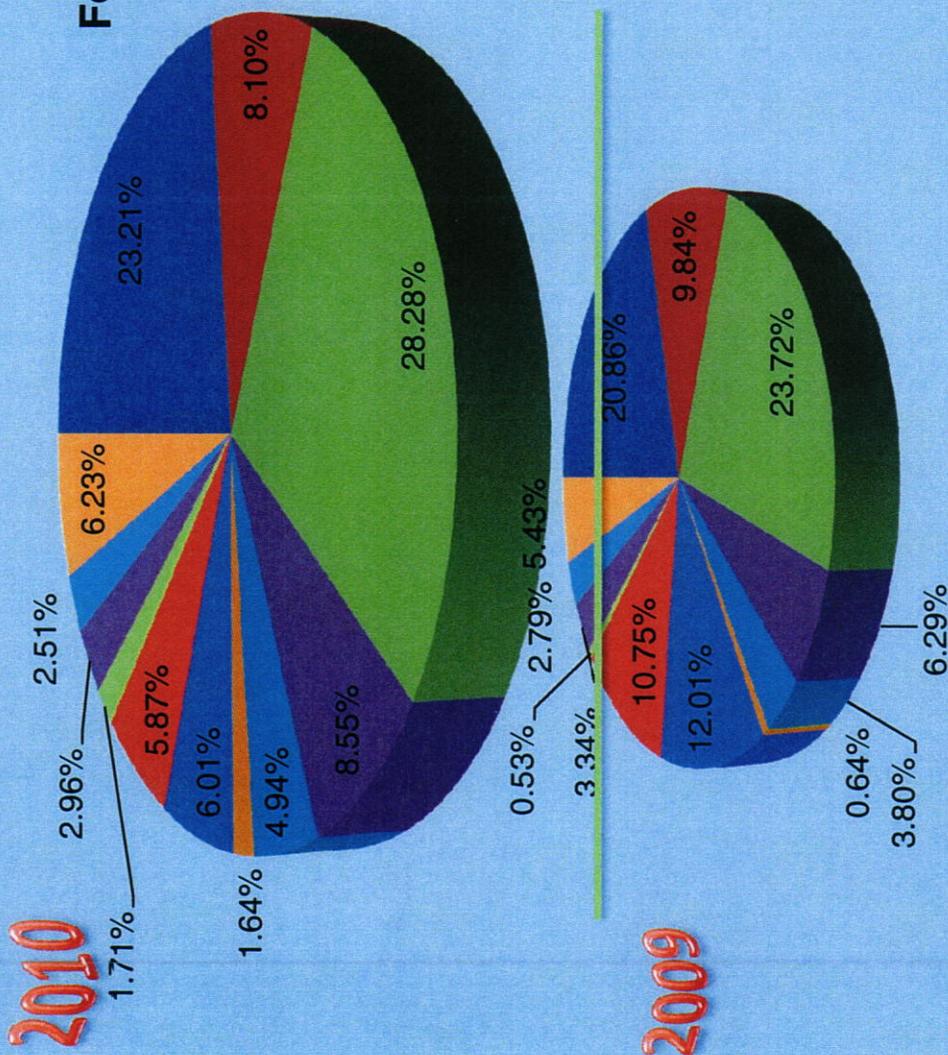
2010





Commonwealth of Puerto Rico Municipality of Carolina

Statement of Activities Expenses by functions/programs For the Ended June 30, 2010 ● 2009



2010

2009

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Financial Analysis of Governmental Funds Financial Statements

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental *funds* is to provide information on near-term inflows, outflows and balances of expendable *resources*. Such information is useful in assessing the Municipality's compliance with finance-related legal requirements. Specifically, *unreserved fund balance* may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Municipality's governmental funds reported a total fund balance of \$190.2 million, an increase of \$16.4 million (9%) as compared with last fiscal year. The primary reason for the government fund's increase in the current year was the proceeds from debts issuance and special loan recorded as other financial sources. The following is a condensed comparative presentation of the Municipality's balance sheet of the governmental funds:

Condensed Balance Sheet - Governmental Funds

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Assets		
Total Assets – Major funds	\$ 251,989,788	\$ 252,518,574
Total Assets – Nonmajor funds	<u>24,923,041</u>	<u>20,263,656</u>
 Total assets	 276,912,829	 272,782,230
Liabilities		
Total Liabilities – Major funds	76,028,578	85,153,150
Total liabilities – Nonmajor funds	<u>10,675,673</u>	<u>13,843,337</u>
 Total liabilities	 86,704,251	 98,996,487
Fund balances:		
Reserved – Major funds	172,794,794	163,493,888
Reserved – Nonmajor funds	12,001,782	4,576,690
Unreserved – Major funds	3,166,416	3,871,537
Unreserved – Nonmajor funds	<u>2,245,586</u>	<u>1,843,628</u>
 Total fund balances	 <u>\$ 190,208,578</u>	 <u>\$ 173,785,743</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Major Governmental Funds

The following is a summarized financial analysis of the Municipality's Major funds as reported in the Balance Sheet:

General Fund (GF) – The GF's assets are mainly composed of unrestricted cash and certificate of deposits (\$86.1 million), short-term amounts due from other funds (\$4.2 million), volume of business taxes receivables (\$3.1 million) and sales taxes receivables (\$1.5 million). GF's liabilities are mainly composed of deferred volume of business taxes collected (\$25.1 million), due to government's agencies (\$9.3 million), accounts payable and accrued liabilities (\$7.3 million), and other deferred revenues (\$3 million).

Debt Service Fund (DSF) – The DSF's assets consist mainly of restricted cash with fiscal agent (\$45.8 million) and restricted property tax receivable (\$2.7 million). DSF's liabilities are mainly composed of matured bonds and notes principal payable (\$12.7 million), matured interest due and payable (\$3.5 million) and deferred revenues (\$2.3 million).

Capital Project Fund (CPF) – The CPF's assets are mainly composed of unrestricted and restricted cash (\$87.5 million), due from other government agencies (\$1.1 million) and short-term amounts due from other funds (\$1 million). CPF's liabilities are mainly composed of accounts payable (\$8.5 million).

Economic Development Fund (EDF) – The EDF's assets are mainly composed of unrestricted and restricted cash (\$10.3 million) and federal grants receivables (\$6.5 million). EDF's liabilities are mainly composed of accounts payables and short-term loans to other funds (\$1.1 million).

Workforce Investment Act Fund (WIAF) – The WIAF's assets consist mainly of federal grants receivables (\$1.8 million). WIAF's liabilities are mainly composed of accounts payables and accrued liabilities (\$841,238).

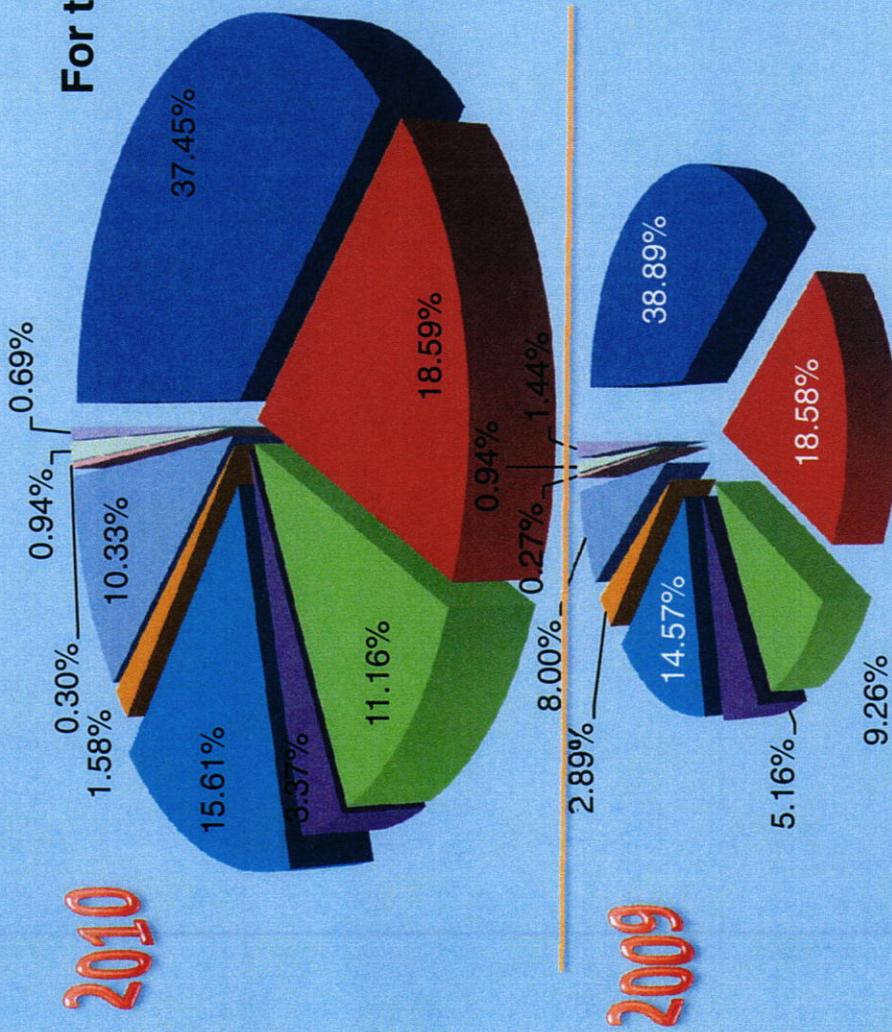
Other Governmental Fund (OGF) – The OGF's total assets are mainly composed of unrestricted and restricted cash (\$5.4 million), federal grants receivable (\$12.3 million) and due from government agencies (\$5.7 million). The OGF's liabilities are principal composed of short-term loans to other funds (\$3.8 million) and deferred federal revenues (\$5.6 million).



Commonwealth of Puerto Rico Municipality of Carolina

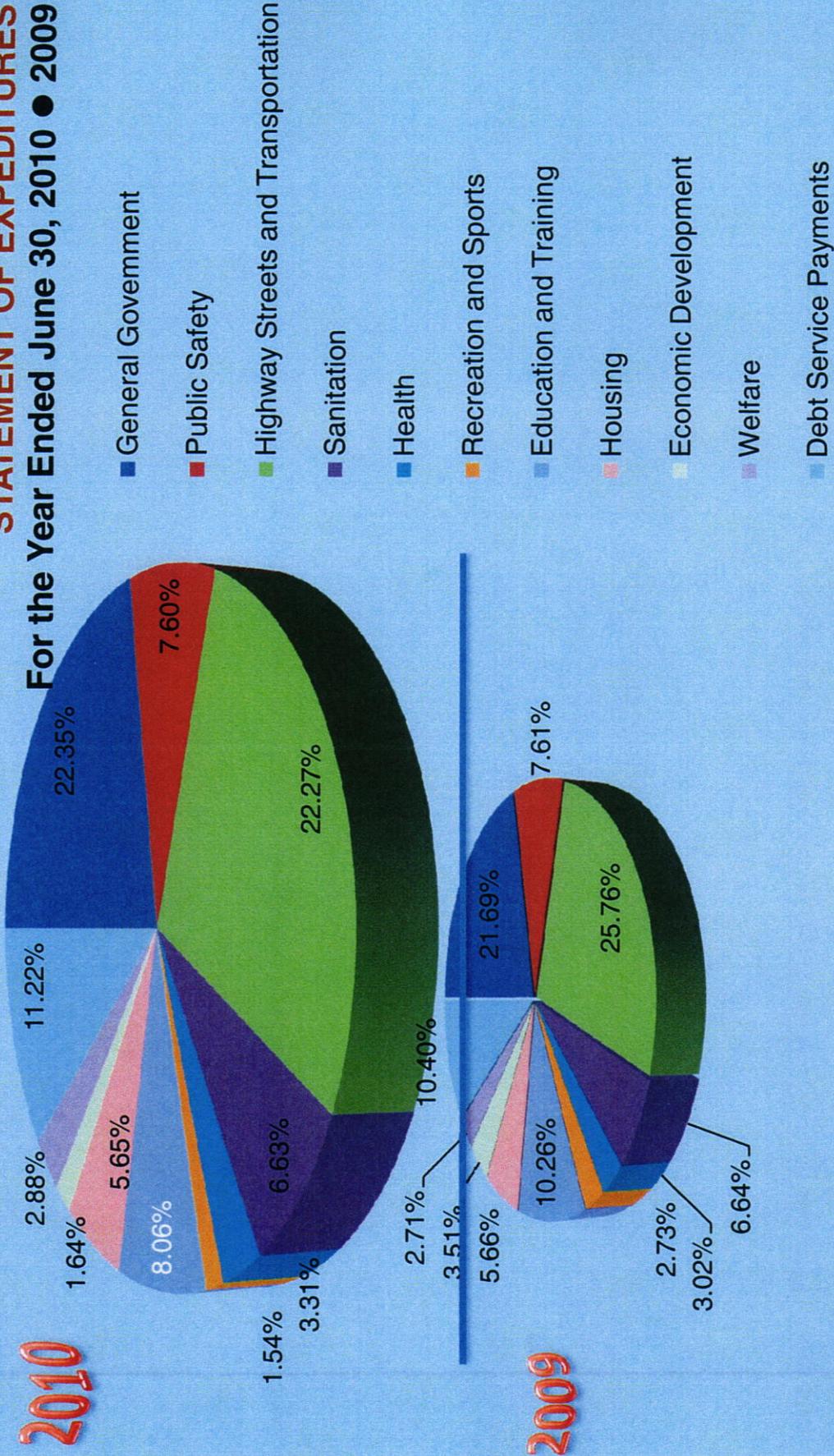
Governmental Funds STATEMENT OF REVENUES For the Year Ended June 30, 2010 • 2009

- Property Taxes
- Volume of Business
- Sales Taxes
- Licenses & Permits
- Federal Grants
- Interest Income
- Intergovernmental
- Landfill
- Rent
- Other



Commonwealth of Puerto Rico Municipality of Carolina

Governmental Funds STATEMENT OF EXPEDITURES For the Year Ended June 30, 2010 • 2009



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Major Governmental Funds

The following is a comparative presentation of the Municipality's Statement of Revenues, Expenditures and Change in Fund Balance of the governmental funds:

Condensed Statement of Revenues, Expenditures and Change in Fund Balances

Revenues	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Total revenues – Major funds	\$ 167,021,169	\$ 169,997,084
Total revenues – Nonmajor funds	<u>22,107,944</u>	<u>20,716,277</u>
Total revenues	<u>189,129,113</u>	<u>190,713,361</u>
Expenditures		
Total expenditures – Major funds	220,869,603	242,005,812
Total expenditures – Nonmajor funds	<u>17,126,415</u>	<u>18,868,533</u>
Total expenditures	<u>237,996,018</u>	<u>260,874,345</u>
Other financial sources		
Proceeds from debt issuance, Major funds	60,105,000	20,406,000
Transfer from other funds – Major funds	15,450,168	17,236,455
Transfer from other funds – Nonmajor funds	1,163,690	615,014
Transfer to other funds – Major funds	(15,917,958)	(16,831,075)
Transfer to other funds – Nonmajor funds	<u>(695,732)</u>	<u>(1,020,394)</u>
Total other financing sources (uses)	<u>60,105,168</u>	<u>20,406,000</u>
Excess (deficiency) of revenues and other financing sources (uses) over expenditures	<u>\$ 11,238,095</u>	<u>\$ (49,754,984)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

The following is a summarized financial analysis of the Municipality's Major funds as reported in the Statements of Revenues, Expenditures and Changes in Fund Balances:

General Fund (GF) – The GF's revenues amounting to \$131.2 million are mainly composed of property taxes (\$49.9 million), municipal volume business tax (\$35.2 million), sales taxes (\$17.8 million), construction tax and permits (\$6.4 million), intergovernmental grants and contributions (\$16.4 million) and interest income (\$2.6 million). In addition, the GF reflect a proceed from debt issuance of \$20.1 million.

The GF's expenditures amounting to \$134.9 million are mainly composed of general administrative and operational costs (\$53.2 million), public safety operations (\$18.6 million), solid waste disposal, landfill operations and sanitation services (\$18 million), public works, transportation and improvements to streets (\$16.3 million) and health services (\$7.9 million). The most significant fluctuation between the current fiscal year expenditures and those of the prior fiscal year occurred in the public works, transportation and capital improvements to municipal facilities and buildings, for an increased of \$7.4 million. Otherwise, the general government (administrative and operational costs), public safety and housing expenditures, reflect a decreased of \$3.4 million, 1 million and \$1.2 million, respectively as compared with prior fiscal year.

Debt Service Fund (DSF) – The DSF's revenues consist mainly of restricted property taxes (\$21 million) and operating transfer in for debt payment (\$6.9 million). The DSF's expenditures consist mainly of matured principal and interest payments on loans (\$26.7 million).

Capital Project Fund (CPF) – The CPF's revenues are mainly composed of proceeds from debt issuance (\$38.9 million) and intergovernmental grants and contributions (\$2.4 million). The CPF's expenditures decreased from \$67.9 million for the fiscal year ended June 30, 2009 to \$50.3 million for the fiscal year ended June 30, 2010. Those expenditures were related to capital outlays which capitalized on government wide financial statements.

Economic Development Fund (EDF) – The EDF's revenues and expenditures are mainly composed of federal grants (\$4.9 million) and economic development projects (\$3.4 million).

Workforce Investment Act Fund (WIAF) – The WIAF's revenues and expenditures consist mainly of federal grants (\$3.1 million) and direct benefits of employment opportunities to citizens (\$5.5 million).

Other Governmental Fund (OGF) – The OGF's total revenues are mainly composed of federal grants (\$21.3 million). The OGF's total expenditures are mainly composed of education (\$8.8 million) and public housing projects (\$6.9 million).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Capital Assets

The accompanying statement of net assets reported total gross capital assets, at cost, amounting to \$1,973,498,360, of which \$97,251,240 represents construction and infrastructure in progress and \$523,915,143 relates to buildings, improvements and infrastructure assets at June 30, 2010. The accumulated depreciation and amortization of capital assets amounted to \$98,466,279. The investment in capital assets include land, buildings, improvements, landfill, waste disposal facilities, recycle plant, motor vehicles, machinery and equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Actual costs incurred to purchase or construct capital assets were \$74,827,651 for the year ended June 30, 2010. Depreciation and amortization charges for the year ended totaled \$11,665,605.

The Municipality finances a significant portion of its construction activities through bond issuances and state and federal grants. The proceeds from debt issuance designated for construction activities are committed in its entirety for such purpose and cannot be used for any other purposes. Major capital assets additions during fiscal year include:

- ❖ Capital improvements on roads and construction of buildings and other municipalities facilities
- ❖ Specialized school infrastructure for excelling students in sciences, languages and technologies
- ❖ Acquisition of land for developments projects

Major additions to construction and infrastructure in progress (disbursements of more than \$825,000) as of June 30, 2010 are as follows:

<u>Project</u>	<u>Amount</u>
Museo y Parque del Niño	\$ 8,471,743
Mejoras ave. Isla Verde	4,208,755
Escuela Pa' Los Duros – Ciencias, Lenguaje y Tecnología	2,978,962
Mejoras ave. Jesus M. Fragoso	2,230,723
Centro Comunal y Head Start Bo. Cedros	2,046,795
Museo de los Gigantes	1,676,754
Parque Acuático Aquasol – Julia de Burgos	1,383,074
Centro Head Start y pista de trotar – Bo. Santa Cruz	1,326,747
Adquisiciones ave. Isla Verde	1,135,030
Conector Severo Quiñones	1,131,006
Mejoras ave. Calderón	969,820
Parque Acuático Aquasol – Balneario de Carolina	829,956
	<u>\$ 28,389,365</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Debt Administration

The laws and regulations of the Commonwealth of Puerto Rico have established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law and regulations also require that in order for a municipality to be able to issue additional general obligation bonds and notes, such municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such Municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax, as projected by the Government Development Bank for Puerto Rico, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable laws and regulations to levy the Special Additional Tax in such amounts as shall be required for the payments of its general obligation municipal bonds and notes. In addition, principal and interest on all general municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys deposit in the Municipality's Redemption Fund.

As of June 30, 2010 the Municipality had a total long-term debt outstanding of \$343.1 million all of which is debt backed by the full faith and credit of the Municipality. The following is a summary of the long-term debt balances on bonds, loans and notes:

	<u>2010</u>	<u>2009</u>
General obligations bonds	\$ 288,381,536	\$ 242,759,236
Special loan	42,626,000	43,941,000
Federal loans and notes	12,115,000	13,080,000
Totals	<u>\$ 343,122,536</u>	<u>\$ 299,780,236</u>

The Municipality's proceed from new issuance increased by \$60.1 million during fiscal year 2009-10, related to infrastructure developments and construction projects.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

BUDGETARY HIGHLIGHTS:

- The original budget of the general fund (operating fund) for the fiscal year ended June 30, 2010 amounted to \$99,028,558. Over the course of the fiscal year, the Municipality revised the general fund budget in order to include increase in revenues that were identified during course of the fiscal year based on current developments that positively affected the Municipality's finances. Generally, the Municipal Legislature authorized budget amendments for the following activities: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal Grants and State Grants; and 3) increases in appropriations that became necessary to maintain services.
- During the current fiscal year, the original budget was revised to recognize an increase of \$7,115,551 in total budgeted revenues, to reach the total revised budget amount of \$106,144,409. Of this amount \$1,191,125 was from unreserved resources (readjustments) from prior years. Increases in budgeted expenditures were also made since the laws and regulations of the Commonwealth mandate a balanced budget.
- The accompanying Budgetary Comparison Schedule shows a total negative variance between budgeted revenues and actual revenues results of \$3,244,682, which was mainly caused by a reduction of collection in property taxes, licenses and permits (construction excise taxes) and interest income. On the other hand, expenditures from general fund showed a favorable variance of \$1,575,676 as compared with budgeted amount. The favorable variance in expenditures was principally due to cost reduction initiative implemented by the Municipality, which emphasized in reducing general and administrative costs while increasing direct services to citizens.

Economic Factors and Next Year Budget

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central governmental of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the legislative power by the Municipal Legislature, which has 16 members.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

The Municipality provides a full range of services including public works, education, Public safety, public housing, health, community development, culture, recreation and other administrative services. The Municipality's principal sources of revenues are property taxes, municipal volume business taxes, sales taxes, as well as, federal and state grants contributions to carry out the governmental activities. Those factors were considered when preparing the Municipality's budget for the 2010-11 fiscal year. There were no significant changes between the budget for fiscal year 2010-2011 and the one for fiscal year 2009-2010.

Economic Factors and Next Year Budget (Continuation)

The municipality has a wide industrial base which includes the International Airport, hotels, large pharmaceuticals, wholesalers, retail stores, financial institutions, restaurants, among others. The Municipality has an unemployment rate approximately of 12%, which is lower than the state average of 16. % as of June 30, 2010.

The original budget of the general fund (operating fund) for the fiscal year 2010-11 was \$98.8 million. Otherwise, the total Municipality's budget for fiscal year 2010-11 of all governmental funds were \$299 million.

Contacting the Municipality's Financial Management

The Municipality's financial statements are designed to provide a general overview of the Municipality's finances for all Carolina residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Municipality's accountability for the money it receives.

Questions concerning any of the information provided in this report or request for additional information should be addressed to: Municipality of Carolina, Department of Finance, Office of Director, P.O. Box 8, Carolina, Puerto Rico, 00986-0008.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

STATEMENTS OF NET ASSETS
GOVERNMENTAL ACTIVITIES

ASSETS	June 30	
	2010	2009
Current assets:		
Cash and cash equivalents	\$ 112,053,041	\$ 166,948,852
Cash with fiscal agent	123,007,302	64,012,179
Receivables:		
Volume of business tax	3,136,814	2,841,952
Sales taxes	1,479,971	1,612,550
Property taxes	2,708,332	4,292,993
Due from other governments	1,180,747	1,076,288
Federal grants	20,535,425	16,995,763
Interest	-	17,327
Other	6,034,446	7,462,871
Total current assets	<u>270,136,078</u>	<u>265,260,775</u>
Noncurrent assets:		
Capital assets, net	1,875,032,801	1,846,879,814
Bond issue costs	1,521,417	342,531
Total noncurrent assets	<u>1,876,554,218</u>	<u>1,847,222,345</u>
Total assets	<u>2,146,690,296</u>	<u>2,112,483,120</u>
LIABILITIES		
Current liabilities:		
Bonds and notes payable	14,988,000	15,137,700
Accounts payable and accrued liabilities	17,509,016	26,018,425
Accrued legal claims	220,655	254,023
Accrued compensated absences	2,968,302	6,756,532
Interest payable	3,547,841	4,584,880
Due to other governments	3,781,521	2,158,900
LIMS refinancing debt	696,888	657,203
Interest due for accounts sold	317,482	317,482
Due to Federal Agency	716,686	717,267
Deferred volume of business taxes	25,085,923	30,455,740
Deferred federal revenues	5,619,000	7,914,031
Other deferred revenues	1,149,262	6,958,960
Total current liabilities	<u>\$ 76,600,576</u>	<u>\$ 101,931,143</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA
STATEMENTS OF NET ASSETS
GOVERNMENTAL ACTIVITIES (continued)

	June 30	
	2010	2009
Total current liabilities	\$ 76,600,576	\$ 101,931,143
Noncurrent liabilities, net of current portions:		
Bonds and notes payable	328,134,536	284,642,536
Landfill obligations	1,261,761	1,613,017
Due to other governments	4,326,140	3,867,653
LIMS refinancing debt	364,069	1,060,956
Interest due for accounts sold	6,667,126	6,984,609
Accrued legal claims	4,652,185	4,752,234
Accrued compensated absences	11,260,052	9,456,847
Total noncurrent liabilities	<u>356,665,869</u>	<u>312,377,852</u>
Total liabilities	<u>433,266,445</u>	<u>414,308,995</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,533,084,820	1,547,099,578
Restricted for:		
Economic development projects	11,668,269	9,684,312
Capital projects	31,672,431	83,010,228
Debt service	29,643,834	25,245,511
Other purposes	12,001,782	6,420,318
Unrestricted	<u>95,352,715</u>	<u>26,714,178</u>
Total net assets	<u>\$ 1,713,423,851</u>	<u>\$ 1,698,174,125</u>

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

GOVERNMENTAL FUND FINANCIAL STATEMENTS
BALANCE SHEETS

	General	Debt Service	Capital Projects	Economic Development	Workforce Investment	Other Funds	June 30	
							2010	2009
ASSETS								
Cash and certificates of deposit	\$ 86,055,767	\$ -	\$ 10,292,978	\$ 10,263,889	\$ -	\$ 5,440,407	\$ 112,053,041	\$ 166,948,852
Cash with fiscal agent	192	45,765,736	77,236,644	-	4,730	-	123,007,302	64,012,179
Volume of business taxes receivable	3,136,814	-	-	-	-	-	3,136,814	2,841,952
Sales taxes receivable	1,479,971	-	-	-	-	-	1,479,971	1,612,550
Due from other governments	-	-	1,098,147	-	-	5,702,500	6,800,647	6,119,005
Federal grants receivable	-	-	-	6,453,309	1,774,034	12,308,082	20,535,425	16,995,763
Due from other funds	4,174,129	-	915,184	277,283	-	1,410,155	6,776,751	8,098,638
Interest receivable	-	-	-	-	-	-	-	17,327
Property taxes receivable	-	2,708,332	-	-	-	-	2,708,332	4,292,993
Other receivables	87,956	-	189,495	69,162	6,036	61,897	414,546	1,842,971
Total assets	\$ 94,934,829	\$ 48,474,068	\$ 89,732,448	\$ 17,063,643	\$ 1,784,800	24,923,041	\$ 276,912,829	\$ 272,782,230

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

GOVERNMENTAL FUND GOVERNMENTAL FINANCIAL STATEMENTS
BALANCE SHEETS (continued)

	General	Debt Service	Capital Projects	Economic Development	Workforce Investment	Other Funds	June 30	
							2010	2009
\$ 7,272,115	\$ -	\$ 8,472,794	\$ 395,521	\$ 839,612	\$ 528,974	\$ 17,509,016	\$ 26,018,425	
-	12,690,000	-	-	-	-	12,690,000	12,170,686	
-	3,547,841	-	-	-	-	3,547,841	4,584,880	
9,282,006	-	-	-	1,626	-	9,283,632	2,077,860	
1,323,909	284,504	615,085	742,240	-	3,811,013	6,776,751	8,098,638	
-	-	-	-	-	716,686	716,686	717,267	
25,085,923	-	-	-	-	-	25,085,923	30,455,740	
-	-	-	-	-	5,619,000	5,619,000	7,914,031	
3,026,261	2,307,889	-	141,252	-	-	5,475,402	6,958,960	
45,990,214	18,830,234	9,087,879	1,279,013	841,238	10,675,673	86,704,251	98,996,487	
31,581,397	-	47,849,274	3,735,921	-	2,877,420	86,044,012	24,345,172	
-	-	31,672,431	-	-	-	31,672,431	81,583,117	
-	-	-	11,668,269	-	-	11,668,269	9,684,312	
15,319,666	-	-	380,440	943,562	9,124,362	25,768,030	27,212,466	
-	29,643,834	-	-	-	-	29,643,834	25,245,511	
2,043,552	-	-	-	-	-	2,043,552	2,444,425	
-	-	1,122,864	-	-	-	1,122,864	1,427,112	
-	-	-	-	-	2,245,586	2,245,586	1,843,628	
48,944,615	29,643,834	80,644,569	15,784,630	943,562	14,247,368	190,208,578	173,785,743	
\$ 94,934,829	\$ 48,474,068	\$ 89,732,448	\$ 17,063,643	\$ 1,784,800	\$ 24,923,041	\$ 276,912,829	\$ 272,782,230	

LIABILITIES, OTHER CREDITS, AND
FUND BALANCES

Liabilities and other credits:

Accounts payable	
and accrued liabilities	
Bond and note payable	
Interest payable	
Due to other governments	
Due to other funds	
Due to federal agency	
Deferred volume of business taxes	
Deferred federal revenue	
Other deferred revenue	
Total liabilities and credits	
Total liabilities and credits	

Fund balance:

Reserved for encumbrances	
Reserved for capital projects	
Reserved for development projects	
Reserved for restricted purposes	
Reserved for debt payments	
General fund	
Capital Project	
Other funds	
Total fund balances	

Total liabilities, other credits
and fund balances

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

RECONCILIATION OF FUND BALANCE OF GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

	For the Fiscal Year Ended June 30	
	2010	2009
Fund balance per fund statements	\$ 190,208,578	\$ 173,785,743
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 not reported in the funds	1,875,032,801	1,846,879,814
Bond issue cost of governmental activities are not financial resources and not reported as assets in the funds	1,521,417	342,531
Other economic resources used in governmental activities are not financial resources and not reported as revenue in the funds	3,486,492	-
Other long-term liabilities, such as accrued compensated absences, litigations, LIMS debt, interest of accounts sold current year and other contingencies are not available to pay for expenditures and therefore not reported in the funds	(27,232,549)	(35,224,412)
General obligation bonds, special and federal loans are not due and payable in the current period and therefore not reported in the funds	(329,592,888)	(287,609,551)
Net assets of governmental activities	\$ 1,713,423,851	\$ 1,698,174,125

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
Municipality of Carolina

GOVERNMENTAL FUND FINANCIAL STATEMENTS
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

	General	Debt Service	Capital Projects	Economic Development	Workforce Investment	Other	For the Fiscal Year Ended	
							2010	2009
							June 30	June 30
Revenues :								
Property taxes	\$ 49,936,157	\$ 20,885,162	\$ -	\$ -	\$ -	\$ -	\$ 70,821,319	\$ 74,159,736
Volume of business taxes	35,150,899	-	-	-	-	-	35,150,899	35,429,825
Sales taxes	17,768,031	3,335,059	-	-	-	-	21,103,090	17,653,255
Licenses, permits, fines and forfeitures	6,362,117	-	-	-	-	12,419	6,374,536	9,849,189
Federal grants	-	-	172,111	4,930,962	3,150,296	21,253,395	29,506,764	27,796,231
Interest income	2,609,718	4,142	142,785	175,488	-	60,067	2,992,180	5,508,863
Intergovernmental	16,425,670	-	2,380,933	-	6,000	718,483	19,531,086	15,260,360
Landfill	559,141	-	-	-	-	-	559,141	518,891
Rent	1,329,888	-	-	438,582	-	-	1,768,470	1,788,456
Other	1,014,790	-	200,000	22,512	20,746	63,580	1,321,628	2,748,555
Total revenues	131,156,411	24,224,363	2,895,829	5,567,524	3,177,042	22,107,944	189,129,113	190,713,361
Expenditures:								
General government	53,188,449	-	-	-	-	-	53,188,449	56,576,721
Public safety	18,556,684	-	-	-	-	27,833	18,584,517	19,858,351
Highway, streets and transportation	16,305,272	-	48,288,740	-	-	365,758	64,959,770	67,199,063
Sanitation	18,010,995	-	1,624,814	-	-	-	19,635,809	17,326,391
Health	7,885,802	-	-	-	-	-	7,885,802	7,885,802
Recreation and sports	3,249,092	-	273,145	-	-	134,630	3,656,867	7,125,747
Education and training	4,788,929	-	136,040	-	5,495,939	8,764,432	19,185,340	26,760,637
Housing	6,588,830	-	-	-	-	6,859,353	13,448,183	7,768,822
Economic development	-	-	-	3,402,893	-	496,714	3,899,607	8,411,097
Welfare	6,369,210	-	-	-	-	477,695	6,846,905	7,739,663
Debt service :								
Principal	-	16,762,700	-	-	-	-	16,762,700	15,155,985
Interest	-	9,942,069	-	-	-	-	9,942,069	11,983,479
Total expenditures	134,943,263	26,704,769	50,322,739	3,402,893	5,495,939	17,126,415	237,996,018	260,874,345
Other financing sources (uses) :								
Proceeds from debt issuance	21,165,000	-	38,940,000	-	-	-	60,105,000	20,406,000
Transfers from other funds	654,086	6,878,729	6,208,100	1,709,253	-	1,163,522	16,613,690	17,851,469
Transfers to other funds	(12,133,867)	-	(365,585)	(3,418,506)	-	(695,732)	(16,613,690)	(17,851,469)
Other financing sources (uses)	9,685,219	6,878,729	44,782,515	(1,709,253)	-	467,790	60,105,000	20,406,000
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	5,898,367	4,398,323	(2,644,395)	455,378	(2,318,897)	5,449,319	11,238,095	(49,754,984)
Fund balances, beginning (as previously reported)	45,828,541	25,245,511	83,010,229	9,684,312	3,596,832	6,420,318	173,785,743	222,629,164
Prior period adjustments	(2,782,293)	-	278,735	5,644,940	(334,373)	2,377,731	5,184,740	911,563
Fund balances, beginning (as restated)	43,046,248	25,245,511	83,288,964	15,329,252	3,262,459	8,798,049	178,970,483	223,540,727
Fund balances, ending	\$ 48,944,615	\$ 29,643,834	\$ 80,644,569	\$ 15,784,630	\$ 943,562	\$ 14,247,368	\$ 190,208,578	\$ 173,785,743

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

	For the Fiscal Year Ended June 30	
	2010	2009
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses - total governmental funds	\$ 11,238,095	\$ (49,754,984)
Amounts reported in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	63,161,956	48,803,002
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.	16,762,700	15,865,300
Proceeds from debt issuance are other financing sources in the governmental funds but such proceeds increase long term liabilities in the statement of net assets.	(60,105,000)	(20,406,000)
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.	(1,223,433)	(7,596,976)
Change in net assets of governmental activities	\$ 29,834,318	\$ (13,089,658)

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of the Municipality of Carolina (the Municipality) are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the Municipality's financial activities for the fiscal year ended June 30, 2010.

Financial Reporting Entity

The Municipality is a political subdivision of the Commonwealth of Puerto Rico founded in 1857. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of sixteen assemblymen also elected in the general elections of Puerto Rico for a four-year period. The Municipality provides services such as: health, public safety, sanitation, recreation and sports, education and training, housing, transportation, welfare, employment opportunity, economic development and/or improvements of highways and streets, and other general and administrative services. The accompanying financial statements present the Municipality's primary government.

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Municipality as a whole.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Municipality's services; (2) operating grant and contributions, which finance annual operating activities; and (3) capital grants and contributions, which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The financial statements of the Municipality are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Municipality's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Municipality's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Municipality considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual are: sales and property taxes, volume of business taxes, intergovernmental revenues, and investment earnings (interest). In general, other revenue (licenses and permits, charges for services, fines and forfeits and miscellaneous revenues) are recognized when cash is received.

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

Major Governmental Funds

The Municipality reports the following major governmental funds:

General Fund - The general fund is the Municipality's primary operating fund. It accounts for all financial resources of the Municipality except those required to be accounted for in another funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Economic Development Fund - Accounts for the financial resources required for the economic development of the Municipality. Financing is provided primarily from Federal grants and loans and local special assignments receipts.

Debt Service Fund - Account the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Fund - Accounts for the financial resources required for the acquisition of personal property and/or construction of major improvements which are not financed by other funds.

Workforce Investment Fund - The Workforce Investment Fund accounts for the activities of the Employment Opportunity Municipal Agency (Workforce Investment Area of Municipality of Carolina-Local Area), an entity organized by the Municipality of Carolina as requested by the Governor of Puerto Rico, in accordance with Section 116 of the Workforce Investment Act (WIA) and Section 2.001 of the Autonomous Municipal Law of Puerto Rico. The entity was designated as Service Delivery Area (SDA) according to the provision of the Workforce Investment Act of 1998, set forth in Section 116 and the federal regulation as issued by the U.S. Secretary of Labor for the implementation of WIA. The purpose of the organization is to establish programs to provide remedial education, training and employment assistance to economically disadvantages youth and adults, and persons facing multiple barriers to employment and dislocated workers.

Cash and Investments

The Municipality is responsible for the investing of its available resources. Puerto Rico laws authorize the Municipality to invest its available resources in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is allowed to invest in savings accounts and certificates of deposit, and bank acceptances and other bank obligations, with banks qualified as a depository of public funds by the Puerto Rico Treasury Department or in instruments of the Government Development Bank for Puerto Rico.

Cash Held with Fiscal Agent

The cash with fiscal agent consists of property tax collections withheld by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of Municipality's debt service. The cash held with fiscal agent related with unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Cash Equivalents

The Municipality considers all investments (certificates of deposit) with an original maturity of three months or less to be cash equivalents.

Receivables

Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables are resources provided by governmental entities that are deemed fully collectible. The accounts receivable from nongovernmental customers are net of estimated uncollectible amounts.

Inter-Fund Receivables and Payables

The Municipality has the following types of transactions among funds:

- (1) Operating transfers - Operating transfers are legally required transfers that are reported when incurred as operations transfer-in by the recipient fund and as operating transfer-out by the disbursing fund.
- (2) Intra-entity transactions - Transfers between the funds of the primary government are reported as inter-fund transfer with receivables and payables presented as amounts due to and due from other funds.

Capital Assets and Depreciation

The municipality's capital assets with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Donated capital assets are reported at their estimated fair value at the time they are received by the Municipality. Additions, improvements and other capital outlays that significantly extended the useful life of an asset are capitalized. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Estimated useful lives and capitalization threshold for depreciable capital assets are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>	<u>Capitalization Threshold</u>
Vehicles, and Heavy Equipment	4 – 10	\$300
Furniture and Fixture	10	\$300
Computer and Electronic Equipment	5	\$300
Buildings	50	\$1
Infrastructure	60	\$1
Improvements	20 – 40	\$1

Deferred Revenues

Deferred revenue at the governmental fund level arises when potential revenue does not meet neither the “measurable” or the “available” criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Municipality has a legal claim to them, as when grant moneys are received prior all applicable eligibility requirements are met.

Long - Term Debt

In the government-wide outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest rate. Bond issuance costs consist of legal and accounting fees and will be amortized over the lives of the related bond issues using the straight-line method.

Fund Equity

The governmental fund financial statements report reserved fund balances for amounts not available for appropriation or legally restricted for specified purposes beyond the restrictions applicable to the fund.

Insurance

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31 of prior year. The liability for compensated absences was reported in the government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, are accounted in the Statement of Net Asset.

Post Employment Benefits

Pursuant to Act. no. 207 of August 13, 1995, Act No. 40 of June 13, 2001 and Act No. 157 of June 27, 2003, the Municipality is required to cover annually the 3% increase (cost of living allowance) in the retirement plan of its retirees employees. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Municipality. These benefits are recorded as expenditures when paid in the General Fund.

Budgetary Information

Budget Policy and Practice: The Municipality mayor submits an annual budget to the Municipal Legislature in accordance with the Law of Autonomous Municipalities of the Commonwealth of Puerto Rico. The budget includes estimated expenditures and their financing sources. The budget is presented to the municipal legislature for review, and public hearings are held to address priorities and the allocation of resources. Once approved, the municipal legislature may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Basis of Budgeting: Revenues are budgeted by source. Expenditures are budgeted by program as follows: general government, public safety, highways, streets, and transportation, sanitation, health, recreation and sports, education and training, and housing. The budget is prepared on the modified accrual basis of accounting. Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the municipal legislature.

Note 2 - Property Taxes

The "Centro de Recaudación de Ingresos Municipales" (CRIM) is responsible for the assessment of all real and personal property located within the Municipality of Carolina and for the levy, administration and collection of the corresponding taxes.

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

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

The tax rate per annum is 9.28% for real property and 7.28% for personal property of which 1.03% belongs to the Commonwealth of Puerto Rico and 8.25% and 6.25% of both percents belong to the Municipality. From the portion belonging to the Municipality, 6% and 4%, respectively, represents the Municipality's basic tax rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to the Municipality of 2.25% represents the "ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service which is accounted for through the debt service fund (See Note 8). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

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

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$2,127,939 and \$2,094,403 during fiscal years ended June 30, 2010 and 2009, respectively.

The following is a summary of the property tax advances, which resulted as an account receivable, at June 30, 2010 and 2009, respectively. In addition, the Municipality reports outstanding debt dated from June 30, 2003 in the Government Wide Financial Statement.

<u>Accounts (Payable) and Receivable</u>	<u>2010</u>	<u>2009</u>
Amortization through collections of property taxes by the CRIM	\$ 48,589,560	\$ 49,838,959
Advanced received,	<u>52,915,700</u>	<u>52,621,254</u>
Due (to) CRIM (property taxes receivable)	<u>(4,326,140)</u>	<u>(2,782,295)</u>
Due (to) CRIM-2000	<u>\$ (3,867,653)</u>	<u>\$ (3,948,693)</u>

Note 3 - License Taxes

The Municipality imposes a volume of business tax pursuant to Act No. 82 of August 30, 1991, on all business entities, which operate within the Municipality, which are not exempt from the tax pursuant to the Industrial Incentives Act. The tax is based on gross revenues, as defined by law, computed at the rate of 1.5% for financial institutions and savings and loans associations, 0.5% for all other non-financial organizations.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the minimum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 23. The Municipality grants a 5% discount, if the taxes are paid on or before April 23. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The Municipality recognized an account receivable for the estimated municipal license taxes to be collected during the first two months of fiscal year 2009-2010, but corresponding to fiscal year 2009-2010. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Note 4 - Custodial Credit Risk

Substantially all cash balances of the Municipality are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits (generally interest-bearing bank accounts and short term certificates of deposit).

The Municipality is authorized to deposit only in commercial institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico and in the Government Development Bank for Puerto Rico. Such deposits are kept in separate accounts in the name of the Municipality. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance.

The Municipality commercial bank institutions balances at June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Insured by the federal deposits insurance corporation	\$ 1,500,000	\$ 500,000
Collateralized by securities held by the pledging financial institution's trust department in the Municipality's name	<u>261,548,444</u>	<u>233,384,033</u>
Total	<u>\$ 263,048,444</u>	<u>\$ 233,884,033</u>

Custodial credit risk for deposits is the risk that in the event of a bank failure, the municipality's deposits may not be returned or the municipality will not be able to recover collateral securities in the possession of the outside party.

As of June 30, 2010 and 2009, the Municipality's custodial credit risk was approximately \$91 and \$44 million, respectively, which are the balances of cash deposited at the Government Development Bank for Puerto Rico. These deposits are exempt from the collateral requirement established by the Commonwealth.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Note 5 - Inter-Fund Transactions

Receivables and Payables

Inter-fund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. Following is a summary of inter-fund assets and liabilities as of June 30, 2010:

<u>Receivable Fund</u>	<u>Payable Fund</u>	2010	2009
	Debt Service	\$ 284,504	\$ 283,067
	Capital Project	403,698	564,678
	Economic Development	520,571	941,054
	Other	2,965,356	3,845,057
General		<u>4,174,129</u>	<u>5,633,856</u>
	Other	770,505	689,500
	General	408,583	72,558
	Economic Development	19,725	135,410
	Capital Project	211,342	-
Other		<u>1,410,155</u>	<u>897,468</u>
	Economic Development	201,944	464,252
	General	143	143
	Other	75,151	28,000
	Capital	45	-
Economic Development		<u>277,283</u>	<u>492,395</u>
	Capital Project	-	1,000
	General	915,184	1,073,919
Capital Project		<u>915,184</u>	<u>1,074,919</u>
Total		<u>\$ 6,776,751</u>	<u>\$ 8,098,638</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Transfer In/Out

Inter-fund transfer in/out reflect the transfers of resources between from one fund to another without the attempt of recovering. Following is a summary of inter-fund transfers for the year ended June 30, 2010:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>2010</u>	<u>2009</u>
Economic Development		\$ 1,709,253	\$ 1,761,755
Debt Service		<u>1,709,253</u>	<u>1,761,755</u>
	Economic Development	<u>3,418,506</u>	<u>3,523,510</u>
Capital Project		6,208,100	7,764,738
Debt Service		5,169,476	4,239,932
Other Governmental		<u>756,291</u>	<u>615,014</u>
	General	<u>12,133,867</u>	<u>12,619,684</u>
Other Governmental		365,585	-
General		-	<u>687,881</u>
	Capital Project	<u>365,585</u>	<u>687,881</u>
Other Governmental		41,646	-
General		<u>654,086</u>	<u>1,020,394</u>
	Other Governmental	<u>695,732</u>	<u>1,020,394</u>
Total		<u>\$ 16,613,690</u>	<u>\$ 17,851,469</u>

The inter-fund receivables and payables and transfer in and out on Fund Financial Statements are eliminated on the Statement of Net Assets (Government Wide Financial Statements).

Note 6 - Sales Taxes

On July 4, 2006, the Governor of Puerto Rico signed Act No. 117, known as the "Tax Fairness Act of 2007" (hereinafter the "Act"). Among its provisions, the Act provides for sales and uses tax of 5.5% at a Commonwealth level and authorizes the municipalities to impose sales and use tax of 1.5% at the municipal level. On July 12, 2006, our Mayor signed Ordinance No. 03, Series 2006-2007-12, which imposes the 1.5% sales and use tax authorized by the Act, effective July 1, 2007. Consequently, the Ordinance No. 15, Series 2007-2009-26, was approved in order to impose sales and use tax of 1% at the municipal level, such ordinance was effective since August 1, 2007. Sales tax collections during fiscal year 2009-10 amounted to \$17.5 millions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

The Internal Revenue Code of Puerto Rico of 1994 was again amended with Law No. 80 of July 29, 2007, specifically addressing Law No. 117. Law No. 80 made it a requirement for Municipalities to impose a 1.5% municipal tax uniformly across the Commonwealth. Municipalities would collect 1% as previously established in Sections 2410 and 6189 of the Act and the remaining .5% would be collected by the Department of Treasury of the Commonwealth of Puerto Rico. In order to comply with the new State Tax Code, on August 3, 2007 the Municipality approved Ordinance 07B-4 (effective August 1, 2007), which abolished Ordinance No. 6A-6, Series 2006-2007 and took the Municipality out the role of imposing regulations over the sales and use tax. From this point on all amendments, new laws, rules, and regulations are responsibilities of the Commonwealth of Puerto Rico as stated by the law.

As the last amendment, the current Law 80 dictates that the .5% collected by the Department of Treasury will be deposited and administered by the Puerto Rico Government Development Bank and will be used for the following purposes:

1. Municipal Redemption Fund - composed of .2% of the .5%. To be used to grant loans for the exclusive benefit of the municipalities. This fund, in addition to other variables, is used to calculate the Municipality's borrowing power within a specific timeframe. The Municipality's contribution to the fund (in the audited year) was approximately \$3,335,000.
2. Municipal Development Fund - composed of .2% of the .5%. To be used to establish a Municipal Development Fund to be distributed among all municipalities according to the formula established as part of the Law. The benefit received from this fund in the audited year was approximately \$272, 091.
3. Municipal Improvements Fund - .1% of the .5%. To be distributed according to Legislation pass by the Legislative Assembly for capital improvement projects in the municipalities.

Note 7 - Intergovernmental Revenues

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain "quasi-public" corporations, such as the Puerto Rico Electric Power Authority.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Note 8 - Debt Service Fund

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

Note 9 - Bonds and Notes Payable

The following is a summary of the bonds and notes payable transactions for the fiscal years ended June 30:

	<u>2010</u>	<u>2009</u>
Balance at beginning	\$ 299,780,236	\$ 295,239,536
Proceeds from new issuance	60,105,000	20,406,000
Less principal payments:		
Bonds \$15,797,700		
Notes 965,000	<u>(16,762,700)</u>	<u>(15,865,300)</u>
Balance at end of year	<u>\$ 343,122,536</u>	<u>\$ 299,780,236</u>

The annual requirements to amortize the bonds and notes payable at June 30, 2010, including payment of interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	17,661,200	16,862,008	34,523,208
2012	18,446,446	17,390,639	35,837,085
2013	19,417,200	16,425,158	35,842,358
2014	20,444,690	15,396,716	35,841,406
2015	21,396,000	14,302,959	35,698,959
2015-2020	108,773,000	54,143,231	162,916,231
2021-2025	88,090,000	26,234,542	114,324,542
2026-2030	42,834,000	8,072,871	50,906,871
2031-2033	<u>6,060,000</u>	<u>429,624</u>	<u>6,489,624</u>
Totals	<u>\$ 343,122,536</u>	<u>\$ 169,257,748</u>	<u>\$ 512,380,284</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

The detail of Bonds and Notes Payable as of June 30, 2010 and 2009 consists of the following:

<u>Bonds</u>	<u>2010</u>	<u>2009</u>
Series of 2009 - \$21,165,000 payable in annual installments of 685,000 to \$1,515,000 until July 1, 2030 with variable interest.	20,540,000	-
Series of 2009 - \$38,940,000 payable in annual installments of \$1,090,000 to \$2,640,000 until July 1, 2032 with variable interest.	37,940,000	-
Series of 2008 - \$9,586,000 payable in annual installments of \$345,000 to \$631,000 until July 1, 2028 with variable interest.	8,911,000	\$ 9,256,000
Series of 2008 - \$6,370,000 payable in annual installments of \$310,000 to \$585,000 until July 1, 2023 with variable interest.	5,765,000	6,075,000
Series of 2008 - \$3,650,000 payable in annual installments of \$80,000 to \$245,000 until July 1, 2033 with variable interest.	3,500,000	3,580,000
Series of 2008 - \$800,000 payable in annual installments of \$105,000 to \$130,000 until July 1, 2015 with variable interest.	600,000	705,000
Series of 2008 - \$35,610,000 payable in annual installments of \$925,000 to \$29,320,000 until January 1, 2015 with variable interest.	33,715,000	34,685,000
Series of 2008 - \$32,355,000 payable in annual installments of \$1,435,000 to \$2,845,000 until July 1, 2023 with interest at 5.00%	28,045,000	29,550,000
Series of 2007 - \$1,450,000 payable in annual installments of \$74,000 to \$135,000 until January 1, 2021 with interest at 5.125%	1,162,000	1,239,000
Series of 2007 - \$27,475,000 payable in annual installments of \$1,170,000 to \$2,325,000 until July 1, 2023 with interest at 5.00%	22,895,000	24,125,000
Series of 2007 - \$2,830,000 payable in annual installments of \$65,000 to \$195,000 until July 1, 2031 with interest at 5.00%	2,575,000	2,645,000
Series of 2007 - \$866,390 payable in annual installments of \$112,300 to \$141,690 until January 1, 2014 with interest at 4.125%	529,190	646,890
Series of 2005 - \$12,470,000 payable in annual installments of \$400,000 to \$955,000 until July 1, 2025 with interest at 5.00%	10,385,000	10,840,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

<u>Bonds</u>	<u>2010</u>	<u>2009</u>
Series of 2005 - \$12,470,000 payable in annual installments of \$440,000 to \$955,000 until July 1, 2025 with interest at 5.00%	10,385,000	10,840,000
Series of 2005 - \$12,460,000 payable in annual installments of \$430,000 to \$950,000 until July 1, 2025 with interest at 5.00%	10,380,000	10,845,000
Series of 2004 - \$15,550,000 payable in annual installments of \$600,000 to \$1,190,000 until July 1, 2023 with interest at 5.00%	11,720,000	12,350,000
Series of 2003 - \$4,000,000 payable in annual installments of \$117,000 to \$259,000 until January 1, 2027 with interest at 4.50%	3,158,000	3,280,000
Series of 2003 - \$1,310,000 payable in annual installments of \$30,000 to \$105,000 until July 1, 2027; with interest at 6.50%.	1,090,000	1,125,000
Series of 2003 - \$23,000,000 payable in annual installments of \$620,000 to \$1,625,000 until July 1, 2027; with interest at 5.5%.	18,630,000	19,285,000
Series of 2003 --\$1,360,000 payable in annual installments of \$38,000 to \$88,000 until January 1, 2028; with interest at 4.50%.	1,115,000	1,155,000
Series of 2001 - \$20,120,000 payable in annual installments of \$840,000 to \$1,805,000 until July 1, 2020 with interest at 4.1 to 5.29%	13,420,000	14,320,000
Series of 2000 - \$30,285,000 payable in annual installments of \$1,700,000 to \$2,400,000 until July 1, 2017; with interest at 4.1 to 5.01%.	15,150,000	16,935,000
Series of 1998 - \$13,165,000 payable in annual installments of \$505,000 to \$1,175,000 until July 1, 2020; with interest at 5.78% to 6.56%.	8,525,000	9,070,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

<u>Bonds</u>	<u>2010</u>	<u>2009</u>
Series of 1997 - \$1,248,000 payable in annual installments of \$139,000 to \$152,000 until January 1, 2011; with interest at 4.75%.	152,346	298,346
Series of 1995 - \$16,630,000 payable in annual installments of \$675,000 to \$1,465,000 until July 1, 2019; with interest at 6.00% to 7.706%.	9,870,000	10,600,000
Series of 1996 - \$10,475,000 payable in annual installments of \$635,000 to \$1,010,000 until July 1, 2015; with interest at 6.00% to 6.58%.	4,350,000	5,035,000
Series of 1997 - \$2,370,000 payable in annual installments of \$75,000 to \$205,000 until July 1, 2022; with interest at 5.78% to 6.56%.	1,675,000	1,755,000
Series of 2003 - \$23,500,000 payable in annual installments of \$580,000 to \$1,810,000 until January 1, 2027; with interest at 5.60%.	19,490,000	20,110,000
Series of 2003 - \$5,040,000 payable in annual installments of \$135,000 to \$330,000 until July 1, 2027; with interest at 5.04%.	4,105,000	4,245,000
Series of 2003 - \$4,310,000 payable in annual installments of \$105,000 to \$330,000 until July 1, 2027; with interest at 5.60%	3,565,000	3,680,000
Series of 1999 - \$23,890,000 payable in annual installments of \$720,000 to \$1,860,000 until January 1, 2024; with interest at 4.50% to 6.1%.	<u>17,665,000</u>	<u>18,425,000</u>
Total General and Special Debt-Bonds	<u>331,007,536</u>	<u>286,700,236</u>
 <u>Federal Notes Payable</u>		
Series of 2007- \$5,000,000 Loan guarantee federal program payable in installments of \$250,000 until August 1, 2026 with variable interest rates.	4,250,000	4,500,000
Series of 2001- \$14,300,000 Loan guarantee federal program payable in installments of \$715,000 until August 1, 2020 with variable interest rates.	<u>7,865,000</u>	<u>8,580,000</u>
Total federal notes payable	<u>12,115,000</u>	<u>13,080,000</u>
Total bonds and notes payable	343,122,536	299,780,236
Less current portion	<u>(14,988,000)</u>	<u>(15,137,700)</u>
Long-term portion of bonds and notes payable	<u>\$ 328,134,536</u>	<u>\$ 284,642,536</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

The original loan guarantee notes payable of \$14,300,000 and \$5,000,000, with an outstanding balance as of June 30, 2010 of \$12,115,000, are collateralized with U.S. obligation by a federal financing institution, and real property acquired or to be acquired with these funds. The basic contribution of the Municipality for real property is 6% and for personal property is 4%. Total property assessment, based on information reported by the Municipal Revenues Collection Center approximate to \$2,500,000,000 of which \$1,050,000,000 and \$1,450,000,000 are real and personal property, respectively. Debt issue costs by \$346,862 involve legal and accounting fees incurred in the new debt issuances of \$38.9 and \$21.2 million in the fiscal year 2009-2010. The prior year debt issue cost of \$90,353 relates to the of \$20.4 million debt issuance. Such costs are deferred charges and should be amortized over the debt term. Total amortized debt issue costs are reported in the statement of net assets, as non-current assets and amounted to \$1,521,417 by current and prior debt issuances.

Note 10 - Capital Assets

A summary of changes in capital assets follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Retirements, Disposition and Transfers</u>	<u>Balance June 30, 2010</u>
Non-depreciable assets:				
Land	\$ 1,307,794,479	\$ 1,135,030	\$ -	\$ 1,308,929,509
Construction in progress	<u>68,284,628</u>	<u>24,184,571</u>	<u>(11,429,962)</u>	<u>81,039,237</u>
Sub-totals	1,376,079,107	25,319,601	(11,429,962)	1,389,968,746
Infrastructure in progress	<u>31,253,691</u>	<u>7,366,306</u>	<u>(22,207,994)</u>	<u>16,412,003</u>
Total Non-depreciable assets	<u>1,407,332,798</u>	<u>32,685,907</u>	<u>(33,637,956)</u>	<u>1,406,380,749</u>
Depreciable assets:				
Building, infrastructure and improvements	484,170,582	39,744,561	-	523,915,143
Vehicle and equipment, furniture and fixtures	<u>42,177,108</u>	<u>2,397,093</u>	<u>(1,371,013)</u>	<u>43,203,188</u>
Sub-totals	526,347,690	42,141,654	(1,371,013)	567,118,331
Less accumulated depreciation	<u>(86,800,674)</u>	<u>(11,665,605)</u>	<u>-</u>	<u>(98,466,279)</u>
Depreciable assets, net	<u>439,547,016</u>	<u>30,476,049</u>	<u>(1,371,013)</u>	<u>468,652,052</u>
 Total Capital Assets	 <u>\$ 1,846,879,814</u>	 <u>\$ 63,161,956</u>	 <u>\$ (35,008,969)</u>	 <u>\$ 1,875,032,801</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

<u>Governmental Activities</u>	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Retirements, Disposition and Transfers</u>	<u>Balance June 30, 2009</u>
Non-depreciable assets:				
Land	\$ 1,303,257,193	\$ 4,537,286	\$ -	\$ 1,307,794,479
Construction in progress	<u>62,404,978</u>	<u>17,954,906</u>	<u>(12,075,256)</u>	<u>68,284,628</u>
Sub-totals	1,365,662,171	22,492,192	(12,075,256)	1,376,079,107
Infraestructure in progress	<u>47,385,101</u>	<u>7,315,259</u>	<u>(23,446,669)</u>	<u>31,253,691</u>
Total Non-depreciable assets	<u>1,413,047,272</u>	<u>29,807,451</u>	<u>(35,521,925)</u>	<u>1,407,332,798</u>
Depreciable assets:				
Building, infraestructure and improvements	425,100,453	23,548,204	35,521,925	484,170,582
Vehicle and equipment, furniture and fixtures	<u>37,119,465</u>	<u>5,312,928</u>	<u>(255,285)</u>	<u>42,177,108</u>
Sub-totals	462,219,918	28,861,132	35,266,640	526,347,690
Less accumulated depreciation	<u>(77,164,849)</u>	<u>(9,865,581)</u>	<u>229,756</u>	<u>(86,800,674)</u>
Depreciable assets, net	<u>385,055,069</u>	<u>18,995,551</u>	<u>35,496,396</u>	<u>439,547,016</u>
 Total Capital Assets	 <u>\$ 1,798,102,341</u>	 <u>\$ 48,803,002</u>	 <u>\$ (25,529)</u>	 <u>\$ 1,846,879,814</u>

Depreciation expense charged to functions in June 30, are as follows:

	<u>2010</u>	<u>2009</u>
General government	\$ 3,044,179	\$ 2,731,387
Economic development	223,358	337,820
Welfare	392,171	47,253
Housing	770,273	706,231
Highway, streets and transportation	3,720,707	2,540,309
Recreation and sports	209,455	703,866
Education and training	784,089	1,175,653
Employment opportunity	332,224	-
Sanitation	1,124,682	756,273
Public safety	<u>1,064,467</u>	<u>866,789</u>
Total	<u>\$ 11,665,605</u>	<u>\$ 9,865,581</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Note 11 - Retirement System

The Municipality participates in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS), a multiple-employer contributory retirement plan, which covers only eligible full-time employees. The system provides retirement, death, and disability benefits and annuities to Commonwealth employees not covered by their own systems.

Commonwealth legislation required employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary known as Coordination Plan. The Supplementation Plan is only choice available to police, firefighters and mayors to contribute 8.275% of gross salary. The Municipality is required by the same statute to contribute 9.275% of the participants' gross salary. Total employer contribution during the year ended June 30, 2010 and 2009 amounted to approximately \$3,384,613 and \$3,486, 080 respectively.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1991, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining on or after January 1, 2000 will only be allowed to become members of the System 2000. System 2000 will reduce the retirement age from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10%) will be invested in account which 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 investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

For the year ended June 30, 2010 and 2009, total covered payroll was approximately \$54,318,200 and \$54,284,200 respectively. Covered payroll refers to all compensation paid by the Municipality to employees covered by the ERS on which contributions to the pension are based.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

The amount of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years, for those employees covered after March 31, 1990, the annuity shall be equal to one and one-half percent of the average compensation multiplied by the number of years of creditable service, in no case shall the annuity be less than \$2,400.

Actuarial Valuation:

The actuarial determined present value of benefits accrued as of July 1, 2000 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to \$9.5 billion. The net assets available for benefits at such date were \$2.1 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of \$7.4 billion. This information is not available by each participant government agencies nor municipalities. Net assets of the System consist principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation.

Significant assumptions were as follows:

- | | |
|--|--|
| a) Interest rate | 7.5% a year |
| b) Salary increases | 3.0% a year |
| c) Mortality | GAM'83 Mortality Table set forward two years. |
| d) Termination | Medium Turnover Table commensurate with Anticipated experience |
| e) Disability | 65% of Third Railroad Retirement Table Rates |
| f) Retirement age | Graded scale of retirement ages commensurate with anticipated experience |
| g) Proportion of participants with spouses | 50% of participants assumed to be married, with wives assumed to be four years younger than husbands |
| h) Number of employees electing higher contributions | 15% of retiring employees assumed to pay retroactive contributions at retirement |
| i) Cost-of-living adjustment | 3% every third year |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Note 12 - Other Accrued Liabilities

At June 30, the Municipality had the following accrued liabilities:

	Balance at June 30, 2009	Additions	Deductions	Balance at June 30, 2010	Due within one year
Accrued compensated absences	\$ 16,213,379	\$ 952,993	\$ (2,938,018)	\$ 14,228,354	\$ 2,968,302
Interest due for accounts sold	7,302,091	-	(317,483)	6,984,608	317,482
LIMS refinancing debt	1,718,159	-	(657,202)	1,060,957	696,888
CRIM (reported in due to other governments)	3,948,693	7,108,435	(81,040)	10,976,088	2,868,427
Accrued legal claims	5,006,257	270,441	(403,858)	4,872,840	220,655
	<u>\$ 34,188,579</u>	<u>\$ 8,331,869</u>	<u>\$ (4,397,601)</u>	<u>\$ 38,122,847</u>	<u>\$ 7,071,754</u>

	Balance at June 30, 2008	Additions	Deductions	Balance at June 30, 2009	Due within one year
Accrued compensated absences	\$ 14,014,598	\$ 3,739,826	\$ (1,541,045)	\$ 16,213,379	\$ 6,756,532
Interest due for accounts sold	7,619,573	-	(317,482)	7,302,091	317,482
LIMS refinancing debt	2,337,937	-	(619,778)	1,718,159	657,203
CRIM (reported in due to other governments)	4,024,942	-	(76,249)	3,948,693	81,040
Accrued legal claims	3,798,456	2,606,415	(1,398,614)	5,006,257	254,023
	<u>\$ 31,795,506</u>	<u>\$ 6,346,241</u>	<u>\$ (3,953,168)</u>	<u>\$ 34,188,579</u>	<u>\$ 8,066,280</u>

Note 13 - Leases

Operating Leases

The Municipality has several short-term operating lease agreements covering some of the Municipality's premises and equipment. All of the agreements are renewed annually. Total rental charges for the year ended June 30, 2010 and 2009, were approximately \$741,875 and \$586,000 respectively in all funds.

Note 14 - Healthcare Costs

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico imposed to the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to \$7,885,802 for the fiscal years ended June 30, 2010 and 2009, respectively.

Note 15 - Subsequent Events

On September 25, 2010, the Municipal Legislature, through the "Ordenanza" 85, Serial 2009-10-95 authorized the issuance of General Obligation Bond by \$23,395,000. The proceeds of the issuance will be used for the construction and rehabilitation of facilities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Note 16 - Contingencies and Commitments

Litigation

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities for the year ended June 30, 2010 and 2009 of \$4,872,840 and \$5,006,257 respectively in the government-wide statements for anticipated unfavorable judgments.

The amount presented in the government-wide statements represents the amount estimated as probable liability, which will require future available financial resources for its payment. The Municipality's administration and legal counsel believes that the ultimate liability in excess of amounts provided would not be significant. In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. As a result, the accompanying financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

Federal Financial Assistance

The Municipality receives financial assistance from the federal government in the form of grants or entitlements. The Municipality recognizes federal grant revenues when the related grant agreements are approved and notified by the federal agencies by written communication. All grants are subject to financial and compliance audits by the grantor agencies, which could result in requests for reimbursement by the grantor agencies for expenditures, if disallowed under the terms of the grants. These amounts, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The Municipality's administration believes that such disallowances, if any, will not have a material adverse effect on the financial position of the Municipality.

Construction Projects

The Municipality has construction commitments for which the Municipality is obligated to an amount of approximately \$86.1 million and \$98 million as of June 30, 2010 and June 30, 2009, respectively. These are commitments for the improvements of recreational and cultural facilities and for streets and general developments.

Contribution to a Basketball Team

The Municipal Legislature, through the Resolution 2007-2009-24 approved a contribution of \$800,000 for the Carolina's men basketball team for its participation in the 2009-2011 basketball seasons organized by the Puerto Rico Basketball Superior League.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

At June 30, 2010 the Municipality had a commitment of \$200,000 with the Carolina's men basketball team which is scheduled to be paid by the Municipality in the following installments:

<u>Year</u>	<u>Amount</u>
2010	\$ 100,000
2011	<u>100,000</u>
	<u>\$ 200,000</u>

Note 17 - Prior Period Adjustments

Governmental Fund Statements

The beginning fund balances of total governmental funds at July 1, 2010 and 2009 have been restated by overstatement of accounts payable balances:

	2010	2009
Cancellation of accounts payable - prior year balances	\$ 278,735	\$ 911,563
Adjustment to Payable, review of prior year as per CRIM notification	(2,782,294)	-
Recognition of federal grants recorded as deferred revenues as prior years	<u>7,688,298</u>	<u>-</u>
	<u>\$ 5,184,739</u>	<u>\$ 911,563</u>

Government Wide Statements

The beginning net assets of governmental activities at July 1, 2010 and 2009 have been restated due to the following:

	2010	2009
(Understatement) Overstatements of deferred revenues	<u>\$ (14,584,592)</u>	<u>\$ 12,587,233</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

Note 18 - Closure and Post-Closure Care Cost of Landfill

The Municipality recognized \$1,261,761 and \$1,613,017 for the fiscal years ended June 30, 2010 and 2009, respectively as the estimated obligation for landfill closure in 30.22 acres and \$408,000 and \$380,000 annually, for post-closure costs. Actual costs may be higher due to inflation changes in technology or changes in regulations. The amount was reported in the Statement of Net Assets at June 30, 2010. The Municipality expects to finance this obligation with the issuance of general obligation bonds.

The Municipality owns and operates a solid waste landfill. State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The estimated obligation for landfill closure and post-closure costs at June 30, are as follows:

<u>Concept</u>	<u>2010</u>	<u>2009</u>
Estimated obligation for landfill closure in 30.22 acres	\$ 1,261,761	\$ 5,076,960
Post-closure costs in 30.22 acres	\$ 408,000	\$ 380,000

Note 19 - Recent Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

The Statement also supersedes Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities That Use Proprietary Fund Accounting". The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Early application is encouraged. We have evaluated the new statement and have determined that it will not have a significant impact on the determination or reporting of our financial results.

COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

In November 2010 the GASB issued Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34". The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, "The Financial Reporting Entity", and the related financial reporting requirements of Statement No. 34, "Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments", were amended to better met user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early application is encourage. We have evaluated the new statement and have determined that it will not have a significant impact on the determination or reporting of our financial results.

In November 2010 the GASB issued Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements". The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. We are currently evaluating the effects, if any, that Statement No. 60 may have on our financial statements.

In February 2009 the GASB issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balances classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented. We are currently evaluating the effects that Statement No. 60 may have on our financial statements fund balance classifications.

Note 20 - Reclassifications

At June 30, 2010 certain reclassifications have been made to the 2009 basic financial statements to conform to the 2010 presentation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAROLINA

Schedule of Revenues and Expenditures
Budget and Actual - General Fund
Non GAAP Budgetary Basis
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual Amounts in the Budgetary Basis	Variance Favorable (Unfavorable)
Resources:				
Property taxes	\$ 51,953,458	\$ 53,308,220	\$ 49,936,157	\$ (3,372,063)
Volume of business taxes	30,060,000	31,486,714	34,025,414	2,538,700
Licenses and permits	4,500,000	4,500,000	2,981,653	(1,518,347)
Property rent	82,000	213,963	219,812	5,849
Miscellaneous	500,000	773,153	893,720	120,567
Intergovernmental services	434,100	451,652	401,342	(50,310)
Intergovernmental grant	7,399,000	10,063,274	10,063,274	-
Interest	3,200,000	3,200,000	2,230,529	(969,471)
Fines and penalties	900,000	956,308	956,701	393
Readjustments of prior years	-	1,191,125	1,191,125	-
Amount available for appropriation	<u>99,028,558</u>	<u>106,144,409</u>	<u>102,899,727</u>	<u>(3,244,682)</u>
Expenditures charged to appropriations:				
General government	43,829,060	52,861,356	52,858,301	3,055
Public safety	19,381,219	17,825,505	17,825,306	199
Highways, streets and transportation	10,956,184	11,590,431	11,586,850	3,581
Sanitation	5,520,092	5,051,368	5,044,869	6,499
Health	6,951,571	6,347,579	6,346,472	1,107
Recreation and sports	5,406,714	5,774,958	5,245,319	529,639
Education and training	4,729,055	4,585,834	4,585,833	1
Housing	2,254,663	2,107,378	1,989,691	117,687
Total charges to appropriations	<u>99,028,558</u>	<u>106,144,409</u>	<u>105,482,641</u>	<u>661,768</u>
Excess of appropriations over resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,582,914)</u>	<u>\$ (2,582,914)</u>

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

Hon. José C. Aponte Dalmau and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Carolina
Carolina, Puerto Rico

We have audited the basic financial statements of the Municipality of Carolina (the Municipality) as of and for the year ended June 30, 2010 and have issued our report thereon dated March 3, 2011. 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 the Municipality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

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 the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 the entity's internal control.

Hon. José C. Aponte Dalmau and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Carolina
Carolina, Puerto Rico
Page 2

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 that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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.

This report is intended solely for the information of the Mayor, the Municipal Assembly, 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.



PKF, LLP

License No. 22
Expires on December 1, 2013

March 3, 2011

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

Hon. José C. Aponte Dalmau and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Carolina
Carolina, Puerto Rico

Compliance

We have audited the compliance of the Municipality of Carolina (the Municipality) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. The Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

In our opinion, Municipality of Carolina complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-2 and 2010-3.

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Hon. José C. Aponte Dalmau and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Carolina
Carolina, Puerto Rico
Page 2

Internal control over compliance

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-1, 2010-2 and 2010-3 to be significant deficiencies.

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

Hon. José C. Aponte Dalmau and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Carolina
Carolina, Puerto Rico
Page 3

Schedule of expenditures of federal awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated March 3, 2011. Our audit was performed for the purpose of forming our opinion on the basic financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, the Municipal Assembly, 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 22, 2011

PKF, LLP
License No. 22
Expires on December 1, 2013

MUNICIPALITY OF CAROLINA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FISCAL YEAR ENDED JUNE 30, 2010

<u>Federal Grantor</u>	<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
US Department of Agriculture	Child and Adult Care Food Program Pass-through the Puerto Rico Department of Education	10.558	\$802,567
	Nutrition Assistance for Puerto Rico	10.566	52,009
US Department of Justice	Edward Byrne Memorial Formula Grant Program Pass-through the Puerto Rico Department of Justice	16.579	95,151
	Juvenile Justice and Delinquency Prevent Act Pass-Through the office of the Commissioner of the Municipal Affairs	16.540	27,333
US Department of Health and Human Services	Head Start and Early Head Start Grants	93.600	5,599,562
	ARRA - Head Start and Early Head Start Grants	93.708	184,889
	Head Start Grant Pass-through the Puerto Rico Department of the Family	93.600	1,428,689
	ARRA - Head Start Grant Pass-through the Puerto Rico Department of the Family	93.708	24,941
	Child Care and Development Block Grant Pass-through the Puerto Rico Department of the Family	93.575	960,268
	ARRA - Child Care and Development Block Grant Pass-through the Puerto Rico Department of the Family	93.713	3,344
	Special Programs for Aging (Title III Part C), Nutrition Services	93.045	264,532
	Promoting Safe and Stable Families Pass-through the Puerto Rico Department of the Family	93.556	26,779
	Aging Home – Delivered Nutrition Services Grant Pass-through the Office of the Elderly Affairs	93.705	13,374
	Aging Congregate Nutrition Services Grant Pass-through the Office of the Elderly Affairs	93.707	25,850
US Department of Homeland Security	Homeland Security Grant Program Pass-through the Public Security Governor's Office	97.067	82,072
US Department of Housing and Urban Development	Community Development Block Grants /Entitlement Grants	14.218	4,254,631
	ARRA - Community Development Block Grants /Entitlement Grants	14.253	156,675
	Emergency Shelter Grants Program	14.231	152,215
	Home Investment Partnership Program	14.239	295,137
	Section 8 Housing Choice Vouchers	14.871	3,968,779
	Community Development Block Grants /Section 108 Loan Guarantees (98 & 99)	14.248	768,295
	Public and Indian Housing Pass-Through the Puerto Rico Public Housing Administration	14.850	1,084,130
	Housing Opportunities for Persons with AIDS Program Pass-through Municipality of San Juan (HOPWA Program)	14.241	75,235
	Homelessness Prevention and Rapid Re-Housing program	14.257	188,388
	Supportive Housing Program/ Emergency Shelter Grant Program	14.235	320,784

MUNICIPALITY OF CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

US Department of Transportation	Federal Transit – Formula Grants (Urbanized Area Formula Program	20.507	182,500
	ARRA - Federal Transit – Formula Grants (Urbanized Area Formula Program	20.507	137,618
Federal Emergency Management Agency	Hazard Mitigation Grant Program	97.039	94,875
US Department of Labor	Workforce Investment Act- Adult Program Pass-through the Puerto Rico Department of Labor	17.258	1,407,904
	ARRA - Workforce Investment Act- Adult Program Pass- through the Puerto Rico Department of Labor	17.258	572,536
	Workforce Investment Act- Youth Activities Pass-through the Puerto Rico Department of Labor	17.259	1,204,153
	ARRA - Workforce Investment Act- Youth Activities Pass- through the Puerto Rico Department of Labor	17.259	997,173
	Workforce Investment Act- Dislocated Worker Pass- through the Puerto Rico Department of Labor	17.260	816,255
	ARRA - Workforce Investment Act- Dislocated Worker Pass-through the Puerto Rico Department of Labor	17.260	476,797
Total Expenditures			\$26,745,440

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

Note 1 - General

The accompanying schedule of expenditures of federal awards presents the expenditures, for the fiscal year ended June 30, 2010, of all the federal assisted programs of the Municipality of Carolina.

Note 2 - Accounting basis

The schedule was prepared following the modified accrual basis of accounting, which is further explained in note 1 of the basic financial statements of the Municipality of Carolina for the fiscal year ended June 30, 2010.

Note 3 - Subrecipients Entities (Funds provided)

During the fiscal year ended June 30, 2010, the Municipality pass-through, to various subrecipient entities, federal funds from the following programs:

<u>Federal Grantor</u>	<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
US Department of Housing and Urban Development	Community Development Block Grant	14.218	156,111
	Emergency Shelter Grant	14.231	152,215
Total			\$308,326

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

Section 1 - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- | | |
|--|----|
| 1. Material weakness identified? | No |
| 2. Significant deficiency(ies) identified that are not considered to be material weakness? | No |
| 3. Noncompliance material to financial statements noted? | No |

Federal awards:

Internal control over major programs:

- | | |
|---|-----|
| 1. Material weakness(es) identified? | No |
| 2. Significant deficiency(ies) that are not considered to be material weaknesses? | Yes |

Type of auditor's report issued on compliance for major program? Unqualified

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

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.850	Public and Indian Housing Pass-through the PR Public Housing Administration
14.871	Section 8 Housing Choice Voucher
14.239	Home Investment Partnership Program

CDBG Entitlement Cluster:

14.218	Community Development Block Grant/ Entitlement
14.253	ARRA - Community Development Block Grant/ Entitlement

Child Care Cluster:

93.575	Child Care and Development Block Grant/ Pass-through the PR Department of Family
93.713	ARRA Child Care and Development Block Grant/ Pass-through the PR Department of Family

Head Start Cluster:

93.600	Head Start
93.600	Head Start Program Pass-through the Puerto Rico Department of the Family
93.708	ARRA - Head Start and Early Head Start Grants
93.708	ARRA - Head Start Program Pass-through the Puerto Rico Department of the Family.

MUNICIPALITY OF CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2010**WIA Cluster:**

17.258	Workforce Investment Act Adult Program/ Pass-through the PR Department of Labor
17.258	ARRA - Workforce Investment Act Adult Program/ Pass-through the PR Department of Labor
17.259	Workforce Investment Act Youth Activities/ Pass-through the PR Department of Labor
17.259	ARRA - Workforce Investment Act Youth Activities/ Pass-through the PR Department of Labor
17.260	Workforce Investment Act Dislocated Workers/ Pass-through the PR Department of Labor
17.266	Workforce Investment Act Disability Program Navigator (DPN) / Pass-through the PR Department of Labor
17.260	ARRA - Workforce Investment Act Dislocated Workers/ Pass-through the PR Department of Labor

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

\$770,609

Auditee qualified as a low-risk auditee?

No

MUNICIPALITY OF CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Section 2 - Financial Statement Findings

No audit findings came to our attentions that are required to be reported under Government Auditing Standards.

MUNICIPALITY OF CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Section 3 - Federal Awards FindingsFinding 2010-1

Program CFDA No. / Grant No.:	CFDA 17.258 Workforce Investment Act Adult Program CFDA 17.259 Workforce Investment Act Youth Activities CFDA 17.260 Workforce Investment Act Dislocated Workers CFDA 17.258 ARRA - Workforce Investment Act- Adult Program Pass-through the Puerto Rico Department of Labor CFDA 17.259 ARRA - Workforce Investment Act- Youth Activities Pass-through the Puerto Rico Department of Labor CFDA 17.260 ARRA - Workforce Investment Act- Dislocated Worker Pass-through the Puerto Rico Department of Labor
<hr/>	
Type of Deficiency:	
Internal Control Over Financial Reporting:	
○ Significant deficiencies	
○ Material weakness	
Compliance and other Matters	
Compliance	
Internal Control Over Compliance	X
<hr/>	
Compliance Requirement Tested:	Allowable Cost Allowable Activities
<hr/>	
Questioned Cost:	None

Conditions:

While performing the disbursement internal control test for the federal program Workforce Investment Act Cluster, we found that in several disbursement vouchers the pre-intervention stamp was signed and dated, after the payout date of the check.

We requested 68 disbursement vouchers for examination, of these disbursements, 23 had this condition. We noted the client didn't comply with this internal control requirement.

MUNICIPALITY OF CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

In addition, we found that several disbursement vouchers were signed by the Accounting Supervisor and by the Executive Director on a date after the issuance of the payment check.

We requested 68 disbursement vouchers for examination, of these disbursements, 8 had this condition. We noted the client didn't comply with this internal control requirement.

Criteria:

As establish in the Accounting Manual and Fiscal Procedures of the Programs of Youth, Adults and Dislocated Workers, Section 6. "Procedimientos Financieros Generales", each disbursement voucher package (invoice, purchase order, receiving, quotations, among other documentation), should pass through a pre-intervention process in order to corroborate that all documents included in this voucher match between them and are approved for payment, then the check is prepared.

Cause:

The pre-intervention was done after the payment check was issued due to a lack of timely supervision and authorization of the pre-intervention process.

Effect:

It could be interpreted as a failure in the internal controls over disbursements in compliance with laws, regulations, and provisions of contracts and grant agreements. In addition, increase the possibility of making payments of disbursement voucher that are not approved.

Recommendations:

We recommend the Municipality to follow the established procedures and controls over the pre-intervention process and authorization process.

END FINDING NO. 2010-1

MUNICIPALITY OF CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2010Finding 2010-2

Program CFDA No. / Grant No.:	CFDA 17.258 Workforce Investment Act Adult Program
	CFDA 17.259 Workforce Investment Act Youth Activities
	CFDA 17.260 Workforce Investment Act Dislocated Workers
	CFDA 17.258 ARRA - Workforce Investment Act- Adult Program Pass- through the Puerto Rico Department of Labor
	CFDA 17.259 ARRA - Workforce Investment Act- Youth Activities Pass- through the Puerto Rico Department of Labor
	CFDA 17.260 ARRA - Workforce Investment Act- Dislocated Worker Pass- through the Puerto Rico Department of Labor

Type of Deficiency:

Internal Control Over Financial Reporting:

- o Significant deficiencies
- o Material weakness

Compliance and other Matters

Compliance

X

Internal Control Over Compliance

X

Cash Management

Compliance Requirement Tested:Questioned Cost:

None

Conditions:

To determine compliance with the cash management agreement, we requested the petitions of funds for a sample of transactions for the major program. The sample consisted of 15 items. Five of this cases, were not disbursed in a reasonable time between the transfer of funds from the United States Treasury and the State's payout of funds. After performing the cash management test, we noted the client didn't comply with this requirement.

MUNICIPALITY OF CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Criteria:

31 CFR Section 205.11 (a) establishes that a State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds.

34 CFR Sections 80.20 (b) (2), (3) and (6) establish that grantees and sub grantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. Accounting records must be supported by source documentation such as cancelled checks, paid bills, payroll time and attendance records, contract and sub grant award documents, etc.

Cause:

Lack of controls over the transfers of funds from the U.S. Department of Treasury and the payment check.

Effect:

Noncompliance with the above mentioned requirements could lead to administrative actions by the grantor. It could also be interpreted as a failure to manage federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements.

Recommendations:

We recommend the Municipality to establish adequate procedures and controls, which shall consider, among others, the following:

- Maintain adequate documentation to support the funds requested. The Municipality shall improve its internal controls and identify the risk of non-compliance with cash management requirements in order to ascertain that the controls implemented will reduced the risk of non-compliance.
- Establish and implement written policies and procedures for the cash management process and the documents that should be filed as support of the funds requested.

END FINDING NO. 2010-2

MUNICIPALITY OF CAROLINA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
 FISCAL YEAR ENDED JUNE 30, 2010

Finding 2010-3

Program CFDA No. / Grant No.:	14.239 Home Investment Partnership Program
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Cash Management
Questioned Cost:	None

Conditions:

To determine compliance with the cash management agreement, we requested the petitions of funds for a sample of transactions for the major program. The sample consisted of 24 items. Three (3) of this cases, were not disbursed in a reasonable time between the transfer of funds from the United States Treasury and the State's payout of funds.

Criteria:

31 CFR Section 205.11 (a) establishes that a State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds.

34 CFR Sections 80.20 (b) (2), (3) and (6) establish that grantees and sub grantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. Accounting records must be supported by source documentation such as cancelled checks, paid bills, payroll time and attendance records, contract and sub grant award documents, etc.

MUNICIPALITY OF CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2010

Cause:

Lack of monitoring over the transfers of funds from the U.S. Department of Treasury and the Municipality cash flow needs.

Effect:

Noncompliance with the above mentioned requirements could lead to administrative actions by the grantor. It could also be interpreted as a failure to manage federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements.

Recommendations:

We recommend the Municipality to establish adequate procedures and controls, which shall consider, among others, the following:

- Maintain adequate documentation to support the funds requested. The Municipality shall improve its internal controls and identify the risk of non-compliance with cash management requirements in order to ascertain that the controls implemented will reduced the risk of non-compliance.
- Establish and implement written policies and procedures for the cash management process and the documents that should be filed as support of the funds requested.

END FINDING NO. 2010-3

MUNICIPALITY OF CAROLINA

REPORT ON THE STATUS OF UNCORRECTED MATERIAL FINDINGS AND
RECOMMENDATIONS FROM PRIOR AUDITS THAT AFFECT THE FINANCIAL STATEMENT
AUDITS AS REQUIRED BY GOVERNMENT AUDITING STANDARDS
YEAR ENDED JUNE 30, 2010

None

MUNICIPALITY OF CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AS REQUIRED BY OMB CIRCULAR A-133

Finding 2009-1

Conditions:

To determine compliance with the cash management agreement, we requested the petitions of funds for a sample of transactions for the major program. The sample consisted of 24 items with a dollar value of \$77,178. After performing the cash management test, we noted the Municipality did not comply with this requirement.

Audit Finding Status

Condition prevail, refer to finding 2010-1

Finding 2009-2

Conditions:

In testing the equipment additions, we found the following situation in three of the three additions examined:

- In three cases, the acquisition date in the equipment records was the purchase order date.

Audit Finding Status

Corrected

Finding 2007-6

Condition:

The Financial, Project Expense and Accrued Expenses/Requisition Reports were submitted after the fifth day of the month before requesting the federal funds.

Audit Finding Status

Partially corrected. During the evaluation of report test, one report submitted eight days before requesting the federal funds.

MUNICIPALITY OF CAROLINA
CORRECTIVE ACTION PLAN
FISCAL YEAR ENDED JUNE 30, 2010

Contact Persons:	<u>Mr. Edwin Lebrón González - Director of Finance</u> Daniel Redón, CPA – Director of Internal Audit
Phone number:	(787) 757-2626 extension 410
Fax:	(787) 276-0735

The Corrective Action Plan was prepared by the Municipality's management and is filed separately of this document.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAROLINA
P.O. BOX 8
CAROLINA, PUERTO RICO 00986-008



**SINGLE AUDIT 2010
CORRECTIVE ACTION PLAN**



José C. Aponte Dalman
Mayor

MUNICIPALITY OF CAROLINA
 CORRECTIVE ACTION PLAN
 FISCAL YEAR ENDED JUNE 30, 2010

FINDING	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLAN
<p>Finding 2010-1 (WIA - Workforce Investment Act Adult Program; Youth Activities and Dislocated Workers)</p> <p>a. We found that several disbursement vouchers were signed by the Accounting Supervisor and by the Executive Director on a dated after of the check date issued for payment. We requested 68 disbursement vouchers for examination, of these disbursement, 8 had this condition. We noted the client didn't comply with this internal controls requirement.</p> <p>b. We found that in several disbursement vouchers the pre-intervention stamp was signed and dated, after the payout date of the check. We requested 68 disbursement vouchers for examination, of these disbursement, 23 had this condition. We noted the client didn't comply with this internal controls requirement.</p>	<p>The Executive Director of the WIA Local Area (AMOE) issued guidelines and procedures regarding the pre intervention process in order to comply with the federal regulation</p>	<p>The Finance's Director of the WIA Local Area (AMOE) required to sign and submit the disbursement vouchers before make a check for payment. These cases were isolated situations and were corrected during the program year 2011.</p> <p>As a part of our fiscal regulations and procedures the pre-intervention process has been made before the issued check for payment.</p> <p>However the issues mentioned were addressed immediately and guidelines were issued to pertaining staff members in order to assure that the situation as above does not occur again.</p>

MUNICIPALITY OF CAROLINA
 CORRECTIVE ACTION PLAN
 FISCAL YEAR ENDED JUNE 30, 2010

FINDING	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLAN
<p>Finding 2010-2 (WIA - Workforce Investment Act Adult Program; Youth Activities and Dislocated Workers)</p> <p>To determine compliance with the cash management agreement, we requested the petitions of funds for a sample of transactions for the major program. The sample consisted of 15 items. Five of this cases, were not disbursed in a reasonable time between the transfer of funds from the United States Treasury and the State's payout of funds. After performing the cash management test, we noted the client didn't comply with this requirement.</p>	<p>The WIA Local Area (AMOE) received technical training assistance in order to standardize the Requested for Federal Funds process. The time between the transfer of funds from States (CDORH) and the Local Area (AMOE) Payout of funds will reduced significantly by using this method.</p>	<p>The Finance's Director will obtain the cash flow report from MIP on bi-monthly basis to ensure that payment obligations can be met. They sent the Report twice a month to the CDORH with a Control Sheet using the voucher information and the invoice selected to paid report from MIP.</p> <p>The Cash Flow Report and the control sheet are part of the Monthly Petitioned Funds Request.</p> <p>In a few days verify in the department of finance the bank reconciliation to check the money deposit.</p> <p>When the funds have been deposit, make the payments in five (5) days after receiving the money by mailing the check or by electronic transfer.</p>

MUNICIPALITY OF CAROLINA
 CORRECTIVE ACTION PLAN
 FISCAL YEAR ENDED JUNE 30, 2010

FINDING	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLAN
<p>Finding 2010-3 (Home Investment Partnership Program)</p> <p>To determine compliance with the cash management agreement, we requested the petitions of funds for a sample of transactions for the major program. The sample consisted of 24 items. Three of these cases, were not disbursed in a reasonable time between the transfer of funds from the United States Treasury and the State's payout of funds. After performing the cash management test, we noted the client didn't comply with this requirement.</p>	<p>The Finance's Director implements a periodic evaluation to ensure the cash disbursement process in compliance with Federal Regulations.</p>	<p>The Finance's Director monitors cash flow needs on a weekly basis to cut off unused funds and to ensure that payment obligations can be met. The Municipality of Carolina made the following procedures:</p> <ol style="list-style-type: none"> 1. The Municipality received the invoices services. 2. After we received the invoice the department prepared a voucher. 3. Create a Control Sheet using the information that the voucher contains. 4. Use the control sheet to request the money in the Integrated Disbursement Information Systems (IDIS) to make a payment. 5. Put in the invoice service the number of voucher, the date the money is requested, when the money is received and the date the check is prepared. 6. In a few days verify with the department of bank reconciliation to check if the money has been deposit. 7. Once the money has been deposit, make the payments in 10 days after receiving the money, by sending the check by mail or by Electronic Transfer

ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL AUTÓNOMO DE CAROLINA

ODAM
DIVISION REGLAMENTACION
E INTERVENCION

11 MAR 31 PM 3:07

30 de marzo de 2011

Omar E. Negrón Judice
Comisionado
Oficina del Comisionado de Asuntos Municipales
P.O. Box 70167
San Juan, PR 00936-8167

Estimado Comisionado:

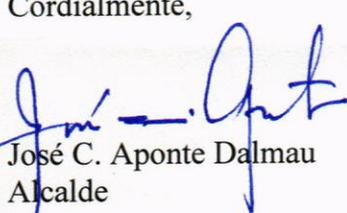
Reciba un cordial saludo de todos los funcionarios y empleados municipales que laboran en nuestro Gobierno Municipal Autónomo de Carolina, Tierra de Gigantes.

Según solicitado, incluimos el "Single Audit Report 2009-10" del Municipio de Carolina. El mismo fue radicado ante el "Federal Audit Clearinghouse" dentro del término establecido para ello.

Además, incluimos copia del contrato de auditoría ("Single Audit") para el año fiscal 2010-11.

Estamos a su disposición, para aclarar dudas sobre el particular. De necesitar información adicional, favor de comunicarse con el CPA Daniel Redón Santiago, Director de la Oficina de Auditoría Interna al (787) 757-2626 extensiones 8494 o 8928 o al (787) 757-2612.

Cordialmente,


José C. Aponte Dalmau
Alcalde

mm

www.teleserviciogigante.com

OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES
2011 MAR 31 PM 1:44



OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES
11:3-8735
MAR 11 10 12 AM '11

Oficina de Auditoria Interna
Marta Melendez
Ext. 8494

Fecha: _____
Recibido por: _____

Comentarios: _____

Asunto: Incluimos los siguientes Documentos: "Single Audit Report 2009-10"; Copia del contrato de auditoria ("Single Audit") para el año fiscal 2010-11.

COMISIONADO
DIVISION RECLAMACIONES
E INTERVENCION
11 MAR 31 PM 3:00

De: Daniel Redon Santiago
Director
Oficina de Auditoria Interna

A: Omar E. Negrón Judice
Comisionado
Oficina del Comisionado de Asuntos Municipales
P.O. Box 70167
San Juan, PR 00936-8167

Fecha: 31 de marzo de 2011

ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL AUTONOMO DE CAROLINA
OFICINA DE AUDITORIA INTERNA
HOJA DE TRÁMITE

